



Parrot

## **PARROT S.A.**

(organized under the laws of France as a *société anonyme*, a company with limited liability)

### **INFORMATION DOCUMENT**

This information document (the “Information Document”) is an unofficial English translation of elements of the official *document de base* and of the official *note d’opération*, both of which were prepared and registered with the *Autorité des marchés financiers* (the “AMF”) in connection with the initial public offering and listing of shares (the “Shares”) of Parrot S.A. (the “Company”) (the “Offering”).

The Offering consisted of both newly issued Shares and existing Shares sold by certain of the Company’s shareholders (the “Selling Shareholders”).

This Information Document contains information included in the Company’s *document de base* registered under No. I.06-051 with the AMF and in the Company’s *note d’opération* registered under No. 06-189 with the AMF. This Information Document is for information purposes only and is subject to change. In case of any discrepancy between this Information Document and the *document de base* or the *note d’opération*, the *document de base* and the *note d’opération* will prevail.

The Company assumes no responsibility with respect to any of the information contained in this Information Document and accepts no responsibility for the use of this Information Document by any person.

This Information Document is not an offer to sell or the solicitation of an offer to purchase securities and is not part of any offer. Neither this Information Document nor any part of its contents may be used for any offer or sale or any such solicitation anywhere in the world.

Information Document dated 27 June 2006

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## INDUSTRY AND MARKET DATA

This Information Document contains information concerning the markets in which the Group operates. This information is taken in significant part from research carried out by external organizations. While such information is believed to be reliable, it has not been independently verified, and neither Parrot nor the Underwriters make any representation as to the accuracy of such information. Accordingly, trends in Parrot's business activities may differ from the market trends set forth in this Information Document. Parrot undertakes no obligation to update such information.

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Information Document, the "Company" refers to Parrot S.A. and the "Group" or "Parrot" refers to the Company together with its consolidated subsidiaries.

References to "€" or "euro" mean the single currency of the participating Member States in the Third Stage of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time, and references to "\$", "U.S.\$" and "dollars" are to U.S. dollars. Parrot publishes its financial statements in euros.

Parrot's unconsolidated accounts for the years ended 31 December 2003 and 2004 presented herein are prepared in accordance with generally accepted accounting principles in France ("French GAAP") which differ in certain respects from generally accepted accounting principles in certain other countries. A European Union regulation has been approved requiring all EU-listed companies to apply International Financial Reporting Standards ("IFRS") in preparing their financial statements for years beginning on or after 1 January 2005 and to publish their financial statements for the year ended 31 December 2005 applying IFRS, with comparative figures for the year ended 31 December 2004. Therefore, Parrot's consolidated financial statements for the years ending 31 December 2004 and 2005 have been prepared and presented herein in accordance with IFRS.

In addition to its historical consolidated financial statements, Parrot has presented unaudited pro-forma consolidated financial information for the six-month periods ended 30 June 2005 and 31 December 2005 and the three-month period ended 31 March 2006 that reflect the impact of the acquisition by Parrot of Inpro Tecnología S.L., as if it had occurred as of 1 January 2004. See "Management's Discussion and Analysis of Financial Condition and Results of Operations". Except as otherwise stated, all information in this Information Document relating to the results of operations or financial condition of the Group are derived from the unaudited pro-forma consolidated financial statements.

In this Information Document, various figures and percentages have been rounded and, accordingly, may not equal the total indicated.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Information Document contains certain forward-looking statements, including statements about the Group's targets. In addition to statements that are forward-looking by reason or context, the words "will", "believes", "targets", "anticipates", "intends", "should", "aims", "estimates", "considers", "wishes", "may", and similar expressions identify forward-looking statements. Such forward-looking statements are based on data, assumptions and estimates that the Company considers to be reasonable. They may change or be amended owing to uncertainties related to the economic, financial, competitive and regulatory environment. In addition, the Group's business activities and its ability to meet its targets may be affected if certain of the risks that are set forth in this Information Document materialize. See "Risk Factors". The Company does not undertake to meet or give any guarantee that it will meet the targets shown in this Information Document.

Readers are urged to pay careful attention to the risk factors described in this Information Document. The materialization of one or more of these risks could have an adverse effect on the Group's activities, condition, the results of its operations or on its targets. Furthermore, other risks not yet identified or not considered significant by the Group could have adverse effects on the Group.

Forward-looking statements speak only as of the date of this Information Document. Parrot expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Information Document to reflect any change in Parrot's expectations or any change in events, conditions or circumstances on which any forward-looking statement contained herein is based.

Forward-looking statements and targets shown in this Information Document may be affected by risks, either known or unknown, uncertainties and other factors that may lead to the Group's future results of operations, performance and achievements differing significantly from the stated or implied targets. These factors may include changes in economic or trading conditions and regulations, as well as the factors set forth in this Information Document. See "Risk Factors".

## SUMMARY

*This summary highlights some of the important information contained elsewhere in this Information Document. You should read the entire Information Document carefully, including “Risk Factors”, “Cautionary Note Regarding Forward-Looking Statements”, the more detailed information regarding the Company, the Company’s audited annual and unaudited interim consolidated financial statements for each period set forth herein and the related notes thereto, and the unaudited pro forma financial statements included elsewhere in this Information Document.*

### **Overview of the Group**

Parrot was founded in 1994. It designs and sells hands-free telephone car kits for consumers, car makers and automotive equipment vendors in over 60 countries, drawing on its expertise in advanced speech recognition, acoustics and Bluetooth® wireless technologies. The Group is one of the leading players in the rapidly growing market for installed hands-free mobile phone car kits using the Bluetooth® wireless standard.

In addition to hands-free mobile phone equipment for vehicles, the Group also plans to expand its business across a broader range of wireless peripherals for mobile phones, including new music and photo features made possible by the increasing number of mobile phones equipped with a digital camera and capabilities for storing and playing music.

The Group reported pro-forma net sales of €80.9 million in 2005, an increase of 139% compared to 2004. The Group has been profitable since 2002. Pro-forma operating income for 2005 reached €12.1 million, with pro-forma profit of €7.7 million. Pro-forma net sales were €33.2 million in the first quarter of 2006, pro-forma operating income for the same period was €4.1 million, and pro-forma profit was €2.5 million for the same period. At 31 December 2005, the Group had 163 employees in 6 countries.

### **The Group’s Products**

#### *The Group’s core business: installed hands-free car kits*

The Group has developed three ranges of hands-free car kits: (i) installed car kits for professional installation after vehicle purchase (also known as aftermarket car kits); (ii) plug-&-play car kits useable directly by the end consumer; and (iii) professional original equipment manufacturers (“OEM”) kits fitted by car makers prior to vehicle sale.

#### *Installed car kits for professional installation after vehicle purchase*

The Group’s installed hands-free car kits provide very good sound quality because the telephone conversation is heard over the vehicle’s speakers with automatic muting of the vehicle’s sound system as necessary or desirable. The range of installed hands free car kits offered by Parrot is as follows:

- The Parrot CK3000, which was the first Bluetooth® hands-free car kit on the market. It is a fixed system wired to the vehicle’s 12-volt power supply and sound system requiring professional installation.
- The Parrot CK 3000 Evolution.
- The Parrot CK3100 LCD, which features a monochrome LCD panel for user interface.
- The Parrot 3200 LS-colour, which features a colour LCD panel for user interface.
- The Parrot CK3300 GPS, which features a monochrome LCD panel for user interface and a GPS function which provides vehicle location information.
- The Parrot 3400 LS-GPS, which features a colour LCD panel for user interface and a GPS function which provides vehicle location information.
- The Parrot CK3500 Pro, which is a professional system with GPS function, fleet management capabilities (real time vehicle tracking, route recording and transfer and time logging), theft protection by remote vehicle tracking, remote troubleshooting and vehicle data logging.

### *Plug-&-play car kits useable directly by the end consumer*

The Group's plug-&-play range targets the market for accessories sold through car centre and phone shop outlets. The Group's plug-&-play products feature a built-in loudspeaker and connect to the vehicle's cigarette-lighter socket. The Group's plug-&-play range comprises the following products:

- Parrot Easydrive, a lightweight, compact, ready to use Bluetooth® plug-&-play hands free car kit.
- Parrot Driver Headset, a Bluetooth® plug-&-play wireless hands free car kit using the headset format.

### *OEM range*

The OEM range consists of hands-free systems fitted by car makers in new vehicles. The Group offers the following products in the OEM range:

- The CK4000, which was the Group's first OEM hands-free system. It includes an interface with the vehicle's information system for integration with the multifunction display panel and steering-wheel controls.
- The CK4100, which is an updated version of the CK4000.
- The CK5000, which is designed to integrate with a car's multimedia platforms, including vehicle sound systems.

### *Wireless peripherals for mobile phones*

This new range of Bluetooth® peripherals for mobile phones aims to provide consumers with enhanced user-friendly mobile phone functions. This range currently features two products:

- The Parrot photo viewer is a photograph frame which displays photographs taken with a mobile phone or which are stored on a computer. The photo is transferred from the mobile phone or computer to the photo frame using Bluetooth®. The high-resolution LCD screen displays the photos either in fixed or in slideshow mode and automatically adjusts as required between a portrait and a landscape display.
- The Parrot Sound System is a pair of Bluetooth® loudspeakers designed for the wireless input of music stored in Bluetooth®-enabled devices such as mobile phones.

### **Competitive Advantages**

The Group believes that it has a number of competitive advantages, described below:

- The Group is a major player in a buoyant market for hands-free in-vehicle products.
- The Group provides a full range of products on the high-growth market for wireless hands-free car kits.
- The Group has proven technological expertise.
- The Group offers innovative new products in the market for mobile-phone wireless products
- The Group has sound international experience.
- The Group has a well-established multi-channel distribution network.
- The Group has achieved good brand recognition for hands-free car kits.
- The Group has quality teams with extensive experience in the sector.
- The Group has achieved sound financial performance based on its high-growth product range and proven profitability.

The Group hopes that these competitive advantages will enable it to sustain profitable growth in the market for Bluetooth®-based hands-free car kit products and develop its business in the market for wireless peripherals for non-automotive wireless mobile phone applications.

### **Strategy**

The Group's strategy is summarized below:

***Continued innovation in its core business:*** to keep up with market growth, the Group will be pushing ahead with its policy of innovation in its core business of wireless hands-free car kits, with a view to maintaining its position as a major player in this market, which has strong potential.

***Sustained excellence and technology lead:*** the Group will continue to invest in human resources, recruiting talented people in research and development, production and sales to make further progress in innovation, product quality and customer satisfaction.

***Extended product range addressing new mobile phone functions:*** building on technological excellence in its core business of installed hands-free car kits, the Group intends to extend its product range to other wireless devices for mobile phones to take advantage of the development of new mobile telephony functions (such as music and photos), and thus to take up a strong position in what it considers to be a promising market.

***Heightened recognition for the Parrot brand:*** the Group intends to develop a strong brand with high consumer recognition by actively promoting the Parrot brand across a broad cross-section of the population, especially at points of sale. This applies both to its core-business of hands-free car kit products and to the emerging market for new wireless mobile-phone products.

***Distribution network development and enhanced coverage of non-European markets:*** the Group will be keeping up with the growing demand for wireless hands-free car kits by actively developing distribution and sales networks in all the markets it covers (especially the U.S. market, which has strong potential). In addition, it will be extending its distribution channels to cover new wireless products for mobile phones.

***Cost control:*** the Group will be pursuing its cost optimisation policy in product design, manufacture and sale.

### **Registered Office**

The Company's registered office is located at 174-178, quai de Jemmapes, 75010 Paris. The Company's telephone number is +33 (0)1 48 03 60 60 and its website address is [www.parrotcorp.com](http://www.parrotcorp.com). Information contained on Parrot's website is not and should not be considered part of this Information Document.

## SUMMARY UNAUDITED PRO-FORMA CONSOLIDATED FINANCIAL INFORMATION

### Two years ended 31 December 2005

The following selected pro-forma consolidated information for each year in the two-year period ended 31 December 2005 presented in the tables below has been taken from the pro-forma consolidated financial information for the years ended 31 December 2004 and 2005, prepared in accordance with IFRS.

The Company signed a share purchase agreement on 29 March 2006 for the acquisition of a majority of the share capital of Inpro Tecnología S.L., its exclusive distributor in Spain (see “Business – Major Agreements and Partnerships”). The purpose of consolidated pro-forma information is to translate the impact that the acquisition and consolidation of Inpro Tecnología S.L. might have had on the Company’s consolidated financial statements if it had taken place on 1 January 2004. Pro-forma financial statements restate historical financial information on the basis that a transaction or event occurred on a date earlier than that on which it actually occurred or might reasonably be expected to occur. However they are not necessarily representative of the financial position or performances that would have been reported if such transaction or event had occurred on a date before that on which it actually occurred or might be expected to occur.

This selected financial information should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the audited historical consolidated financial statements for each year in the two-year period ending 31 December 2005 and the related notes and the other financial information contained elsewhere in this Information Document.

### Summary pro-forma consolidated income statement information

Income statement data (in thousands of euros)	Financial Year ended 31 December		
	2004	2005	% Change
Sales . . . . .	33,831	80,865	139%
Gross margin . . . . .	16,487	36,017	118%
% Sales . . . . .	49%	45%	
Operating profit . . . . .	6,613	12,137	84%
% Sales . . . . .	20%	15%	
Profit for the period . . . . .	4,236	7,738	83%
% Sales . . . . .		10%	

(in thousands of euros)	Q1	Q2	Q3	Q4	Total 2005
2005 quarterly sales . . . . .	13,524	17,505	20,360	29,476	80,865

### Summary pro-forma consolidated balance sheet information

Balance sheet data (in thousands of euros)	Financial Year ended 31 December		
	2004	2005	% Change
Non-current assets <sup>(1)</sup> . . . . .	20,942	23,473	12%
Current assets . . . . .	14,723	48,051	226%
Total assets . . . . .	35,665	71,524	101%
Total equity . . . . .	7,605	21,351	181%
Non-current liabilities . . . . .	20,027	20,793	(4)%
Current liabilities . . . . .	8,033	29,380	325%
Total liabilities and equity . . . . .	35,665	71,524	101%

<sup>(1)</sup> Including €17 million of estimated goodwill arising from the acquisition of Inpro Tecnología S.L.



**The six-month periods ended 30 June 2005 and 31 December 2005 and the three-month period ended 31 March 2006**

The following summary selected pro-forma consolidated information for the six-month period ending 30 June 2005, the six-month period ending 31 December 2005 and the three-month period ending 31 March 2006 presented in the tables below has been taken from the pro-forma consolidated financial information for the same periods prepared in accordance with IFRS.

***Summary pro-forma consolidated income statement information***

Income statement data (in thousands of euros)	Six months ended 30 June 2005	Six months ended 31 December 2005	Three months ended 31 March 2006
Sales . . . . .	31,029	49,836	33,216
Gross margin . . . . .	15,184	20,833	13,229
% Sales . . . . .	48.9%	41.8%	39.8%
Operating profit . . . . .	6,039	6,098	4,065
% Sales . . . . .	19.5%	12.2%	12.2%
Profit for the period . . . . .	3,678	4,060	2,523
% Sales . . . . .	11.9%	8.1%	7.6%

***Summary pro-forma consolidated balance sheet information***

Balance sheet data (in thousands of euros)	Six months ended 30 June 2005	Six months ended 31 December 2005	Three months ended 31 March 2006
Non-current assets . . . . .	22,005	23,473	22,986
Current assets . . . . .	30,569	48,051	51,241
Total assets . . . . .	52,574	71,524	74,227
Total equity . . . . .	16,512	21,351	23,401
Non-current liabilities . . . . .	20,963	20,793	20,924
Current liabilities . . . . .	15,099	29,380	29,902
Total liabilities and equity . . . . .	52,574	71,524	74,227

## RISK FACTORS

*Readers should consider carefully the following factors and other information in this Information Document. An investment in the Shares involves risks and investors may lose part or all of their investment.*

### **Risks Related to the Group's Business**

#### ***The Group is dependent on subcontractors for the manufacturing and assembly of its products***

The Group is organized according to a “fab-less” model, according to which it does not operate any manufacturing or shipping facilities. The manufacturing and assembly of the Group's products is currently performed by a limited number of subcontractors. The termination of a contract with one of these subcontractors, or any difficulties these subcontractors may have in meeting their contractual commitments within the agreed upon lead times, particularly with respect to the delivery or quality of products, or in meeting increases in the Group's manufacturing requirements might, among other things, result in inventory shortages or increased manufacturing costs of the Group and have an adverse effect on its business, financial condition, results of operations or future growth.

The Group purchased approximately 19% of its total purchases of supplies from one supplier in 2005. Purchases from its top five suppliers represented approximately 57% of the Group's total purchases of supplies in 2005, with purchases from its top ten suppliers amounting to approximately 69%.

The Group has entered into contractual relationships with its suppliers for manufacturing, assembly and logistics. These relationships have developed over time to meet the Group's growing needs. While the Group has not experienced any difficulties with its suppliers to date the Group cannot guarantee that this will continue to be the case in the future.

The manufacture of Parrot chips is carried out by two leading foundries in the international semiconductor market. Because the development of a new relationship with a foundry for the manufacture of chips would require substantial initial investment, the Group is, to a certain degree, dependent on the foundries initially chosen to manufacture its chips.

In addition, a large part of the manufacturing and assembly of the Group's products is carried out by one of its suppliers, primarily at one of its production units located in China. The legal, economic, climatic, political or geopolitical situation in this area of the world presents risks, in particular of political instability. The geographic location of this production site also means that transportation times are longer than would be required if it were located in Europe. Late delivery or default by a supplier may therefore result in the Group struggling to meet the needs of its customers.

#### ***The Group's sales and growth potential are partly dependent on its distribution network and customers***

The Group depends on the maintenance and development of commercial partnerships with its distributors and customers in the majority of the countries where its products are distributed. The Group's largest customer accounted for approximately 40% of its consolidated revenues in 2005. In addition, in 2005 the Group's five largest customers represented approximately 50% of its consolidated revenues, while its ten largest customers represented approximately 58% of its consolidated revenues.

Typical terms of payment vary by country but payment is generally made within 60 days. The Group generally begins a commercial relationship by asking each new customer to pay on receipt of the bill, authorising longer payment terms only when the commercial relationship is expected to last. The change in doubtful receivables was €250,898 (or 0.4% of total revenue, with the doubtful receivables of one customer accounting for € 188,000) in 2005 and €19,000 (or 0.06% of the total revenue) in 2004.

Although it has good relationships with most of its commercial partners, the Group cannot guarantee that its agreements with its current partners will continue beyond their contractual term, that its partners will meet their contractual commitments (particularly with respect to sales targets, sales force deployment or marketing expenditures) or that it will succeed in developing other commercial partnerships necessary for the further development of its activities. The Group may also be unable to obtain commitments from its distributors not to distribute the products of its competitors. The materialization of these risks could have a

significant adverse effect on the Group's business, financial condition, results of operations or future growth.

***The Group may encounter difficulties in managing risks relating to the international development of its activities and its growth in new international markets***

The international development of the Group's activity may generate new risks and uncertainties, in particular due to:

- the Group's lack of experience in doing business in certain regions;
- potentially adverse tax consequences;
- import/export quantity restrictions, restrictions relating to tariffs and protectionist regulations and practices favouring local businesses in certain countries;
- the possible extension of payment periods for sales in certain foreign countries;
- rules and regulations applicable to the Group's products becoming increasingly stringent;
- more limited intellectual property protection in certain countries; and
- political instability in certain countries where the Group operates.

These factors could adversely affect the Group's business, financial condition, results of operations and future growth. The Group has also expanded its activities in the United States and made significant investments in that market. However, it cannot guarantee that its business there will develop or that its investments there will be successful.

***The Group may encounter difficulties in identifying and developing partnerships with suitable distributors in foreign markets***

The growth of the Group's sales relies on its capacity to strengthen its sales force and distribution networks in all countries where its products are distributed and to enter into agreements with companies of a high calibre in targeted geographic areas, in particular where the Group is not present. The Group's commercial partners and distributors must have access to the various market segments of the Group's products and be capable of devoting the necessary resources to take advantage of any expansion of those markets.

Despite its experience in many foreign markets, the Group may encounter difficulties in identifying the partners that will be able to ensure its development and enable it to meet its objectives for all of its products, in one or more foreign markets. This could adversely affect the Group's business, financial condition, results of operations or future growth or development.

***Risks related to the Group's recent deployment of new products in mass consumer markets***

The development and marketing of wireless peripherals for mobile phones, especially those that are targeted outside the automobile market present a certain number of risks that may adversely affect the Group's business, financial condition, results of operations and future growth.

The success of the Group's products with the general public depends in part on their quality and reliability. Despite the Group's proven technological expertise in the automobile sector, where quality requirements are more stringent than in the mass electronics market, the Group cannot guarantee that its new wireless products for mobile phones will be free of defects, will meet consumer expectations, will not result in significant product returns (higher than the level forecast by the Group) or product liability claims. This risk is heightened given the recent introduction of these products to the market, the absence of comparable products and the impossibility of large-scale testing of the products before their launch.

In addition, the Group announced new products in March 2006 which will be distributed in part through new distribution channels with which the Group has limited experience. In order to strengthen its distribution channels, the Group will have to significantly invest, particularly in its channels for marketing new wireless peripherals for mobile phones. Even though the Group already distributes its products

through certain mass retailing and mass electronics chains, it cannot guarantee that it will succeed in entering into the necessary partnerships that will enable it to successfully market its new products.

The Group must also invest in and develop its customer support services both on the Internet and through call centres. The Group cannot, however, guarantee that it will succeed in increasing customer support services in the relevant markets to the extent required to ensure optimal customer satisfaction.

***The Group's success depends to a large extent on increasing Parrot brand name recognition***

The Group's strong growth demonstrates that the Parrot brand name is now recognized in the market for hands-free Bluetooth® wireless car kits, by automobile and original equipment manufacturers and distributors and the consumers using them. The Group must now significantly increase Parrot brand name recognition among the general public both for its core business products and for new wireless peripherals for mobile phones targeted outside the automobile market.

The increase in Parrot brand name recognition depends largely on the Group's ability to offer innovative products to the public that meet the public's expectations with respect to the quality of its products and its after-sales service, and on the Group's ability to market its offerings successfully using the appropriate distribution channels. The Group cannot, however, guarantee that its efforts will be successful. If the Group is unable to protect and strengthen Parrot brand name recognition, it could lose market share and face other risks.

***The Group is dependent on certain key executive managers, engineers and sales executives whose departure could adversely affect its growth***

The success of the Group depends on the quality and experience of the members of the Company's management team, including Mr Henri Seydoux (Chairman and Chief Executive Officer and principal shareholder of the Company on the date of this Information Document). The Company's management team has extensive experience in the market in which the Group operates.

Owing to his experience, particularly in voice recognition and signal processing technologies, Mr Seydoux is a key member of the Company's management team responsible for the development of the Group, as well as for its strategy. His prolonged absence could adversely affect the Group's business, financial condition, results of operations and future growth.

Mr Seydoux is a shareholder in the Company, as are other key personnel who have been granted business founder warrants, equity warrants, bonus shares or share subscription options for shares in the Company. The Group believes that although these allotments significantly contribute to the loyalty of key personnel it cannot guarantee that such key personnel will remain with the Group.

In addition, the success of the Group is related to the competence of its research and development team and of its sales team. To ensure its continued development, the Group ensures in particular that the engineers in its research and development team are multi-skilled. The future success of the Group will depend, in particular, on its ability to attract, train, retain and motivate highly qualified personnel and executive officers, but there is no guarantee that it will succeed. The departure of one or more key personnel or of any executive officer, or the Group's inability to attract highly qualified personnel may adversely affect the Group's business, financial condition, results of operations and future growth.

***The Company is not planning to distribute dividends to its shareholders in the near future***

The Company currently plans to use its operating cash flow to finance its short- and medium-term operations. The Company is not planning to distribute dividends to its shareholders in the near future. Should the Company decide to distribute dividends, the decision to pay out such dividends and the amount of any such dividends, would depend on the Company's situation and circumstances at the time such decision was made.

***The Group's results are difficult to forecast***

The Group's results may vary significantly from one quarter to the next, in particular as the Group develops products for new markets. This fluctuation makes it difficult to use quarterly results as indicators of possible future trends and may affect the trading price of the Shares.

In addition to economic and other factors which affect companies in general, a certain number of factors specific to the Group and to its sector of activity may contribute to quarterly variations, in particular: the relative contribution of each of the Group's products, especially in light of the variability of the margins made on these various products; the geographic distribution of the Group's sales, in particular the contribution made by countries where the products are sold at the highest prices; and the Group's capacity to reduce the manufacturing costs of its products in order to maintain its margins.

***Factors affecting the fourth quarter may have significant consequences on the results of the Group's activity***

The proportion of the Group's sales in the fourth quarter of every year has been increasing and is expected to continue to increase in the future, as sales tend to be relatively higher at year-end relative to other periods. In view of the increasing importance of this trend, adverse events occurring during the fourth quarter of the year can be expected to have a disproportionate impact on the overall results of the year in question.

***The Group may encounter difficulties in integrating its acquisitions***

In pursuing its growth strategy, the Company may enter into acquisitions, partnerships or alliances or make investments. However, the Group cannot guarantee that it will be in a position to identify appropriate acquisition or investment opportunities, or that such opportunities will arise. No assurance can be given that the Group will be able to integrate successfully any companies, technologies or assets acquired, realise anticipated synergies, maintain uniform standards, controls, procedures and policies, maintain good relations with the personnel of the entities acquired or that the increase in revenues generated by each acquisition will justify the price paid for such acquisition. The failure of such integrations could have a material adverse effect on the Group's business, financial condition, results of operations or on its ability to meet its objectives.

Such acquisitions or investments could be financed in whole or in part through the issue of shares of the Company or of companies within the Group, which could dilute existing shareholders and reduce net income per share. Any financing arrangements for such acquisitions or investments, whether financed by cash or by shares, could have an adverse effect on the trading price of the Company's shares and on the financial condition of the Group, particularly if such acquisitions or investments are financed through debt.

***The Group may record goodwill impairment that could have a material impact on its results***

As at 31 December 2005, the Company had not made any acquisitions. The consolidated accounts at 31 December 2005 were prepared in accordance with IFRS and do not include any goodwill.

The Company will record significant goodwill (€17 million) in its consolidated accounts as a result of its acquisition of the majority of the share capital of Inpro Tecnología S.L. in 2006. In addition, other transactions to promote external growth could result in the recording of new goodwill.

IFRS does not require goodwill to be amortised but, pursuant to IAS 36, goodwill is subject to an annual impairment test. If the recoverable value is lower than the book value of the goodwill, a goodwill impairment loss is recorded, which may occur in particular if events or circumstances result in material adverse changes of a long-term nature affecting the economic environment or the assumptions or objectives set out at the time of acquisition.

The Company cannot guarantee that adverse events or circumstances will not occur in the future that would lead it to restate the book value of its goodwill and to record significant losses in value, which may adversely affect the Group's results. In addition, in the context of the annual impairment test, goodwill is allocated to cash-generating units of the Group. These cash-generating units are defined on the basis of the Group's organisation. Possible future changes in the organisation of the Group or changes in IFRS may lead the Group to record losses in value and have a materially negative effect on the Group's results.

***The Group may lose the benefit of the revenues generated by Inpro Tecnología S.L. realised from the sale of TomTom navigator products***

At the beginning of April 2006, the Group acquired the majority of the share capital of Inpro Tecnología S.L., its exclusive Spanish distributor. Inpro Tecnología S.L. earns a substantial portion of its revenues from the sale of TomTom brand name GPS navigation products. In 2005, Inpro Tecnología S.L. realised approximately 28% of its revenues from the sale of the TomTom brand GPS navigation products. Any

decision by the Group to cease distributing the TomTom products, or a decision by TomTom to discontinue selling its products through Inpro Tecnología S.L. may adversely affect the Group's future revenues and results of operations.

***Forecasts of the growth rates and sizes of the Group's markets may prove to be erroneous and this could negatively affect the Group's business and profitability***

The market for hands-free Bluetooth® wireless car kits has enjoyed a strong period of growth since 2002. While this growth may continue, in particular because of the increased penetration of mobile phones equipped with the Bluetooth® standard, the rate of market growth remains difficult to assess for 2006 as well as for following years. Market growth may be slowed by factors outside the Group's control, in particular relating to the Bluetooth® standard.

The Group announced its first non-automobile wireless products in March 2006. The potential growth rate of the market for such new products is difficult to assess at the present time. The Group cannot provide any assurance that such new products will find a market.

Finally, certain local markets may experience different growth rates than those forecasted and forecasts of the Group's international growth may also prove inaccurate or delayed.

***The Group may be unable to benefit from the strong growth in its markets***

Most of the Group's products (excluding OEM products) are sold to the public at points-of-sale without any delay between purchase and delivery. In this respect, proper management of inventory and of the entire logistical chain is essential to the Group's commercial success. In addition, given the strong growth in its business the Group must organise itself to meet demand, manage its sourcing and manufacturing and ensure management of its distribution networks.

Any increase in the number of models, products and customers of the Group could increase the complexity of the Group's sourcing and supply chain management. The sourcing cycle (purchase of components and subcomponents, routing of components and subcomponents to the assembler, routing of products from the plant to packaging and logistics centres) lasts a minimum of 20 weeks on average. Certain of the Group's products are seasonal in nature as well, especially during the fourth quarter of every year. Because of these two factors, the Group must at all times maintain an adequate inventory level. However, the Group cannot guarantee that it will not face inventory shortages.

The Group must also ensure that it has distribution teams in place that can meet demand. These teams may be managed directly by the Group or indirectly by distributors abroad. Despite the measures taken and the expectation of strong growth, the Group may not be in a position to hire or train a sufficient number of teams to meet customer demand and this could have a material adverse effect on the Group's business, financial condition, results of operations and future growth.

***The Group may be unable to respond to competition, especially if competition intensifies in its markets***

The markets in which the Group operates are highly competitive. The Group may be unable to compete efficiently with its competitors, which could limit its capacity to sell its products and reduce its market share. Certain of the Group's competitors may have greater resources than the Company, in particular financial, technical or commercial resources. Acquisitions or other strategic transactions carried out by its competitors could also weaken the Group's competitive position. Should competition in the market for the Group's products intensify, the Group may, among other things, extend price reductions for the products it sells. New products offered by competitors may present advantages compared to the Group's products (particularly in terms of functionality, technology or production costs) thus making the Group's products obsolete.

In view of the growth potential in the market for hands-free Bluetooth® wireless car kits, groups disposing of very significant financial, industrial and commercial resources operating in similar sectors or having mass retailers as customers may choose to enter the market.

The number of competitors in the market for new wireless products for mobile phones outside the automobile world is potentially far greater than in the market for hands-free Bluetooth® car kits. Certain



potential competitors have significant financial, technical and commercial resources and could introduce new products in direct competition with the Group's products.

In addition, in all of these markets the Group is faced with competitors offering systems relying on technologies other than the Bluetooth® standard. Even if the Group considers that the Bluetooth® standard offers optimal performance to users in its markets, users may prefer products using other standards or technologies or may not attribute significant value to the advantages of the Bluetooth® standard.

***The Group's target markets are subject to rapid technological changes and frequent launches of new products***

The market for the Group's products is characterised by increasingly fast-paced technological change, increasingly high consumer requirements, and frequent launches of new products and technological enhancements. New products relying on new or more advanced technologies or on new industry standards could render the Group's existing products obsolete or difficult to market. To maintain its competitive position, the Group must continue to improve its existing products and develop new products in a timely manner in order to keep pace with changes in technology and to satisfy its customers' requirements. If the Group is unable to do so, its products may become difficult to market, which would adversely affect its business, financial condition, results of operations and future growth.

The development process for the Group's products is highly complex and requires ongoing development efforts. Any delay in the development and marketing of the highest performing products or new products or any delay in adapting to technological changes could adversely affect the Group's business, financial condition, results of operations and future growth.

***The Group's business is dependent on the market for electronic components***

The Group cannot guarantee that the price of certain basic electronic components will not significantly increase. Similarly, the Group cannot give any assurance that all components will be available with lead times and volumes comparable to those currently achieved. The materialization of these risks, especially with respect to components for which there is high demand (such as Flash memory) may adversely affect the Group's business, financial condition, results of operations and future growth.

***The Group is dependent on technical standards, most importantly the Bluetooth® standard***

The Group's products rely on specific technical standards, particularly the Bluetooth® standard. The Group's success is based on the increasingly widespread use of the Bluetooth® standard by mobile phone manufacturers. The Group cannot give any assurance that a new, better performing, simpler, less costly technology, or one that consumes less energy, will not emerge or establish itself as the new wireless communication standard. This may be the case, for example, for the UltraWideband (UWB) standard currently under development. In addition, the Group cannot guarantee that mobile phone manufacturers will continue to market products compatible with the Bluetooth® standard.

The occurrence of technical defects or malfunctions in products integrating the Bluetooth® standard (even in products outside the Group's product sector) may have a negative impact on the acceptance of this standard and of associated technologies by consumers. Similarly, the perception (whether based on facts or not) that Bluetooth® products are vulnerable to piracy could adversely affect the sale of products integrating this standard.

If any of these risks materializes, it would have a material adverse effect on the Group's business, results of operations, financial situation and future growth.

***Regulatory risks***

The laws relating to road safety in the countries where the Group distributes its products, particularly those prohibiting the use of a handheld telephone by the driver of a vehicle, are subject to future changes that may be unfavorable to the Group. The Group can give no assurance as to whether sudden or significant changes in such legal or regulatory regimes will occur, such as, for example, a prohibition on all use of telephones in cars, even when equipped with a hands-free car kit, which could have a significant material adverse effect on its financial condition, results of operations, or ability to meet its objectives.

***Defective products may result in a loss of customers and turnover and expose the Group to costly claims***

The complex products marketed by the Group may develop manufacturing defects or operating problems, particularly in the case of the launch of a new product or the release of new or improved versions of a product. Any serious defects or errors affecting the Group's products could result in a loss in revenues or delays in the acceptance of a product by the market, and could damage the reputation of the Group which could adversely affect its business, financial condition, results of operations and future growth.

Manufacturing defects or other problems relating to the reliability of the Group's products could also result in injury to its customers (such as in the event of a car accident in which the driver was using one of the Group's products), which could be the basis for a damages claim against the Group. In the event of any such claims, the Group's defence would be time-consuming, costly and potentially damaging to its reputation, and bring about a loss of customers and reduction in its sales. The coverage provided by the Group's insurance policies may not be sufficient to protect it against this risk.

***The Group may not have adequate intellectual property protection***

The Group's success is dependent in part on its ability to obtain, maintain and protect its patents and other intellectual property rights. The Company cannot provide assurances that it will develop new patentable inventions, that pending patent applications will result in the delivery of a patent, that patent or other intellectual property rights granted or licensed to it will not be contested or that other persons will not claim rights over the patents and other intellectual property rights held by it or over the technologies employed by it.

In addition, the Company, which holds trademarks protecting the name of the Company and that of certain of its products in many countries, as well as a license for the "Bluetooth®" brand name, cannot provide assurances that the validity of these brand names will not be contested by third parties or that it will be able to file new brand names in all of the countries where it would like to distribute its products.

The materialization of any of the above-mentioned risks could have a material adverse effect on the Group's business, financial condition, results of operations and future growth.

***The Company may be required to take action against third parties, in particular competitors, for unauthorised use of the technologies developed by the Company***

Third parties, in particular competitors of the Company, could infringe its patents and other intellectual property rights relating to the technologies developed by it. To protect its interests, the Company may be required to bring infringement claims, entailing long and costly proceedings.

The delivery of a patent for an invention does not guarantee the validity of that patent, or the scope of protection it will provide. Similarly, the legal efficiency of software protection by copyright remains uncertain when its originality has not been tested in court. As a result, the Company cannot give any assurance as to the protection its patents and other intellectual property rights may afford it in the event their validity or scope were contested. The Company may also join opposition proceedings before national patent offices in order to prevent third parties from registering patents that infringe its prior rights, or cover technologies it considers to be non-patentable and whose appropriation would hinder its activity. The costs associated with such administrative and judicial proceedings could be significant even if the Company were to win, and the Company may find itself at a disadvantage faced with competitors better able to support the costs of such proceedings due to their more significant financial resources.

It is difficult to control the unauthorised use of patents or other intellectual property rights. The Company may not be in a position to prevent the unlawful appropriation or use of its patents or other intellectual property rights by third parties. Also, certain countries where the Company has operations may not give the same level of protection to intellectual property rights as the European Union or the United States, and such countries may not have procedures necessary to enable the Company to adequately defend its rights.

The materialization of any of the above rights may adversely affect the Group's business, financial condition, results of operations and future growth.



***The Company may be incapable of effectively protecting the confidentiality of certain information relating to its technology***

Besides patented technologies, the Group's business relies to a large extent on unregistered technical information and data, specifications, processes and know-how that are only protected to the extent that they remain secret. Due to the "fab-less" model implemented by the Group, the manufacture and assembly of its products is carried out by subcontractors outside of the Group to whom certain confidential information must be disclosed. Although the Company protects such information by entering into confidentiality agreements with its partners and employees, these agreements may not be respected, and the Company may not dispose of adequate remedial sanctions in the event these agreements are breached. In particular, the disclosure of such confidential information may facilitate the unlawful appropriation of the Company's technologies by a competitor, cause the loss of a *de facto* monopoly over protected know-how following its disclosure, or even destroy the originality of an invention and thus prevent the Company from protecting it through a patent application.

***The Company may be exposed to claims from third parties for infringement of intellectual property rights by certain of the technologies used by the Company***

The Company has a strong and dynamic research and development activity, resulting in the development of new technologies, including inventions and software. However, the Company cannot guarantee that certain technologies, although developed internally, do not infringe the intellectual property rights of third parties (such as patents or copyright over software).

In the event that a third party asserts a claim that it is the holder of intellectual property rights covering technology used by the Company, the Company may, if the claim is substantiated, sign a license with that third party including royalty or other payments or if no licence can be obtained or cannot be obtained on reasonable commercial terms, it may be obliged to modify its products so as no longer to use the technology in question, failing which it may be exposed to infringement proceedings. The materialization of such rights of a third party may have a material adverse effect on the Company's business, results of operations, financial condition and future growth.

***The Company may encounter difficulties in using "open source" software***

The Company has embedded the "open source" eCos operating system in its Parrot products. Open source software is made available to users free of charge or for a fee under a special type of license that generally permits the modification and re-distribution of such software without the prior authorisation of the holders of the intellectual property rights. In addition, pursuant to certain licenses, developments integrating open source software must, in turn, be freely accessible and re-distributable by third parties under the same conditions as embedded open source software. The use of open source software therefore takes place in the absence of the contractual warranties generally extended in license agreements for proprietary software. In addition, the chain of copyright ownership over open source software and software embedding open source software is uncertain. The risks relating to a defect in an open source software or to possible claims for infringement by third parties claiming to be the holders of an intellectual property right over such software therefore remain entirely with the Company. If such risks were to materialize, this might have a material adverse effect on the Group's business, financial condition, results of operations and future growth.

***The Company is not the holder of the [www.parrot.com](http://www.parrot.com) domain name***

The Internet is, especially in the sector of new technologies, an essential means of communication for businesses. Among the different types of domain names, those ending in ".com" are the most frequently visited by users of the Internet.

The Company is not the holder of the **www.parrot.com** domain name, which is held by a third party. The Company primarily communicates over the Internet at **www.parrot.biz** and **www.parrot.fr**. The lack of a domain name ending in ".com" could hinder the Group's commercial development, in particular following its entry into the consumer electronics sector, and could have a material adverse effect on its business financial condition, results of operations and future growth.

## **Risks Relating to the Offering and the Company's Shares**

### ***The Company's shares have never been traded on a financial market***

As at the date of this Information Document, the Company's shares have never been admitted to trading on a regulated or non-regulated stock market. Even though the shares of the Company have been admitted to trading on *Eurolist by Euronext*<sup>™</sup>, it is not possible to guarantee short- or long-term liquidity with respect to the Company's shares. If a market for the Company's shares does not develop, the liquidity and the price of the Company's shares may be affected.

### ***Volatility in the price of the Company's shares***

The price of the Company's shares might be volatile and may be affected by a number of events involving the Company, its competitors or the financial markets in general. The price of the Company's shares might therefore fluctuate as a result of events such as:

- variations in the financial results of the Group or its competitors in a given period as compared to another period;
- the announcement by the Company of the termination of an existing agreement with a partner, a supplier or a sub-contractor;
- announcements of changes in the management team or key employees of the Group;
- changes in technology developed by third parties or competitors;
- the announcement by the Group of the success or failure of the launch of a new product;
- announcements made by competitors or announcements concerning the market sector for wireless mobile telephone equipment;
- new developments in relation to the technology used by the Group and industrial or intellectual property rights held or registered by the Group; and
- the announcement by the Company of external growth transactions.

During the last few years, the financial markets have witnessed significant fluctuations which were not related to the results of the companies whose shares were admitted to trading on such markets. These market fluctuations and the economic climate may affect the price of the Company's shares.

### ***Risks relating to the share capital in the context of the Offering***

Mr Henri Seydoux will hold 37.34% of the Company's share capital and voting rights following the Offering and 43.44% of the Company's share capital and voting rights if he exercises all of his business founder warrants (*bons de souscription de parts de créateur d'entreprise*) ("B.S.P.C.E") (for more detail, see "Management and Employees"). The fact that one shareholder holds such a significant proportion of the share capital and voting rights of the Company and that such shareholder may freely transfer all or part of his shares in the Company at the expiry of his undertaking not to sell his shares, might adversely affect the price of the Company's shares.

By virtue of his shareholding, Mr Seydoux could, absent a very high level of participation by the other shareholders of the Company, adopt all of the resolutions submitted for the approval of shareholders in ordinary and/or extraordinary general meetings. In the future Mr Seydoux could therefore determine the outcome of most of the Company's corporate decisions (such as the distribution of dividends, the appointment of members of the Board of Directors, the approval of accounts or any decision of the Company to enter any significant transaction).

In addition to the B.S.P.C.E. allotted to Mr Seydoux, the Company has also allotted 250,000 B.S.P.C.E. to certain employees of the Company, as well as options to subscribe (*options de souscription d'actions*) for 25,000 shares in the Company to Mr Edward Valdez and warrants to subscribe (*bons de souscription d'actions*) for 25,000 shares in the Company to Mr Edward Planchon (see "Management and Employees"). If all or some of these securities are exercised, the issuance of the Company's shares will result in a dilution of the equity held by other shareholders.

If all or some of the securities giving access to the Company's share capital are exercised, the issuance of the Company's shares will result in a dilution of the equity held by other shareholders.

***Future disposals of the Company's shares may affect the trading price of the Company's shares***

The issue by the Company or the sale by Mr Seydoux of a significant number of the Company's shares on the market or the perception by the market that such a disposal is imminent, could result in a decline in the trading price of the Company's shares. The Company, the Selling Shareholders (other than Valeo Ventures S.A.S, which will not own any shares in the Company following the Offering) and certain members of the Company's management have agreed, for a limited period following the Offering, subject to certain exceptions, not to offer, sell or grant any put option or otherwise transfer the Company's shares or equity securities in any manner whatsoever. At the end of this period, the Company, the Selling Shareholders (other than Valeo Ventures S.A.S) and the Company's management will be free to sell shares, subject to obtaining the authorisations required under relevant corporate law and by the stock exchange authorities of any relevant jurisdiction.

## **DIVIDEND POLICY**

### **Dividend Distribution Policy**

At the date of this Information Document, the Company intends to use its free cash flow to finance its business activity over the short and medium-term. The Company does not expect to distribute dividends to its shareholders in the near future.

### **Dividends Per Share Paid in the Past Three Financial Years**

The Company has not made a dividend payment in the course of the last three financial years.

### **Taxation**

Certain aspects of French taxation of dividends are discussed in the section of this Information Document entitled “Certain French Tax Considerations”.

### **Statute of Limitations**

Dividends which are not claimed within five years of their payment date shall lapse and become the property of the French State.

## CAPITALIZATION

The table below shows the Company's pro-forma short-term and long-term financial indebtedness and capitalization at 31 March 2006, derived from the pro-forma 31 March 2006 Consolidated Financial Information and as adjusted for the net proceeds of the Offering (approximately €24.4 million). The "as adjusted" figures are presented prior to the utilization by the Company of the net proceeds of the Offering except that they reflect repayment of the loan of approximately €6.5 million (including pro-forma interest) that was used to partly finance the acquisition of the majority of the share capital of Inpro Tecnología S.L. (see "Use of Proceeds").

SHAREHOLDERS' EQUITY AND INDEBTEDNESS	At 31 March 2006 (in thousands of euros)	
	Pro-forma	As adjusted
<b>Total short-term financial indebtedness</b> . . . . .	3,656	3,656
– secured (trade receivables) . . . . .	3,159	3,159
– collateral secured . . . . .	0	0
– unsecured debt . . . . .	497	497
<b>Total long-term debt (excluding current element of long term financial indebtedness)</b> . . . . .	6,540	0
– secured <sup>(1)(2)</sup> . . . . .	6,540	0
– collateral secured . . . . .	0	0
– unsecured debt . . . . .	0	0
<b>Shareholders' equity group share<sup>(3)</sup></b> . . . . .	23,401	47,774
– Share capital . . . . .	1,349	1,521
– Share premium, reserves and profits for the current period . . . . .	22,052	46,253
<b>NET FINANCIAL INDEBTEDNESS ANALYSIS</b>		
<b>A. Cash</b> . . . . .	3,580	21,413
<b>B. Cash equivalents</b> . . . . .	1,331	1,331
<b>C. Investment Securities</b> . . . . .	0	0
<b>D. Liquidity (A) + (B) + (C)</b> . . . . .	4,911	22,744

<sup>(1)</sup> *Indebtedness secured by trade receivables and related credit insurance and possible indemnity payments relating to representations and warranties linked to the acquisition of Inpro Tecnología S.L.*

<sup>(2)</sup> *Bank loans of over one year's term become immediately repayable upon the closing of the Offering.*

<sup>(3)</sup> *The pro-forma shareholders' equity includes pro-forma adjustments of €1.3 million that will not be reflected in the Company's future consolidated balance sheet as of the date of first consolidation of Inpro Tecnología.*

## SELECTED FINANCIAL DATA

### Pro-forma financial information for two years ending 31 December 2005

At 31 March 2006, Company acquired 56.274% of the share capital of Inpro Tecnología S.L. and is committed, under a put option agreement, to acquire in the future the remaining 43.726% of the share capital from minority shareholders. The purpose of the pro-forma consolidated financial information set forth below and elsewhere in this Information Document is to reflect the impacts that the acquisition and consolidation of Inpro Tecnología S.L. would have had on the Company's consolidated accounts, had such acquisition been completed on 1 January 2004.

The periods covered by the pro-forma information are the twelve-month period ended 31 December 2004, and the twelve-month period ended 31 December 2005.

The unaudited pro-forma consolidated financial information is presented in euros in a condensed format and has been prepared under the responsibility of the Company's Board of Directors.

The pro-forma consolidated financial information is provided for illustrative purposes only and does not necessarily reflect the actual performance, operating profits or shareholders' equity of the consolidated entity, including Inpro Tecnología S.L., over those periods. Nor does the pro-forma consolidated financial information, presented in a condensed form and un-audited, provide any indication as to the future operating profits or the future shareholders' equity of the new consolidated entity.

The pro-forma adjustments and purchase price allocations have been prepared on a preliminary basis given the information available at the time of preparation of the pro-forma consolidated financial information. No assurance can be made that the final purchase price allocation will not be different from that of the preliminary allocation.

### Condensed pro-forma financial information – Income Statement as at 31 December 2004 and 31 December 2005

In thousands of euros	Year ended 31 December	
	2004	2005
<b>Sales</b> . . . . .	<b>33,831</b>	<b>80,865</b>
Cost of sales . . . . .	(17,344)	(44,848)
<b>GROSS MARGIN</b> . . . . .	<b>16,487</b>	<b>36,017</b>
<i>Gross margin as % of sales</i> . . . . .	<i>49%</i>	<i>45%</i>
Research and development costs . . . . .	(2,090)	(6,883)
<i>as % of sales</i> . . . . .	<i>(6%)</i>	<i>(9%)</i>
Selling expenses . . . . .	(4,809)	(11,678)
<i>as % of sales</i> . . . . .	<i>(14%)</i>	<i>(14%)</i>
General and administrative expenses . . . . .	(843)	(2,310)
<i>as % of sales</i> . . . . .	<i>(2%)</i>	<i>(3%)</i>
Production / Quality . . . . .	(2,132)	(3,010)
<i>as % of sales</i> . . . . .	<i>(6%)</i>	<i>(4%)</i>
<b>OPERATING PROFIT</b> . . . . .	<b>6,613</b>	<b>12,137</b>
<i>Operating profit as % of sales</i> . . . . .	<i>20%</i>	<i>15%</i>
Net borrowing cost . . . . .	(308)	(250)
Other financial revenues and expenses . . . . .	(300)	(647)
Income tax expense . . . . .	(1,769)	(3,502)
<b>PROFIT FOR THE PERIOD</b> . . . . .	<b>4,236</b>	<b>7,738</b>
<i>Profit for the period as % of sales</i> . . . . .	<i>13%</i>	<i>10%</i>

Condensed pro-forma financial information – Balance Sheet as at 31 December 2004 and 31 December 2005

In thousands of euros	Year ended 31 December	
	2004	2005
<b>ASSETS</b>		
<i>Total non-current assets</i> . . . . .	<b>20,942</b>	<b>23,473</b>
Goodwill . . . . .	17,640	17,640
Other fixed assets . . . . .	2,896	5,821
Deferred tax assets . . . . .	407	12
<i>Total current assets</i> . . . . .	<b>14,723</b>	<b>48,051</b>
Inventories . . . . .	4,309	13,483
Trade receivables . . . . .	5,702	24,013
Other receivables . . . . .	3,283	6,811
Other financial assets . . . . .	0	2,042
Cash and cash equivalents . . . . .	1,429	1,703
<b>TOTAL ASSETS</b> . . . . .	<b>35,665</b>	<b>71,524</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<i>Shareholders' equity</i> . . . . .	7,605	21,351
<i>Total non-current liabilities</i> . . . . .	<b>20,027</b>	<b>20,793</b>
Long-term financial debt . . . . .	6,240	6,480
Provision for pensions and post retirement benefits . . . . .	76	137
Deferred tax liabilities . . . . .	0	841
Other provisions . . . . .	265	268
Other non-current liabilities . . . . .	13,446	13,066
<i>Total current liabilities</i> . . . . .	<b>8,033</b>	<b>29,380</b>
Short-term financial debt . . . . .	475	2,174
Trade payables . . . . .	3,534	18,262
Current income tax liabilities . . . . .	506	2,644
Provisions . . . . .	109	165
Other liabilities . . . . .	3,410	6,135
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .	<b>35,665</b>	<b>71,524</b>

**Pro-forma financial information for the six-month periods ended 30 June 2005 and 31 December 2005 and the three-month period ended 31 March 2006**

The sole purpose of the pro-forma consolidated financial information is to reflect the impact that the acquisition and consolidation of Inpro Tecnología S.L. would have had on the Company's consolidated accounts, had the above acquisition been completed on 1 January 2004.

The periods covered by the pro-forma information are as follows:

- the six-month period from 1 January 2006 to 30 June 2005;
- the six-month period from 1 July 2005 to 31 December 2005; and
- the three-month period from 1 January 2006 to 31 March 2006.

The pro-forma consolidated financial information is provided for illustrative purposes and does not necessarily reflect the actual performance, operating profits or shareholders' equity of the consolidated entity, including Inpro Tecnología S.L., over those periods. Nor does the pro-forma consolidated financial information, presented in a condensed form and unaudited, provide any indications as to the future operating profits or the future shareholders' equity of the new consolidated entity.

The pro-forma adjustments and purchase price allocations have been prepared on a preliminary basis given the information available at the time of preparation of the pro-forma consolidated financial information. No assurance can be made that the final purchase price allocation will not be different from that of the preliminary allocation.

*Condensed pro-forma consolidated income statement information*

In thousands of euros	Six months ended 30 June 2005	31 December 2005	Three months ended 31 March 2006
<b>Sales</b> . . . . .	<b>31,029</b>	<b>49,836</b>	<b>33,216</b>
Cost of sales . . . . .	(15,845)	(29,003)	(19,987)
<b>GROSS MARGIN</b> . . . . .	<b>15,184</b>	<b>20,833</b>	<b>13,229</b>
<i>Gross margin as % of sales</i> . . . . .	<i>48.9%</i>	<i>41.8%</i>	<i>39.8%</i>
Research and development costs . . . . .	(2,750)	(4,133)	(2,387)
<i>as % of sales</i> . . . . .	<i>(8.5%)</i>	<i>(8.5%)</i>	<i>(7.1%)</i>
Selling expenses . . . . .	(4,363)	(7,315)	(4,501)
<i>as % of sales</i> . . . . .	<i>(14.4%)</i>	<i>(14.4%)</i>	<i>(13.6%)</i>
General and administrative expenses . . . . .	(912)	(1,398)	(1,095)
<i>as % of sales</i> . . . . .	<i>(2.9%)</i>	<i>(2.9%)</i>	<i>(3.3%)</i>
Production / Quality . . . . .	(1,120)	(1,890)	(1,181)
<i>as % of sales</i> . . . . .	<i>(3.7%)</i>	<i>(3.7%)</i>	<i>(3.8%)</i>
<b>OPERATING PROFIT</b> . . . . .	<b>6,039</b>	<b>6,097</b>	<b>4,065</b>
<i>Operating profit as % of sales</i> . . . . .	<i>19.5%</i>	<i>12.2%</i>	<i>12.2%</i>
Net borrowing cost . . . . .	(121)	(129)	(108)
Other financial revenues and expenses . . . . .	(310)	(337)	(155)
Income tax expense . . . . .	(1,913)	(1,589)	(1,279)
<b>PROFIT FOR THE PERIOD</b> . . . . .	<b>3,694</b>	<b>4,043</b>	<b>2,523</b>
<i>Profit for the period as % of sales</i> . . . . .	<i>11.9%</i>	<i>8.1%</i>	<i>7.6%</i>



Condensed pro-forma consolidated balance sheet information

In thousands of euros	Six months ended 30 June 2005	31 December 2005	Three months ended 31 March 2006
<b>ASSETS</b>			
<i>Total non-current assets</i> . . . . .	<b>22,005</b>	<b>23,473</b>	<b>22,986</b>
Goodwill . . . . .	17,019	17,640	17,019
Other fixed assets . . . . .	4,982	5,821	5,964
Deferred tax assets . . . . .	4	12	3
<i>Total current assets</i> . . . . .	<b>30,569</b>	<b>48,051</b>	<b>51,241</b>
Inventories . . . . .	5,324	13,483	13,313
Trade receivables . . . . .	12,301	24,013	25,212
Other receivables . . . . .	4,542	6,811	7,805
Other financial assets . . . . .	2,006	2,042	0
Cash and cash equivalents . . . . .	6,397	1,703	4,911
<b>TOTAL ASSETS</b> . . . . .	<b>52,574</b>	<b>71,524</b>	<b>74,227</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<i>Shareholders' equity</i> . . . . .	<b>16,512</b>	<b>21,351</b>	<b>23,401</b>
<i>Total non-current liabilities</i> . . . . .	<b>20,963</b>	<b>20,793</b>	<b>20,924</b>
Long-term financial debt . . . . .	6,360	6,480	6,540
Provision for pensions and post retirement benefits . . . . .	99	137	142
Deferred tax liabilities . . . . .	483	841	798
Other provisions . . . . .	265	268	222
Other non-current liabilities . . . . .	13,756	13,066	13,221
<i>Total current liabilities</i> . . . . .	<b>15,099</b>	<b>29,380</b>	<b>29,902</b>
Short-term financial debt . . . . .	1,619	2,174	3,656
Trade payables . . . . .	7,637	18,262	14,190
Current income tax liabilities . . . . .	1,891	2,644	4,285
Provisions . . . . .	109	165	196
Other liabilities . . . . .	2,843	6,135	7,575
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .	<b>52,574</b>	<b>71,524</b>	<b>74,227</b>

**Consolidated financial information for the years ended 31 December 2004 and 31 December 2005 (IFRS)**

The following data has been derived from the Company's consolidated financial statements as of and for the years ended 31 December 2004 and 2005, prepared in accordance with IFRS. These consolidated financial statements have been audited by the Company's independent auditors, KPMG S.A. and BDO Marque et Gendrot S.A.

*Condensed consolidated income statement information*

In thousands of euros	Year ended 31 December	
	2004	2005
<b>Sales</b> .....	<b>29,160</b>	<b>62,537</b>
Cost of sales .....	(15,810)	(33,874)
<b>GROSS MARGIN</b> .....	<b>13,350</b>	<b>28,663</b>
<i>Gross margin as % of sales</i> .....	<i>46%</i>	<i>46%</i>
Research and development costs .....	(2,090)	(6,883)
<i>as % of sales</i> .....	<i>(7%)</i>	<i>(11%)</i>
Selling expenses .....	(3,055)	(9,034)
<i>as % of sales</i> .....	<i>(10%)</i>	<i>(14%)</i>
General and administrative expenses .....	(843)	(2,310)
<i>as % of sales</i> .....	<i>(3%)</i>	<i>(4%)</i>
Production / Quality .....	(2,132)	(3,010)
<i>as % of sales</i> .....	<i>(7%)</i>	<i>(5%)</i>
<b>OPERATING PROFIT</b> .....	<b>5,230</b>	<b>7,426</b>
<i>Operating profit as % of sales</i> .....	<i>18%</i>	<i>12%</i>
Net borrowing cost .....	(14)	77
Other financial revenues and expenses .....	185	(8)
Income tax expense .....	(1,571)	(2,187)
<b>PROFIT FOR THE PERIOD</b> .....	<b>3,830</b>	<b>5,308</b>
<i>Profit for the period as % of sales</i> .....	<i>13%</i>	<i>8%</i>

Condensed consolidated balance sheet information

In thousands of euros	Year ended 31 December	
	2004	2005
<b>ASSETS</b>		
<i>Total non-current assets</i>	<b>3,419</b>	<b>5,551</b>
Intangible assets	1,961	3,483
Property, plant and equipment	622	1,932
Financial assets	73	123
Deferred tax assets	763	12
<i>Total current assets</i>	<b>12,493</b>	<b>39,153</b>
Inventories	3,982	11,557
Trade receivables	3,364	17,169
Other receivables	3,227	6,340
Other current financial assets	—	2,042
Cash and cash equivalents	1,919	2,045
<b>TOTAL ASSETS</b>	<b>15,912</b>	<b>44,703</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Share capital	1,086	1,349
Additional paid-in capital	8,713	14,304
Retained earnings and reserves	2,340	1,643
Profit for the period	3,830	5,308
<i>Equity attributable to Parrot S.A. shareholders</i>	<b>11,289</b>	<b>22,605</b>
<i>Minority interests</i>	—	—
<i>Total non-current liabilities</i>	<b>341</b>	<b>1,196</b>
Long-term financial debt	—	—
Provisions for pensions and post retirement benefits	76	137
Deferred tax liabilities	—	790
Other non-current liabilities	265	268
<i>Total current liabilities</i>	<b>4,281</b>	<b>20,902</b>
Short-term financial debt	9	17
Current provisions	73	129
Trade payables	2,449	15,351
Current income tax liabilities	—	1,203
Other payables	1,750	4,201
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15,912</b>	<b>44,703</b>

**Consolidated financial information for the six-month periods ended 30 June 2005 and 31 December 2005 and the three-month period ended 31 March 2006 (IFRS)**

The following data has been derived from the Company's consolidated financial statements as of and for the six-month periods ended 30 June 2005 and 31 December 2005 and the three-month period ended 31 March 2006, prepared in accordance with IFRS. These consolidated financial statements have been reviewed by the Company's independent auditors, KPMG S.A. and BDO Marque et Gendrot S.A.

*Condensed consolidated income statement information*

In thousands of euros	Six months ended 30 June 2005	31 December 2005	Three months ended 31 March 2006
<b>Sales</b> . . . . .	<b>26,035</b>	<b>36,502</b>	<b>25,486</b>
Cost of sales . . . . .	(14,230)	(19,644)	(14,412)
<b>GROSS MARGIN</b> . . . . .	<b>11,805</b>	<b>16,858</b>	<b>11,074</b>
<i>Gross margin as % of sales</i> . . . . .	<i>45.3%</i>	<i>46.2%</i>	<i>43.5%</i>
Research and development costs . . . . .	(2,750)	(4,133)	(2,387)
<i>as % of sales</i> . . . . .	<i>(10.6%)</i>	<i>(11.3%)</i>	<i>(9.4%)</i>
Selling expenses . . . . .	(3,177)	(5,857)	(3,536)
<i>as % of sales</i> . . . . .	<i>(12.2%)</i>	<i>16.0%</i>	<i>(13.9%)</i>
General and administrative expenses . . . . .	(912)	(1,398)	(1,095)
<i>as % of sales</i> . . . . .	<i>(3.5%)</i>	<i>(3.8%)</i>	<i>(4.3%)</i>
Production / Quality . . . . .	(1,120)	(1,890)	(1,181)
<i>as % of sales</i> . . . . .	<i>(4.3%)</i>	<i>(5.2%)</i>	<i>(4.6%)</i>
<b>OPERATING PROFIT</b> . . . . .	<b>3,846</b>	<b>3,580</b>	<b>2,875</b>
<i>Operating profit as % of sales</i> . . . . .	<i>14.8%</i>	<i>9.8%</i>	<i>11.3%</i>
Net borrowing cost . . . . .	43	34	(27)
Other financial revenues and expenses . . . . .	(16)	8	—
Income tax expense . . . . .	(1,300)	(887)	(945)
<b>PROFIT FOR THE PERIOD</b> . . . . .	<b>2,574</b>	<b>2,735</b>	<b>1,904</b>
<i>Profit for the period as % of sales</i> . . . . .	<i>9.9%</i>	<i>7.5%</i>	<i>7.5%</i>

Condensed consolidated balance sheet information

In thousands of euros	Six months ended 30 June 2005	ended 31 December 2005	Three months ended 31 March 2006
<b>ASSETS</b>			
<i>Total non-current assets</i> . . . . .	<b>4,705</b>	<b>5,551</b>	<b>5,925</b>
Intangible assets . . . . .	3,161	3,483	3,665
Property, plant and equipment . . . . .	1,416	1,932	2,136
Financial assets . . . . .	125	123	121
Deferred tax assets . . . . .	4	12	3
<i>Total current assets</i> . . . . .	<b>24,898</b>	<b>39,153</b>	<b>41,829</b>
Inventories . . . . .	4,371	11,557	11,341
Trade receivables . . . . .	7,518	17,169	17,858
Other receivables . . . . .	4,435	6,340	6,944
Other current financial assets . . . . .	2,006	2,042	—
Cash and cash equivalents . . . . .	6,569	2,045	5,685
<b>TOTAL ASSETS</b> . . . . .	<b>29,604</b>	<b>44,703</b>	<b>47,754</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<i>Total Equity</i>			
Share capital . . . . .	1,349	1,349	1,349
Additional paid-in capital . . . . .	14,193	14,304	14,304
Retained earnings and reserves . . . . .	1,580	1,643	7,098
Profit for the period . . . . .	2,574	5,308	1,904
<i>Equity attributable to Parrot S.A. shareholders</i> . . . . .	<b>19,696</b>	<b>22,605</b>	<b>24,656</b>
<i>Minority interests</i> . . . . .	—	—	—
<i>Total non-current liabilities</i> . . . . .	<b>645</b>	<b>1,196</b>	<b>1,112</b>
Long-term financial debt . . . . .	—	—	—
Provision for pensions and post retirement benefits . . . . .	99	137	142
Deferred tax liabilities . . . . .	281	790	747
Other non-current liabilities . . . . .	265	268	222
<i>Total current liabilities</i> . . . . .	<b>9,263</b>	<b>20,902</b>	<b>21,986</b>
Short-term financial debt . . . . .	45	17	1,992
Current provisions . . . . .	73	129	160
Trade payables . . . . .	6,210	15,351	11,801
Current income tax liabilities . . . . .	616	1,203	2,510
Other payables . . . . .	2,318	4,201	5,523
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .	<b>29,604</b>	<b>44,703</b>	<b>47,754</b>

**Company unconsolidated financial information for the years ended 31 December 2003, 31 December 2004 and 31 December 2005 (French GAAP)**

The following data has been derived from the Company's unconsolidated financial statements as of and for the years ended 31 December 2003, 31 December 2004 and 31 December 2005, prepared in accordance with French GAAP. Such unconsolidated financial statements have been audited by the Company's independent auditors, KPMG S.A. in 2003 and 2004 and by KPMG S.A. and BDO Marquet et Gendrot S.A. in 2005.

*Condensed income statement information*

In thousands of euros	Year ended 31 December		
	2003	2004	2005
Sales . . . . .	10,551	28,203	60,935
Total operating income . . . . .	10,605	28,552	63,964
Operating expenses . . . . .	9,735	24,031	56,159
<b>PROFIT FOR THE PERIOD . . . . .</b>	<b>968</b>	<b>4,659</b>	<b>6,736</b>

*Condensed balance sheet information*

In thousands of euros	Year ended 31 December		
	2003	2004	2005
<b>ASSETS</b>			
Total non-current assets . . . . .	829	1,110	2,920
Goodwill . . . . .	8	8	8
Total current assets . . . . .	5,841	11,864	37,743
<b>TOTAL ASSETS . . . . .</b>	<b>6,670</b>	<b>13,009</b>	<b>40,663</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Shareholders' Equity . . . . .	3,987	8,647	21,246
Total liabilities . . . . .	2,570	4,011	18,918
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>	<b>6,670</b>	<b>13,009</b>	<b>40,663</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Overview

Parrot was founded in 1994. It designs and sell hands-free telephone car kits for consumers, car makers and automotive equipment vendors in over 60 countries, drawing on its expertise in advanced speech recognition, acoustics and Bluetooth® wireless technologies. The Group is one of the leading players in the rapidly growing market for installed hands-free mobile phone car kits using the Bluetooth® wireless standard.

In addition to hands-free car kits, the Group also plans to expand its business across a broader range of wireless peripherals for mobile phones, including the new music and photo features increasingly implemented in mobile phones beyond the classic voice functions given that many mobile phones now include a digital camera and capabilities for storing and playing music.

To maintain its innovation, technological leadership and growth, the Company is pursuing research and development projects, expanding its sales force, broadening its presence in distribution channels, and strengthening its marketing capabilities. Moreover, to enhance flexibility and maintain profitability, the Company is continuing its strategy of outsourcing all of its production to third-party manufacturers and is gradually relocating production from Europe to Asia. The impact of this relocation policy was not meaningful in 2004 and 2005, but the transfer to Asia should allow the Company to achieve material savings on labour-intensive products when these savings are substantial enough to offset the impact of transportation costs and extended delivery times.

The following discussion presents financial data in different formats:

- for 2003 and 2004, the unconsolidated parent company financial statements were prepared in accordance with French accounting standards (the “Unconsolidated Parent Company Financial Statements”);
- for 2004 and 2005, the Company’s historical consolidated accounts were prepared in accordance with IFRS (the “Consolidated Financial Statements”); and
- for 2004, 2005 and the first quarter of 2006, following the acquisition by the Company of approximately 56.3% of the share capital and voting rights of Inpro Tecnología S.L. (“Inpro”), the exclusive distributor of the Company’s products in Spain, the Group has prepared pro-forma consolidated income statements and pro-forma consolidated balance sheets for 2004, 2005 and the first quarter of 2006 in a condensed format (the “Pro-forma Consolidated Financial Information”).

## Preliminary note on the pro-forma presentation

On 29 March 2006, the Company signed an agreement with Investigación y Producción SA, Mrs Cristina Sanz Ortiz and Mr Jesus Olivares Abad for the acquisition by the Company of approximately 56.3% of the share capital and voting rights of Inpro. In 2005, Inpro reported sales of €43.6 million and operating profit of €4.8 million.

To allow readers to compare the Company’s results and financial data for 2004, 2005 and the first quarter of 2006, the Company has prepared the Pro-forma Financial Information (condensed pro-forma consolidated income statements and pro-forma consolidated balance sheets for 2004, 2005, the six months ended 30 June 2005, the six months ended 31 December 2005 and the three months ended 31 March 2006) which may reflect the acquisition of Inpro by the Company in its consolidated accounts as if it had occurred on 1 January 2004.

The Pro-forma Consolidated Financial Information has been prepared on the basis of the Consolidated Financial Statements (the Company’s historical consolidated accounts prepared in accordance with IFRS) to enhance the comparability of the Company’s business and performance. They are not necessarily representative of the financial condition or overall performance that the Company would have had if the transaction reflected in such financial information had in fact occurred at an earlier date than it actually did.

### **Preliminary note on the IFRS presentation**

In 2003, the Company had no subsidiaries, and in its Unconsolidated Parent Company Financial Statements it prepared the income statement by nature of expense. In 2004, the Company prepared its Consolidated Financial Statements in accordance with IFRS and prepared its income statement with expenses classified by function.

When comparing financial statements prepared for 2004 and 2003 with financial statements prepared for 2006, 2005 and 2004, readers should note the issues set out below relating to the key differences between the French accounting standards as applied by the Company in its Unconsolidated Parent Company Financial Statements for 2003 and 2004 and IFRS as applied by the Company in its Consolidated Financial Statements for 2004. The main differences are described below (these differences should not be viewed as an exhaustive comparison between French accounting principles and IFRS):

- Revenue recognition: a services agreement was restated to bring it into accordance with IAS 11. The impact of this restatement on the 2004 income statement was a €0.6 million revenue.
- Research and development: The research and development expenses that met IAS 38 criteria are capitalised and amortised over their useful life. The impact of this restatement in net assets in 2004 represents a €0.8 million reduction in charges. In the Unconsolidated Parent Company Financial Statements, the Company chose to expense all of its research and development costs.
- Employee benefits: in accordance with IAS 19, a provision has been made for early retirement compensation in the Company's Consolidated Financial Statements in accordance with IAS 19, whereas it remains an off-balance sheet commitment in the Unconsolidated Parent Company Financial Statements prepared in accordance with French accounting principles. The impact on the income statement of the change in provision for 2004 was a €0.02 million charge.
- Share-based payments: options giving rights to acquire shares in the Company (such as equity warrants, business founder warrants, or stock options) may be granted to certain employees. They give holders the right to subscribe for the company's shares for a period of four or five years at a fixed exercise price set on the date of award. These securities are valued on the basis of the fair value of the benefit granted to the employee on the date of award. In the Consolidated Financial Statements, which have been prepared in accordance with IFRS, the charge related to these options under IFRS 2 is recognised under personnel costs in the income statement using the straight-line method over the period during which the rights to the option are acquired, against the equity. These equity instruments are not booked in the Unconsolidated Parent Company's Financial Statements and are treated as off-balance sheet commitments. The Company recorded a €0.1 million charge in its Consolidated Financial Statements for 2004 in this respect.
- Unrealised foreign exchange gains and losses on transactions denominated in foreign currencies: foreign exchange gains are not recognised as income in the Unconsolidated Company's Financial Statements, whereas they are booked as financial income in the Company's Consolidated Financial Statements. Unrealised foreign exchange variations recognised as financial items in the 2004 Consolidated Financial Statements amounted to a €0.06 million loss.
- Deferred taxes: in the Company's Consolidated Financial Statements, deferred taxes are booked in the income statement and in the balance sheet to reflect temporary differences between the accounting values and the tax values of some assets and liabilities. In the Unconsolidated Parent Company Financial Statements, deferred taxes are not recognised: only the tax due is recorded. The impact of deferred taxes in 2004 was €1.9 million in additional charges.

### **Discussion of the Group's results of operations in 2005, 2004 and 2003**

#### ***Introduction***

The Company has enjoyed strong sales growth over the past three years. Sales have grown from €10.6 million in 2003 (Unconsolidated Parent Company Financial Statements) to €80.9 million in 2005 (Pro-Forma Consolidated Financial Information). The switch from French accounting standards to IFRS had no material impact on sales. The growth reflects the success of some of the Company's flagship products, mainly the Parrot CK3000 installed hands-free car kits and its succeeding generations (Parrot CK3000 Evolution, Parrot CK3100 LCD, Parrot 3200 LS-Color, etc.). The aggregate sales volume of these



products rose from over 276,000 aftermarket units in 2004 to approximately 758,000 aftermarket units in 2005 and accounted for 88.4% of the Company's sales in 2005 (Consolidated Financial Statements). This increase in sales was driven by aggressive pricing and continued innovation, which led to rapid upgrades of products and their functionalities. Because of a steady decline in the average unit cost of sales, the Company was able to maintain gross profitability (gross margin/sales ratio) above 44%, both on a consolidated basis and on a pro-forma basis in 2004 and 2005. Additionally the Company's aggressive foreign expansion policy, boosted growth while allowing the Group to maintain its operating margin (operating profit/sales) above 10% on a consolidated and pro-forma basis in 2004 and 2005.

The Company realises a significant portion of its sales in Europe (88.7% of Group sales in 2005, Consolidated Financial Statements), and a significant proportion of these in Spain (nearly 40% of Group's sales in 2005, Consolidated Financial Statements). Aside from Spain, only France accounts for more than 10% of total consolidated 2005 sales, with 12.2% (Consolidated Financial Statements). A number of countries contributed significantly to the Company's growth. In addition to France, these include in particular Spain, and to a lesser extent, Germany, the United Kingdom and the Benelux countries. Strong growth abroad led the Company to open marketing and commercial subsidiaries in Italy, in Germany and in the UK, and more recently to acquire a majority shareholding in Inpro, its exclusive distributor in Spain. The Company also sees strong growth opportunities in the United States, which justified the expansion of local staff in 2005.

#### ***Key factors affecting the Company's results and financial condition***

A number of factors have had and will continue to have a substantial impact on the Company's financial performance.

#### *Sales*

The Company has three major product lines:

- installed hands-free car kits, installed by a professional installer after the purchase of a vehicle,
- plug-&-play hands-free kits, which can be used immediately after their purchase, and
- OEM, in which car makers install the kits in vehicles before shipping them.

In addition, the Company also sells other items including accessories for its products, such as connection cables, and revenues from development services for customising certain of its products for leading car makers or customers wishing to integrate the Company's technology into their own products.

#### *Demand for hands-free car kits*

The key sales growth driver is consumer demand. The market for wireless hands-free car kits has grown sharply over the past three years. Nevertheless the penetration rate is still very low in Europe as well as in the rest of the world. Market research suggests that the growth may continue.

#### *Legal environment for the use of a mobile phone while driving*

A significant share of consumer demand is affected by the strictness and enforcement of legislation, regarding the right to use a mobile phone while driving. Today, the trend is towards prohibiting drivers from using a cellular phone while driving without a hands-free car kit.

#### *Distribution*

Another key growth driver is the Company's ability to reach consumers. The Company has successfully expanded its presence in distribution channels in the countries where it expects strong consumer demand (including in channels such as telecom operators, car dealers and specialist mobile phone and car accessories retailers). The Company is active in many countries and sells through various distribution channels via wholesalers or distributors, but it has also established direct relationships with the key players of the distribution channels in some countries.

### *The impact of competition on selling prices*

The Company essentially competes with the manufacturers of wireless phone handsets, such as Nokia and Motorola. However, hands-free car kits are a related but not strategic segment for these companies. The Company's focus on wireless peripherals for mobile phones, with emphasis on hands-free car kits, means that it is able to offer products with more elaborate functionalities that are better suited to consumer demand.

It has also enabled the Company to cut its average unit cost of sales (cost of sales/number of products sold during the period). This in turn has allowed the Company to cut its prices in 2005 ahead of its competitors.

The Company uses the average unit selling price as an indicator of price trends. The average unit selling price is calculated by dividing the sales figure by the total number of products sold during the same period.

### *Seasonal patterns*

Owing to the fact that the Company sells consumer goods, the demand for its products is partly seasonal. The Company's sales are typically stronger in the fourth quarter due to the Christmas season. Until now, seasonality has been almost entirely offset by strong sales growth rate. Additionally, seasonality is likely to have a greater effect on sales of the new wireless peripherals for the home, which will be launched in 2006.

## Expenses

### *Cost of sales*

The cost of sales includes all costs, from the sourcing of components from the supplier to production and the delivery of the final product to the customer. Since the Company follows a "fab-less" model, personnel costs represent a very small proportion of the cost of sales.

The main variables that have an impact on the cost of sales are the volumes sold, the U.S. dollar's exchange rate against the euro (given that the share of purchases denominated in U.S. dollars is substantial) the prices of raw materials used for the components and, to a lesser extent, production costs. As most of the Company's costs are variable, the key indicator that it uses is the unit cost of sales (calculated as the price of components plus the cost of labour). The Company carefully chooses its suppliers to ensure the best cost-quality combination and flexibility with regard to production volumes. The cost of sales benefits from a substantial volume effect as the number of components purchased increases. The unit cost of sales of installed hands-free car kits has been declining since 2004 as a result of strong volume growth, which means that the Company can achieve economies of scale and thus contain component purchasing costs. The Company's engineer-purchasers monitor prices and negotiate continuously with suppliers.

### *Forecasts and supply chain management*

Being able to forecast demand in a climate of strong growth in the market for hands-free car kits, along with the expansion of its range of products, is critical for the Company's performance. This ability to forecast demand enables it to meet the biggest orders in Europe within 24 hours while keeping inventory low. In addition, under the agreements with subcontracting manufacturers, the Company's forecasts automatically become firm orders 30 days before delivery allowing the Company's manufacturers to source components adequately. As a result, if the Company makes a significant error in its forecasts, it runs the risk of either running out of inventory or having substantial inventory to finance.

### *Impact of the dollar-euro exchange rate*

The Company's cost of sales is to a large extent incurred in U.S. dollars, and the U.S. dollar portion is likely to increase as the Company relocates its production to the Asian plants of its sub-contractors. A significant change in the U.S. dollar's exchange rate against the euro could materially impact the Company's financial performance, especially so long as the bulk of its sales is invoiced in euro. The Company plans to hedge part of its foreign-exchange risk in 2006.

### *Operating costs*

In accordance with IFRS the Company's operating costs are classified by function. These costs include research and development expenses, cost of sales, general and administrative expenses and production/quality control.

- Research and development expenses

Research and development expenses include the internal costs of the research and development team, which designs and develops the Company's products, outsourcing costs and the depreciation of development tools. Research and development expenses also include testing equipment, the cost of developing prototypes and the depreciation of capitalised research and development costs (see note 2.K to the Consolidated Financial Statements). Capitalised development expenses essentially include personnel costs and outsourcing expenses.

- Cost of sales

The cost of sales reflects all operating expenses (staff costs, infrastructure costs, travel expenses and purchases of external services) of the personnel employed in the Company's sales and marketing units in Paris, Madrid, New York, Austin, Detroit, Birmingham, Munich, Milan, Hong Kong and Shanghai.

- Production and quality control

Production and quality control includes the day-to-day expenses of the departments in charge of supply-chain management and quality control. These costs mainly include employee wages and costs related to the test benches and other equipment used in quality control, and lastly provisions made for product warranty claims.

### *Financial income and expenses (cost of net debt, other financial income and expenses)*

Financial items principally relate to foreign exchange gains and losses, interest expense or interest on temporary bank overdrafts. To meet its needs arising from its rapid growth, the Company has set up bank facilities to meet its working capital requirements. This could lead to an increase in the Company's financial expenses in the future. In addition, the Company has borrowed €6 million to finance the acquisition of Inpro, its exclusive distributor in Spain. This funding and the financial charges incurred to finance Inpro's trade receivables will increase the Company's financial expenses in 2006.

### *Income tax expense*

Taxes are booked at the level of each legal entity. They are directly levied at the local tax rate. The Company's tax is highly dependent on the "research tax credit" that it enjoys in France. The research tax credit is a French tax provision that benefits innovative companies. It is based on the amount of research and development spending for the year and on the year-on-year increase in such spending. The tax credit is deducted from the corporate income tax of the year in which the spending was incurred or from tax due for the following three years. After that period, the tax authorities repay the residual amount to the Company.

### **Discussion of recent financial information**

In the first three months of 2006, Parrot's pro-forma sales were €33.2 million, compared to €13.6 million in the same period in 2005 (an increase of approximately 144.1%) and €29.5 million in the fourth quarter of 2005 (an increase of 13% sequentially). The sales figures for the first three months of 2006 exceeded the Group's total sales in the first six months of 2005.

Gross margin for the first quarter of 2006 amounted to €13.2 million or 39.8% of sales. The decrease in gross margin as a percentage of sales compared to the second half of 2005 (41.8% of sales) resulted from the November 2005 launch of the Parrot Rhythm & Blue Bluetooth® car radio and CK3200 car kit, the related high inventory build-up cost and the change in product mix at Inpro (the consolidated gross margin of the Group excluding Inpro was 43.5%).

The Group's operating profit for the first quarter of 2006 amounted to €4.1 million or 12.2% of sales. The Group's operating margin was 12.2% in the second half of 2005. Net profit amounted to €2.5 million,

corresponding to 7.6% of sales, compared to €4.0 million or 8.1% of sales in the second half of 2005. This reduction in operating margin and net margin is a direct result of the decrease in gross margin, partially compensated by productivity gains in operating expenses.

These strong results demonstrate the Group's ability to sustain profitable growth.

#### **Pro-forma comparison of 2004 and 2005 (IFRS)**

The following discussion presents financial information derived from the Pro-forma Consolidated Financial Information for 2004 and 2005.

The following table sets out the sales, gross margin, operating expenses, operating profit and profit for the period for 2004 and 2005, on the basis of the Pro-forma Consolidated Financial Information for 2004 and 2005:

In millions of euros	2004	2005
Sales . . . . .	33.8	80.9
<i>Growth</i> . . . . .		<i>139.3%</i>
Gross margin . . . . .	16.5	36.0
<i>% of sales</i> . . . . .	<i>48.8%</i>	<i>44.5%</i>
Operating expenses . . . . .	9.9	23.9
<i>% of sales</i> . . . . .	<i>29.3%</i>	<i>29.5%</i>
Operating profit . . . . .	6.6	12.1
<i>% of sales</i> . . . . .	<i>19.5%</i>	<i>15.0%</i>
Profit . . . . .	4.2	7.7
<i>% of sales</i> . . . . .	<i>12.4%</i>	<i>9.5%</i>

#### **Sales**

The Company's pro-forma consolidated sales were €80.9 million in 2005, compared to €33.8 million in 2004, representing a €47.1 million increase, or growth of 139.3%. This was mainly the result of volume growth in the sale of Parrot products and the marketing by Inpro of other products in 2005, particularly TomTom navigation equipment, which Inpro began selling in August 2005.

To boost sales growth, the Company has been actively implementing an aggressive pricing policy and is generally the first in the market to cut prices. Therefore, the prices of Parrot products dropped in 2005 compared to 2004. In addition, Inpro further cut the prices of Parrot products in 2005.

#### **Gross margin**

Gross margin was €36.0 million in 2005 (or 44.5% of sales), compared to €16.5 million in 2004 (or 48.8% of sales). This represents a €19.5 million increase but a 4.3 point decline in gross profitability. The decrease was essentially attributable to the 6.5 point drop in the gross profitability of Inpro, which fell from 23.7% to 17.2%. This was due, in part to the distribution of TomTom products, on which Inpro derives a much lower margin than that generated by Parrot products and, in part to the increase in the prices at which Inpro sells Parrot products to boost growth and better align the margin structure to the nature of its distribution business.

#### **Operating expenses**

Operating expenses totalled €23.9 million in 2005 (or 29.5% of sales), compared to €9.9 million in 2004 (or 29.3% of sales). This represents a €14 million increase in absolute terms and relative stability (an increase of 0.2 points) as a percentage of sales. The increase as a percentage of sales was attributable to higher research and development expenditure related to the introduction of new products and higher selling expenses to allow the Company's commercial expansion to gain traction. It was partly offset by economies of scale in production and quality control.

### **Operating profit**

Operating profit advanced sharply by 83.3% to €12.1 million in 2005 (or 15.0% of sales), compared to €6.6 million in 2004 (or 19.5% of sales). This equates to a 4.5-point drop in operating margins, which was mainly due to the 4.3-point decline in gross profitability discussed earlier.

### **Profit for the period**

Net profit came to €7.7 million in 2005 (or 9.5% of sales), compared to €4.2 million in 2004 (or 12.4% of sales). This corresponds to a 2.9-point drop in net profitability, which was essentially attributable to the lower operating margin discussed above. The decline was mitigated by an increase in the research tax credit, reflecting growth in research and development expenses, which also offset higher net interest expense related to Inpro's higher working capital requirements.

### **Comparison between 2004 and 2005 (Consolidated Financial Statements)**

The following discussion presents financial information derived from the Consolidated Financial Statements for 2004 and 2005.

The following table sets out sales, costs of sales, gross margin, research and development expenses, selling expenses, general and administrative expenses, production and quality, based on consolidated financial statements:

<b>In millions of euros</b>	<b>2004</b>	<b>2005</b>
Sales . . . . .	29.2	62.5
<i>Growth</i> . . . . .	—	114%
Costs of sales . . . . .	15.8	33.9
<i>% of sales</i> . . . . .	54.1%	54.2%
Gross margin . . . . .	13.4	28.6
<i>% of sales</i> . . . . .	45.9%	45.8%
Research and development expenses . . . . .	2.1	6.9
<i>% of sales</i> . . . . .	7.2%	11.0%
Selling expenses . . . . .	3.1	9.0
<i>% of sales</i> . . . . .	10.6%	14.4%
General and administrative expenses . . . . .	0.9	2.3
<i>% of sales</i> . . . . .	3.1%	3.7%
Production and quality control . . . . .	2.1	3.0
<i>% of sales</i> . . . . .	7.2%	4.8%
Operating profit . . . . .	5.2	7.4
<i>% of sales</i> . . . . .	17.8%	11.8%
Profit . . . . .	3.8	5.3
<i>% of sales</i> . . . . .	13.0%	8.5%

### **Sales**

In 2005, the Company's consolidated sales were €62.5 million, compared to €29.2 million in 2004, which represents an increase of €33.3 million and growth of 114%.

In 2004 and 2005, the main growth drivers were installed hands-free car kits, especially the Parrot CK3000 (first generation of hands-free kits launched by the Company in September 2001) in 2004, the Parrot CK3000 Evolution (the most advanced generation of the Parrot CK3000) and the Parrot CK3100 LCD (hands-free car kits with an LCD screen) in 2005. In total, the Company sold approximately 865,000 units in 2005, compared to approximately 363,000 units in 2004, or an increase of 138.3%.

The table below provides a breakdown of the Company's consolidated sales in 2004 and 2005 by product category:

Sales (in millions of euros)	2004		2005	
<i>Wireless products for vehicles</i> . . . . .	27.4	93.8%	60.5	96.8%
Installed kits . . . . .	22.8	78.1%	55.2	88.3%
Plug-&-Play products . . . . .	3.9	13.4%	3.8	6.1%
OEM . . . . .	0.7	2.3%	1.5	2.4%
<i>Other</i> <sup>(1)</sup> . . . . .	1.8	6.2%	2.0	3.2%
<b>TOTAL</b> . . . . .	<b>29.2</b>	<b>100%</b>	<b>62.5</b>	<b>100%</b>

<sup>(1)</sup> Principally the sale of accessories for the Company's products, such as connection cables, as well as the provision of development services for the customisation of certain products for leading car makers or customers wishing to integrate the Company's technology in their own products.

The sharp increase in consolidated revenues was mainly due to strong sales of installed hands-free car kits, which accounted for 97.3% of the growth. In 2005, the Company launched the highly successful Parrot CK3000 Evolution model (responsible for 16.1% of the Company's consolidated sales, and approximately 1/3 of the sales growth).

The second generation of hands-free car kits with LCD screens and mobile phone book synchronisation (Parrot CK3100 LCD) was introduced in 2004 and rapidly became the Company's best-seller, accounting for 55.6% of total sales in 2005.

The average unit selling price of installed kits and Plug-&-Play products fell by 10.7% and 16.4%, respectively, between 2004 and 2005. The drop in the average unit price reflected the Company's aggressive pricing policy and trends in the market for wireless hands-free car kits, where the novelty effect only lasts for a relatively short period. Nevertheless, the sustained pace of the Company's new product launches (from five in 2004 to nine in 2005), set at a higher selling price and incorporating increasingly technological innovations, has meant that the Company has, with the help of a positive product mix, been able to offset most of the natural decline in the average price of technological products. This highlights the importance to the Company of continuing to innovate and to keep rolling out increasingly innovative products. The Company notes that the latest price cut by the Company in August 2005 was followed by only some of its competitors. No price cuts have taken place since then.

#### **Costs of sales**

The cost of sales rose from €15.8 million in 2004 to €33.9 million in 2005, representing an increase of €18.1 million and growth of 114%. The increase in volumes was in line with the increase in sales. The cost of sales ratio remained steady at 54.2%.

The average unit cost of sales for installed hands-free car kits decreased by 9.5% while the increase of 16.4% in the average unit cost of plug-&-play products was mainly due to the costs of the EasyDrive launch in 2005.

#### **Gross margin**

Gross margin was €28.6 million in 2005 (or 45.8% of sales), compared to €13.4 million in 2004 (or 45.9% of sales). The stability of gross margin was due to the stability in the gross margin for hands-free car kits that represented a significant part of the total sales and gross margin of the Group.

#### **Research and development spending**

In 2005, research and development expenditure rose by €4.8 million (a 228.6% rise) compared to 2004, to €6.9 million, or 11.0% of sales. In 2004 research and development expenses were €2.1 million, or 7.2% of sales.

The increase in research and development spending was directly related to the rise in payroll resulting from the increase in the workforce required to support the Company's growth in these rapidly expanding markets. Research and development spending mainly relates to the development of tools for testing new



products and monitoring quality, the cost of outsourcing the development of production tools for new products, research relating to new technologies and, importantly, changes in the Bluetooth® standard.

Capitalised research and development increased by €3.1 million between 2004 and 2005 (see Note 8 to the Consolidated Financial Statements).

#### *Selling expenses*

In 2005, the Company's selling expenses reached €9.0 million, or 14.4% of sales, compared to €3.1 million in 2004, or 10.6% of sales. The difference in selling expenses was €5.9 million, a 190.3% increase.

In addition to the general growth of the business, which led to a € 3.5 million increase in selling expenses, the increase in these costs, which outpaced sales growth, also reflected: the cost of setting up new sales units and teams (€2.0 million). These new units included four subsidiaries established in 2005: Parrot Italia S.r.l. in Italy, Parrot GmbH in Germany, Parrot UK Ltd in the UK and Parrot Asia Pacific Ltd in Hong Kong, reflecting the Company's strong drive to strengthen its presence in these markets, and the cost of additional marketing development to enhance Parrot's brand identity and establish a common global merchandising platform.

#### *General and administrative expenses*

In 2005, general and administrative expenses rose by €1.4 million compared to 2004 (a 155.6% increase) to €2.3 million, or 4% of sales. In 2004, general and administrative expenses were €0.9 million, or 3.1% of sales. The increase was directly related to the growth in sales.

#### *Production and quality control*

In 2005, production and quality control costs rose by €0.9 million (a 42.9% increase) year-on-year to €3.0 million, or 4.8% of sales. In 2004 production and quality control costs came to €2.1 million, or 7.2% of sales. The decline relative to sales was directly attributable to economies of scale.

#### *Operating profit*

Operating profit increased by €2.2 million to €7.4 million in 2005. In 2004, operating profit was €5.2 million. As a percentage of sales, this nevertheless represented a decrease from 17.8% in 2004 to 11.8% in 2005. The 6-point drop in operating margin was driven by the increase in sales and marketing costs to develop the Company's subsidiaries and to enhance Parrot's brand identity, and by higher research and development expenditure partly offset by economies of scale in production and quality control.

#### *Profit*

In 2005, net profit came to €5.3 million (8.5% of sales), compared to €3.8 million in 2004 (13.0% of sales).

This represented a 4.5-point drop in net profitability (net profit/sales). The change was essentially attributable to the decrease in operating margins discussed earlier, and was partly offset by a higher research tax credit, which rose from €0.3 million in 2004 to €0.9 million in 2005 and tied, in part, to the growth of research and development spending.

In 2005 and in 2004, corporate income tax was set off with a credit and therefore had no impact on the company's cash position (see notes 7 and 11 to the Consolidated Financial Statements).

### **Comparison between 2003 and 2004 (Unconsolidated Parent Company Financial Statements, French GAAP)**

#### *Preliminary note*

In 2003 the Company had no subsidiaries and therefore did not prepare consolidated accounts. In 2004, the Company had a fully-owned subsidiary, Parrot, Inc., which was consolidated in the Company's accounts. In 2004 Parrot, Inc. contributed a €0.07 million loss to the Company's consolidated profit for the period.

The following discussion presents financial information derived from the Unconsolidated Parent Company Financial Statements for 2003 and 2004. The income statement was established in accordance with French accounting standards and displays costs by nature and not by function.

In millions of euros	2003	2004
Sales . . . . .	10.6	28.3
<i>Growth</i> . . . . .		167%
External charges . . . . .	7.1	19.3
<i>% of sales</i> . . . . .	67.0%	68.2%
Personnel . . . . .	2.2	4.0
<i>% of sales</i> . . . . .	20.8%	14.1%
Operating profit . . . . .	0.9	4.5
<i>% of sales</i> . . . . .	8.5%	15.9%
Profit . . . . .	1.0	4.7
<i>% of sales</i> . . . . .	9.4%	16.6%

### **Sales**

In 2004, the Company's sales were €28.3 million, compared to €10.6 million in 2003 (a 167% increase). This significant revenue growth was mainly driven by the success of the Parrot CK3000 installed hands-free car kits in 2003 (launched in 2001), which gained momentum in 2004. In 2003 and 2004, the Parrot CK3000 accounted for more than half of the Company's sales and was the key growth driver. The other growth driver was the immediate success of the second-generation Parrot CK3100 LCD hands-free car kit, which was launched in 2004.

### **External charges**

External charges rose from €7.1 million in 2003 to €19.3 million in 2004, up 171.8%, in line with the growth in sales.

### **Personnel**

Personnel costs rose from €2.2 million in 2003 to €4.0 million in 2004, up 81.8%, mainly due to the increase in average headcount, which rose from 38 to 76. The increase breaks down as follows: 10 additional employees in the sales department, 13 employees in research and development and eight in production. The increase was meant to support the growing business (in particular sales and production) and the continued strong research and development effort to expand the Company's product range.

### **Operating profit**

Operating profit came to €4.5 million in 2004, compared to €0.9 million in 2003. Operating margin (operating profit/sales) rose from 8.5% in 2003 to 15.9% in 2004. This higher profitability was directly attributable to the slower growth of personnel costs than of operating revenue.

### **Profit**

Net profit came to €4.7 million in 2004, compared to €1.0 million in 2003. Net margin (profit/sales) rose from 9.4% in 2003 to 16.6% in 2004. In addition to the increase in operating profit, which was the main growth driver, net profit benefited from positive net financial items of €0.1 million due to foreign exchange gains and the interest on invested cash, as well as a €0.3 million research tax credit.

### **Capital resources**

#### **Cash**

The Group's main source of finance is its cash from operating activities. In 2005, a large part of the Group's cash flows was used to finance its increased working capital requirements and operating expenditures such as research and development and sales and marketing costs, in particular opening subsidiaries in Hong Kong, Germany, Italy and the United Kingdom and for the expansion of its U.S. subsidiary, which was established in 2004.



In January 2005, the Company benefited from a capital increase of €5.8 million after accounting for expenses arising from a €6.0 million capital increase, inclusive of share premium. This contribution was used to finance the Group's international expansion as well as rising marketing costs.

The Group's working capital is subject to quarterly fluctuations which are partly seasonal due to stronger fourth quarter sales. During this period, the Group has a greater funding requirement for inventories and trade receivables. As the Group gradually transfers its production to Asian partners, its working capital needs are likely to rise due to an increase in inventories in transit. Until now, the Group has been able to negotiate favourable terms of payment to finance its working capital needs.

Available cash is invested in low-risk instruments such as money market mutual funds. At 31 December 2005, the Group's net cash, including short-term financial assets, amounted to €4.1 million, compared to €1.9 million at 31 December 2004.

The following table sets out the Group's consolidated cash flows (prepared in accordance with IFRS) for the years ended 31 December 2004 and 2005:

In thousands of euros	2004	2005
<b>Cash flow from operating activities</b>		
Profit for the period . . . . .	3,830	5,308
Depreciation and amortization . . . . .	1,079	2,230
Gains / Losses on sale of assets . . . . .	2	0
Income tax expense . . . . .	1,571	2,187
Cost of share-based payments . . . . .	122	231
Net borrowing cost . . . . .	13	(77)
<b>Cash flow from operations before net borrowing cost and income tax . .</b>	<b>6,617</b>	<b>9,880</b>
Change in working capital . . . . .	(4,520)	(8,036)
<b>CASH FLOW FROM OPERATING ACTIVITIES . . . . .</b>	<b>2,098</b>	<b>1,844</b>
Taxes payable . . . . .	283	(636)
<b>NET CASH FROM OPERATING ACTIVITIES (A) . . . . .</b>	<b>2,380</b>	<b>1,208</b>
<b>Cash flow from investing activities</b>		
Interest received		
Acquisitions of intangible assets and property, plant and equipment . . . .	(1,730)	(4,954)
Acquisitions of subsidiaries, net of cash acquired (Note 3) . . . . .	0	0
Acquisitions of financial assets . . . . .	(47)	(42)
Increase in other current financial assets . . . . .		(2,042)
Proceeds from sale of intangible assets and property, plant and equipment . . . . .	0	0
Proceeds from sale of subsidiaries, net of cash sold (Note 3) . . . . .		
Proceeds from sale of other investments . . . . .	0	2
<b>NET CASH FROM INVESTING ACTIVITIES (B) . . . . .</b>	<b>(1,778)</b>	<b>(7,036)</b>
<b>Cash flow from financing activities</b>		
Increase in share capital . . . . .	2	5,862
Dividends paid . . . . .	0	0
Proceeds from borrowings . . . . .	0	0
Cost of net debt . . . . .	(13)	77
Repayment of borrowings . . . . .	0	0
Interests paid . . . . .	0	0
<b>NET CASH FROM FINANCING ACTIVITIES (C) . . . . .</b>	<b>(11)</b>	<b>5,939</b>
<b>NET CHANGE IN CASH (D = A+B+C) . . . . .</b>	<b>591</b>	<b>111</b>
Effect of exchange rates fluctuations on cash debt . . . . .	0	6
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR . . . . .</b>	<b>1,319</b>	<b>1,911</b>
<b>CASH AND CASH EQUIVALENTS AT YEAR-END . . . . .</b>	<b>1,911</b>	<b>2,027</b>
Cash and cash equivalents at year-end . . . . .	1,911	2,027
Other current financial assets . . . . .	0	2,042
Cash and cash equivalents and other current financial assets at year-end . .	1,911	4,069

#### *Net cash from operating activities*

The Group's net cash from operating activities amounted to €1.2 million in 2005 compared to €2.4 million in 2004. This decline was due to the increase in working capital requirements which offset the increase in the Group's cash flows.

#### *Net cash used in investing activities*

Cash used for investing activities amounted to €7 million in 2005 compared to €1.8 million in 2004. The €5.2 million increase was due to a short-term cash investment of €2 million, the capitalisation of €0.9 million of expenditures to finance increased research and development costs, €1 million for software licences and €1.4 million in machinery and tools.

### *Net cash from financing activities*

Net cash from financing activities amounted to €5.9 million in 2005 compared to a cash outflow of €11,000 in 2004. This improvement was due to the Company's €6 million capital increase in January 2005 as well as the exercise of options for €100,000, less expenses of €200,000 related to the capital increase.

### *Capital resources*

At 31 December 2005, consistent with its policy to be debt free, the Group had only €17,000 of short-term debt and €4.1 million in available cash and short-term investments.

Since the beginning of 2006, the Company has established authorised overdraft facilities and discount credit lines of foreign trade receivables ("*mobilisation de créances nées à l'export*" or "*MCNE*") totalling €8 million with Banque Palatine and HSBC to enable it to manage all or most of the short-term changes in its cash position. In addition, the Company obtained a €6 million loan from IXIS Corporate & Investment Bank on 28 March 2006 to finance in part the acquisition of a majority shareholding in the Spanish company Inpro Tecnología S.L. The remaining portion of the acquisition price of the majority of the shares of Inpro Tecnología S.L. (to be paid in three equivalent instalments of approximately €1 million), will be financed by the Company.

### *Credit lines*

#### *The Company's Credit Lines*

Since the beginning of 2006 the Company has established authorised overdraft facilities and discount credit lines of foreign trade receivables ("*MCNE*") with Banque Palatine and HSBC. These short-term credit lines have the following features:

- HSBC:
  - (i) an authorised overdraft facility of €2 million at an annual rate of EONIA +1%; this line is not secured;
  - (ii) a "*MCNE*" discount credit line of foreign trade receivables of €2 million at an annual rate of 3 month EURIBOR +0.75%; this line is secured by a "Daily" revolving facility.
- Palatine:
  - (i) an authorised overdraft facility of €1 million at an annual rate of EONIA +1%; this line is not secured;
  - (ii) an authorised overdraft facility of €1 million at an annual rate of EONIA +1%; this line is secured by a "Daily" revolving facility; and
  - (iii) an "*MCNE*" discount credit line of foreign trade receivables of €2 million at an annual rate of 3 month EURIBOR +0.75%; this line is secured by a "Daily" revolving facility.

The authorised facilities granted by Banque Palatine and HSBC do not contain any specific default or early redemption clause. With respect to the "*MCNE*" discount credit line of foreign trade receivables, the Company is not exposed to any risk of early redemption after the maturity date of the invoice.

#### *Inpro Tecnología S.L.'s Credit Lines at 31 December 2005*

Inpro Tecnología S.L. had established authorised overdraft facilities, letters of credit and credit lines to pay international suppliers, and discount credit lines. These short-term credit lines have the following features:

- La Caixa:
  - (i) a discount credit line of €600,000 at an annual rate of 3.75%;
  - (ii) an authorised overdraft facility of €25,000 at an annual rate of 4.64%; and
  - (iii) a letter of credit of €200,000 at an annual rate of 1.25%.

- BSCH:
  - (i) a discount credit line of €1 million at an annual rate of 3.40%;
  - (ii) a discount credit line of €500,000 at a rate of 3.40%;
  - (iii) an authorised overdraft facility of €100,000 at a rate of 4%;
  - (iv) a credit line to pay international suppliers of €300,000 at an annual rate of EURIBOR + 0.75%; and
  - (v) a letter of credit of €350,000 at an annual rate of 1.50%.
- Caja Madrid:
  - (i) a discount credit line of €425,000 at an annual rate of 3 month EURIBOR + 1.25%;
  - (ii) an authorised overdraft facility of €300,000 at an annual rate of 3 month EURIBOR + 1.25%; and
  - (iii) a credit line to pay international suppliers of €450,000 at an annual rate of EURIBOR + 1% (euros) or LIBOR + 1.1% (foreign currencies).
- Bankinter:
  - (i) a discount credit line of €150,000 at an annual rate of EURIBOR + 3%;
  - (ii) an authorised overdraft facility of €50,000 at an annual rate of EURIBOR + 1%; and
  - (iii) a credit line to pay international suppliers of €100,000 at an annual rate of EURIBOR + 3%.
- Caixa Cataluna:
  - (i) a discount credit line of €300,000 at an annual rate of EURIBOR + 1.25%; and
  - (ii) an authorized overdraft facility of €150,000 at an annual rate of EURIBOR + 1.25%.
- BBVA:
  - (i) a discount credit line of €300,000 at an annual rate of 3.85%.
- Guipuzcoano:
  - (i) a discount credit line of €120,000 at an annual rate of 3 month EURIBOR + 1.58%.

At 31 December 2005, these credit lines were drawn in the amount of €400,000. Since 1 January 2006, there has not been any significant increase in the use of these credit lines.

#### *Loan agreement*

On 28 March 2006, the Company entered into a loan agreement with IXIS Corporate & Investment Bank for €6 million to finance in part the acquisition of a majority shareholding in the Spanish company Inpro Tecnología S.L. This bank loan, redeemable *in fine*, has been granted for a maximum period of two years until 28 March 2008. It bears interest at EURIBOR +1.25% for 12 months, EURIBOR +2.5% during the following six months and then EURIBOR +3% for the final six months. With respect to this bank loan, the Company expects to repay IXIS Corporate & Investment Bank in full in advance. It is also anticipated that the lender will be able to redeem the loan prior to the end of its term in certain cases, particularly in the event that the Company fails to respect the following ratios, as defined in the terms of the bank loan: Net debt / Total equity < 120%; Net debt / Earnings before Interests, Depreciation and Taxes < 240%

In addition, as security, the Company has pledged the following to IXIS Corporate & Investment Bank: the sale of customers' trade receivables by the Company as well as the sale of any indemnity in respect of

liability insurance related to these receivables; and the sale in full of indemnities or other sums which may be due to the Company in respect of the seller's guarantee relating to the acquisition.

#### *Contractual obligations*

The Group has placed certain firm orders with its suppliers. At 31 December 2005, these contractual obligations amounted to €3.9 million.

### **Financial risks**

#### *Foreign currency risks*

In 2005, the majority of the Group's revenues were invoiced in euros while a significant part of the cost of its products was invoiced in U.S. dollars. The Group is therefore exposed to the risk of fluctuations of the U.S. dollar against the euro. Based on the Group's consolidated accounts at 31 December 2005 prepared in accordance with IFRS, a 1% decline in the value of the euro against the U.S. dollar would result in a decrease in operating profit of approximately 0.25%.

While a number of new measures may mitigate the impact of currency exchange rate fluctuations on the Group's results of operations, the Group cannot provide any assurance that these measures will be successful, and even if they are successful, they might not fully offset the impact of currency exchange rates. These measures include efforts to increase the portion of revenues earned in U.S. dollars (particularly through the growth of U.S. operations), a currency hedging policy that the Group intends to implement in the second half of 2006 including a USD 5 million foreign currency credit line that has recently been put into place. Currency exchange risk primarily concerns the Company, which purchases a significant amount of its product components in U.S. dollars.

The Group's currency positions in the consolidated pro forma financial statements at 31 December 2005 are as follows:

	USD (in thousands of euros)	GBP (in thousands of euros)	HKD (in thousands of euros)
<i>Assets</i> . . . . .	1,793	1,918	924
<i>Liabilities</i> . . . . .	7,034	1,781	1,151
<i>Net position before hedging</i> . . . . .	(5,241)	137	(227)
<i>Off balance sheet</i> . . . . .	—	—	—
<i>Net position after hedging</i> . . . . .	(5,241)	137	(227)

#### *Interest rate risks*

The Group's main interest rate risks relate to a bank loan of €6 million entered into by the Company with IXIS Corporate & Investment Bank in order to partially finance the purchase of the majority of the share capital of the Inpro Tecnología S.L. as well as an overdraft facility of €2 million used by Inpro Tecnología S.L. at 31 December 2005. The Company plans to make early repayment in full of the bank loan with IXIS Corporate & Investment Bank using part of the proceeds of the Offering (see "Use of Proceeds"). Changes in the applicable interest rate on this loan are monitored by the Company on a monthly basis.

The schedule of financial assets and liabilities is as follows:

(in thousands of euros)	Less than 1 year	1 to 5 years	More than 5 years
<i>Financial liabilities</i> . . . . .	2,157	19,546	—
<i>Financial assets</i> . . . . .	—	—	—
<i>Net position before hedging</i> . . . . .	2,157	19,546	—
<i>Off balance sheet</i> . . . . .	—	—	—
<i>Net position after hedging</i> . . . . .	2,157	19,546	—

With respect to the only short-term liability of less than one year appearing in the table above, a 1% variation in the short-term rate would have an insignificant impact on consolidated financial costs.

### *Stock market risks*

The Company has included in its financial year-end balance sheet an investment in a fund which is indexed to the CAC 40, with capital guaranteed at the end of one year and which pays a coupon as soon as the index is at the same level as or above the CAC 40 reference price. In the event of a sale of the investment while the fund is active, the capital is not guaranteed and there is a risk of loss of value. As at 31 December 2005, the investment represented an unrealised gain.

At the date of this Information Document the Group does not have significant direct holdings of shares in listed companies. The investment fund that is indexed to the CAC 40 realised a gain in the first quarter of 2006. The Group therefore does not believe it is currently subject to equity market risk.

### *Risks related to off-balance sheet commitments*

At 31 December 2005, the Company did not have any off-balance sheet commitments or other contractual obligations relating to its current activities, other than fixed orders from suppliers in an amount equal to €3.9 million and future payments relating to leasing agreements.

Contractual obligations (in thousands of euros)	Total	Payments due by period		
		Less than 1 year	From 1 to 5 years	More than 5 years
Leasing agreements . . . . .	2,126	353	1,080	693
Purchasing obligations with suppliers . . . . .	3,900	3,900	—	—

Since 31 December 2005, the Group has entered into contracts which contain the following commitments:

- authorised credit lines entered into by the Company guaranteed by the sale of receivables: €5 million;
- commitments relating to the acquisition of the majority of the share capital of Inpro Tecnología S.L. (approximately 56.3%):
  - (i) the Company entered into a bank loan of approximately €6 million with IXIS Corporate and Investment Bank, guaranteed by the transfer of commercial receivables to the same amount, to finance a part of the acquisition of the majority of the share capital of Inpro Tecnología S.L.;
  - (ii) the Company has agreed to make three separate €1 million payments over the course of the next three years for the balance of the purchase price of the majority of the share capital of Inpro Tecnología S.L. (€3 million);
  - (iii) the Company has agreed to purchase the minority interests of the minority shareholders in Inpro Tecnología S.L. (approximately 43.7%);
- Inpro Tecnología S.L. has various authorised credit lines, some of which are guaranteed by receivables in an amount of €3 million.

### **Outlook**

The discussion below contains forward-looking statements about the Company's business. Although the Company believes its expectations are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from the results anticipated in the forward-looking statements contained below. Certain of these risks are described under "Risk Factors."

In the years ahead, the Company intends to continue growing its sales at a brisk pace while maintaining high profitability. Growth will focus on hands-free car kits, its core business, as well as launching new wireless peripherals for mobile phones that take advantage of new functionalities, particularly for images and sound. To this end, the Company has set operating and financial objectives for the current financial year (2006), and in the medium term (2007-2008).

### ***Objectives of the Group***

The trends and objectives presented below are based on data, assumptions and estimates considered reasonable by the Company's management. These data, assumptions and estimates may, however, evolve or change as a result of uncertainties mainly due to economic, financial, competitive, or regulatory conditions. Furthermore, should certain risks described in "Risk Factors" materialise, the Company's business and its ability to meet its targets would be affected. The Company makes no commitment and gives no guarantee that the objectives presented in this section will be met.

### ***Objectives of the Group for 2006***

The following trends are based on the accounting principles used to prepare the Company's consolidated financial statements for the year ended 31 December 2005, and the pro-forma consolidated income statement for the year ended 31 December 2005, which includes Inpro Tecnología S.L.

The Group's objectives for 2006 include: Sales growth of approximately 80% to 100% (including sales of TomTom products distributed by Inpro Tecnología S.L.), compared with 2005 pro-forma sales; Gross margin of approximately 41% to 44%. This assumes a 10% to 20% annual decline in average sales prices and unit costs of the Parrot products that contributed most to 2005 consolidated sales, excluding Inpro Tecnología S.L., and a flat mark-up on the TomTom products sold by Inpro Tecnología S.L.; and operating margin (operating profit/sales) above 10%, excluding non-recurring charges resulting from IFRS 2 (see below). This is based on the following assumptions:

- (i) the above-mentioned gross margin target,
- (ii) an increase in selling expenses which could remain relatively flat as a percentage of sales, and
- (iii) a 20% to 30% rise in research and development expenditures.

The Group's strong performance in the first quarter of 2006 demonstrates its ability to meet the objectives for 2006 set out above.

The increase in the Company's share capital, including share premium, resulting from the implementation of a business founder warrants plan for the benefit of Henri Seydoux, the Company's CEO, was €14.67 million.

### ***Objectives of the Group in the medium term (2007-2008)***

In determining its objectives in the medium term, the Company has received external market research from which its objectives for an increase of sales and gross margin were derived. On this basis, the Group's objectives are: a 35% average increase in sales based on market growth for Bluetooth® products estimated at 43% according to the average of various research projections; and a gross margin above 40%, based on studies of comparable companies operating in the electronic consumer products and Bluetooth® products markets.



# BUSINESS

## General Presentation

Parrot was founded in 1994. It designs and sell hands-free telephone car kits for consumers, car makers and automotive equipment vendors in over 60 countries, drawing on its expertise in advanced speech recognition, acoustics and Bluetooth® wireless technologies. The Group is one of the leading players in the rapidly growing market for installed hands-free mobile phone car kits using the Bluetooth® wireless standard.

In addition to hands-free mobile phone equipment for vehicles, the Group also plans to expand its business across a broader range of wireless peripherals for mobile phones, including the new music and photo features increasingly implemented in mobile phones beyond the classic voice functions, given that many mobile phones now include a digital camera and capabilities for storing and playing music.



The Group reported pro-forma net sales of €80.9 million in 2005, an increase of 139% compared to 2004.

The Group has been profitable since 2002. Pro-forma operating income for 2005 reached €12.1 million, with pro-forma profit of €7.7 million. Pro-forma operating income for the first quarter of 2006 was €4.1 million, with pro-forma profit of €2.5 million for the same period. At 31 December 2005, the Group had 163 employees.

### ***Bluetooth®, the leading standard for wireless interfacing between mobile devices***

By 2004, Bluetooth® had emerged as the primary standard allowing wireless interfacing between mobile devices such as between a mobile phone and a hands-free kit, or between a laptop computer and a printer or PDA. Communication is possible so long as both devices are fitted with a Bluetooth® chip. Adoption of the Bluetooth® standard has been especially strong in mobile telephony applications, and many units (approximately 20% of phones sold in Western Europe and North America in 2005) are fitted with Bluetooth® chips<sup>(2)</sup> today.

Two Bluetooth®-capable devices can communicate with each other if their Bluetooth® functions are enabled. The devices recognize each other, and one of them asks the user to enter a predetermined code or press a predetermined key combination (as specified in the user manual or stated explicitly on the screen) to interface the devices and allow communication to proceed. Each device stores the other's ID so that on subsequent occasions the pairing process will be established automatically, within a few seconds, with no need for user action.

<sup>(2)</sup> Source: IMS Research, 2006



### ***The Group's core business: installed hands-free car kits***

The Group has developed three ranges of hands-free car kits: (i) installed car kits for professional installation after vehicle purchase (also known as aftermarket car kits); (ii) plug-&-play car kits useable directly by the end consumer; and (iii) professional OEM kits fitted by car makers prior to vehicle sale.

Installed hands-free car kits make up the bulk of the Group's core business (approximately 88.3% of consolidated net sales in 2005). Products take the form of professionally installed electronic equipment connected to the vehicle's loudspeakers, implementing sound processing technologies, Bluetooth® capabilities and an interface. The system provides wireless connection to virtually any Bluetooth® mobile phone within the equipment range, enabling the user to make and receive calls from the hands-free kit rather than the mobile phone itself, for safety and convenience at the wheel.

### ***Innovation and technological excellence enabling a full range of hands-free car kit products, and forthcoming wireless peripherals for mobile phones***

Building on technological excellence and the results of sustained research and development efforts, the Group pursues innovation in new wireless applications for voice, music and images to offer a whole range of wireless peripherals capable of making the most of emerging mobile phone technologies in vehicle, home and office environments. At the Hanover CeBIT trade show in March 2006, the Group announced the launch of its first wireless peripherals for non-automotive applications (speakers, photo frames), which communicate with mobile phones using the Bluetooth® standard.

Acutely aware of the need to track market trends closely, the Group pays close attention to the emergence of new standards that could compete with, replace or supplement Bluetooth® and will adapt its products accordingly, if need be. It is also an active member of special-interest groups such as the WiMedia Alliance (which promotes the UWB standard) and the Bluetooth SIG. As a result of this involvement, it is able to keep abreast of developments in standards, participate in upgrade programmes, allocate research and development expenditure optimally, and plan product adaptations effectively.

### **Competitive Advantages**

The Group considers that it holds a number of competitive advantages which it hopes will enable it to sustain profitable growth in the market for Bluetooth®-based hands-free car kit products and develop its business in the market for wireless peripherals for non-automotive wireless mobile phone applications.

### ***Major player in a buoyant market for hands-free in-vehicle products***

In most of the countries in which it is present, the Group enjoys a prominent position in the market for Bluetooth®-based hands-free car kit products, primarily in its core business of installed hands free car kits. This prominence is due to product value, features, and compatibility with virtually all mobile phones. In 2005, the Group sold approximately 758,000 installed hands-free car kits (up from approximately 276,000 in 2004), for an estimated worldwide market share of approximately 22% in 2005.

### ***Full range of products in a high-growth market for wireless hands-free car kits***

The Group is able to meet the needs of its customers with a wide range of hands-free car kits ranging from the most straightforward, such as Parrot EasyDrive, to the most sophisticated, such as the Parrot Rhythm n'Blue Bluetooth® car sound system.

The Group derives positive brand recognition through its presence in the aftermarket, plug-&-play and OEM market segments, which also provides strong motivation for its sales force and international dealers and benchmark status across the whole hands-free vehicle telephony equipment market.

### ***Proven technological expertise***

The Group's proven technological expertise is the result of years of research and development applied to the design, and manufacture of high quality products. The Group has developed unequalled design expertise in the basic technologies behind its products, including: (i) signal processing and on-board acoustics (echo cancelling and ambient noise limiting, speech recognition); and (ii) Bluetooth® capabilities and related technologies. Parrot is an associate member of the Bluetooth® Special-Interest Group ("SIG") and co-chairs the Bluetooth® SIG Automotive Committee. It also participates actively in Bluetooth® forums to keep abreast of technological developments and ensure permanent product compatibility.

The Group's manufacturing expertise includes efficient management of supplies (principally of electronic components), subcontracting and logistics under a "fab-less" model, achieving the flexibility and response capacity required to keep up with market growth and reduce production costs. The Group consistently meets the demanding quality requirements of the automotive industry in offering products capable of meeting customer satisfaction. Design, manufacturing and quality control processes are certified to automotive industry quality standards. The Group uses its technological excellence to develop new hands-free car kits offering new features.

#### ***Innovative new products in the market for mobile-phone wireless products***

The Group uses its technological expertise in hands-free car-kits to launch new products. In 2006, it announced innovative new mobile-phone wireless products for non-automotive applications.

#### ***Sound international experience***

The Group sells its hands-free car kits in more than 60 countries. It offers products with documentation and software interface in 19 languages in order to facilitate their adoption in local markets. Products are sold through local distribution agreements and through the Group's subsidiaries in Germany, the UK, Asia (Hong Kong), the United States and Italy, and since the beginning of April 2006, in Spain. The Spanish subsidiary was acquired in April 2006.

#### ***Well-established multi-channel distribution network***

The Group's products are distributed through an efficient multi-channel network: (i) mobile phone specialists (operators, dealers, specialist stores and major retail outlets); (ii) automobile specialists (repair centres, equipment installation outlets, importers and dealers); and (iii) car makers and automotive equipment vendors. Broad distribution ensures effective reach to different customer types and good coverage across the product range.

#### ***Good brand recognition for hands-free car kits***

With cumulative sales of Parrot-branded products reaching the million mark, the Parrot brand enjoys good recognition in the market for hands-free wireless car kits, among dealers, car makers and automotive equipment vendors.

#### ***Quality teams with extensive experience in the sector***

The Group's successful market performance owes much to the experience and combined talents of its management, sales and research and development teams. Some team members have been with the Group for more than ten years, and others have solid backgrounds with leading players in the mobile phone or electronics markets. All team members have developed a thorough working knowledge of key development factors concerning markets, technologies, marketing modes and manufacturing strategies.

#### ***Sound financial performance based on high-growth product range and proven profitability***

The Group has proved its capacity for profitable growth since 2002. Its successful performance is based on a full and regularly renewed product range, gradual development of distribution structures and marketing efforts, and persistent efforts to achieve cost reduction to maintain operating margins in the high-growth market for hands-free mobile phone car kits.

### **Strategy**

#### ***Best available Bluetooth® hands-free car kits***

To keep up with market growth, the Group will be pushing ahead with its policy of innovation in its core business of wireless hands-free car kits, with a view to keeping its position as a major player in this market, which has strong potential. Specifically, it will be pursuing development in the distribution of installed wireless hands-free car kits, its historic high-growth market, which has the advantage of relatively short lead times from new product design to sale. In the medium-term, the Group also intends to strengthen partnerships with car makers and automotive equipment vendors, to become a key partner in vehicle telephony solutions, building up a high-profile position in this market as it matures. The Group will also be stepping up efforts to develop the plug-&-play segment, which is positioned between the wireless earphone and the installed hands-free car kits. The Driver Headset product released in May 2006 is a good illustration of steps in this direction.

### ***Sustained excellence and technology lead***

The Group will continue to invest in human resources, recruiting top-class talent in research and development, production and sales to make further progress in innovation, product quality and customer satisfaction. The Group also intends to pursue active involvement in technology forums to keep abreast of technological developments, especially those relating to emerging wireless standards and technologies.

### ***Extended product range addressing new mobile phone functions***

Building on technological excellence in its core business of installed hands-free car kits (especially those relating to signal processing, mobile phone acoustics, Bluetooth® capabilities and related technologies), the Group intends to extend its product range to other wireless devices for mobile phones in line with development of new mobile telephony functions (such as music and photos), and thus take up strong positions in what it considers to be a promising market.

### ***Heightened recognition for the Parrot brand***

To develop a strong brand with high consumer recognition, the Group will be seeking active promotion of the Parrot brand across a broad cross-section of the population, especially at points of sale. This applies both to its core-business of hands-free car kit products and to the emerging market for new wireless mobile phone products (music, photo).

### ***Distribution network development and enhanced coverage of non-European markets***

The Group will keep pace with the growing demand for wireless hands-free car kits by actively developing distribution and sales networks in all the markets it covers (especially the U.S. market, which has strong potential). In addition, it will be extending its distribution channels to cover new wireless products for mobile phones (music, photo).

### ***Cost control***

Parrot will be pursuing its cost optimisation policy in product design, manufacture and sale. The strong emphasis on cost control starts at the product design stage and runs through the whole production and commercialisation chain as a key factor for profitable growth.

## **Company History**

The important events in the Company's history are outlined below:

- 1994      ● Henri Seydoux establishes the Company.  
              ● The Company develops voice recognition technologies, including signal processing algorithms.
- 1995      ● The Company launches its first electronic diary with voice recognition.
- 1997      ● The Company launches the Parrot+, a new generation of its voice recognition diary specifically designed for the blind.
- 1998      ● The Company develops new acoustics technologies (noise reduction and echo cancellation).
- 1999      ● Launch of the Parrot CK28, the first hands-free wired car kit.  
              ● The Company joins the Bluetooth® SIG.  
              ● Launch of the Parrot VoiceMate, a new-generation personal assistant for the blind.
- 2001      ● Launch of the Parrot CK3000, a Bluetooth® hands-free car kit.
- 2002      ● Launch of the Parrot CK4000 (OEM).
- 2003      ● Launch of the Parrot DriveBlue, the first "Plug-&-Play" Bluetooth® hands-free car kit.
- 2004      ● Launch of the Parrot CK3100 and Parrot CK3300 car kits.  
              ● Parrot, Inc., a subsidiary, is set up in the United States of America.

- 2005
- Launch of the Parrot EasyDrive, Parrot CK3000 Evolution, Parrot 3200 LS-Color, Parrot 3400 LS-GPS and Parrot Rhythm n'Blue.
  - Launch of the Parrot CK5000 ("OEM").
  - Subsidiaries are set up in Germany (Parrot GmbH), the United Kingdom (Parrot UK Ltd), Italy (Parrot Italia S.r.l) and Hong-Kong (Parrot Asia Pacific Ltd).
  - Production of VoiceMate voice-activated assistants is discontinued.
- 2006
- A majority of the capital of Inpro Tecnología S.L. is acquired in Spain.
  - Launch of the Parrot Driver Headset.
  - The Company launches its first wireless peripherals for non-automotive applications, Parrot Photo Viewer and Parrot Sound System, to integrate new mobile phone functionalities (music, photo).

## Products

### *Innovative, feature-rich products*

The Group currently offers a full range of Bluetooth® wireless hands-free products for vehicles, and in March 2006 announced the launch of its first wireless peripherals for non-automotive mobile phone applications, in line with emerging mobile phone usages such as music and photos.

The table below shows the breakdown of the Group's net sales by product category as well as the growth margins for each type of product:

Products	2004		Gross Margin (in millions of euros)	2005		Gross Margin (in millions of euros)
	Net Sales (in millions of euros and as percentages)			Net Sales (in millions of euros and as percentages)		
<i>Wireless products for vehicles</i> . . .	27.4	93.8%	13	60.5	96.8%	27.3
Installed car kits . . . . .	22.8	78.1%	11.1	55.2	88.3%	26.4
Plug-&-Play . . . . .	3.9	13.4%	1.3	3.8	6.1%	0.3
OEM . . . . .	0.7	2.3%	0.6	1.5	2.4%	0.6
<i>Other products</i> <sup>(1)</sup> . . . . .	1.8	6.2%	0.4	2.0	3.2%	1.3
<b>TOTAL</b> . . . . .	<b>29.2</b>	<b>100%</b>	<b>13.4</b>	<b>62.5</b>	<b>100%</b>	<b>28.6</b>

<sup>(1)</sup> Principally product accessories such as connection cables and customisation development services for car makers and other clients wishing to integrate the Group technology in their own products.

### *Bluetooth® wireless hands-free car kit products*

The Group offers a full range of wireless hands-free car kit products, enabling drivers to make and receive phone calls without a physical connection between their mobile phone and the Group's hands-free product, which is usually built in to the vehicle's audio system for the best possible sound quality.

All of the Group's Bluetooth® wireless hands-free car kit products share the following basic features: (i) automatic Bluetooth® hookup between the user's mobile phone and hands-free product (following initial twinning); (ii) automatic switching of calls to vehicle loudspeakers in hands-free mode (or to the kit loudspeaker for plug-&-play products); (iii) full-duplex communication with acoustic echo-cancelling system; (iv) noise-limiting system for high-quality signal received by correspondent; (v) synchronization of mobile-phone phonebook; (vi) speech recognition for phone numbers; (vii) access to recent calls list; (viii) intuitive user interface with two buttons for pick-up / hang-up and two buttons for volume adjustment.

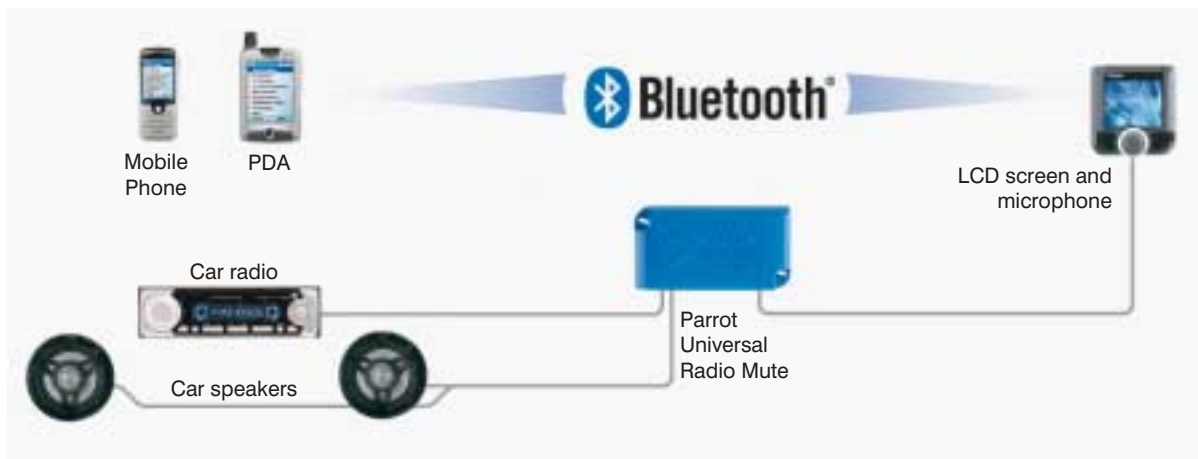
The Group's wireless hands-free products implement the Bluetooth® standard for secure digital wireless communication between Bluetooth®-capable devices. More and more new mobile phone sets include a Bluetooth® chip and are therefore compatible with the Group's wireless hands-free products.

To ensure that the Group's products are compatible with the vast majority of Bluetooth® mobile phones on the market, the Group performs compatibility tests on all commercially available Bluetooth® phone units, regularly updates its operating firmware, and only integrates the latest firmware version at the final assembly phase. In addition, all software needed for operating the Group's hands-free car kit products can be downloaded from the Group's website by the user or by a specialist using a Bluetooth®-capable portable computer. This ensures compatibility with virtually all new Bluetooth® phone sets.

The Group's products are developed by implementing prime technological expertise in digital signal processing and ASIC (application-specific integrated circuits) design. At 31 December 2005, over 80% of the Group's products on the market were fitted with Parrot4 or Parrot4+ ASICs. In 2006, the new Parrot5 ASIC (which is more economical and powerful than its Parrot4 and Parrot4+ predecessors) will be introduced across most of the Parrot product range.

#### ***Range of aftermarket hands-free kits***

The Group's range of installed hands-free car kits (Parrot CK3X00) covers its historical core market segment. It includes hands-free car kits supplied to specialist retailers (car repair centres, specialist car equipment outlets, installation specialists, etc.) for professional installation after vehicle purchase.



**Typical connection of an installed hands-free car kit**

The Parrot CK3000, released in September 2001, was the first Bluetooth® hands-free car kit on the market. It is a fixed system (wired to the vehicle's 12-volt power supply and sound system) requiring professional installation. The Group's installed hands-free car kits provide very good sound quality, because the telephone conversation is heard over the vehicle's speakers, with automatic muting of the vehicle's sound system as necessary or desirable. An echo-cancelling and noise-limiting system provides optimum acoustic conditions. A voice recognition function ensures genuine hands-free operation.

For kits with GPS functionality, vehicle location information can be processed by navigation in the user's Bluetooth®-capable phone, smartphone or PDA. Location data is issued in a standard format interoperable across all consumer navigation systems currently on the market.

The whole range (except for Parrot CK3000 Evolution) features a new user interface based on the use of a console with LCD panel, two pushbuttons and a rotary selector. To minimize driver distraction, a speech interface integrates intelligently with the graphic interface.

The Group's new range of installed hands-free car kits comprises the following products:



**Parrot CK3000 EVOLUTION**  
Typical retail price: €109



**Parrot CK3100 LCD**  
Typical retail price: €159  
Monochrome LCD panel



**Parrot 3200 LS-colour**  
Typical retail price: €219  
Colour LCD panel



**Parrot CK3300 GPS**  
Typical retail price: €259  
Monochrome LCD panel and GPS function



**Parrot 3400 LS-GPS**  
Typical retail price: €329  
Colour LCD panel and built-in GPS antenna



**Parrot CK3500 PRO**  
Typical retail price: €499  
Professional system with GPS function, fleet management capabilities (realtime vehicle tracking, route recording and transfer, time logging), theft protection by remote vehicle tracking, remote troubleshooting, and vehicle data logging (black box)

In November 2005, the Group also released the Parrot Rhythm n'Blue, its first Bluetooth® vehicle sound system (radio, CD and MP3), with a front-panel phone keypad, 4x45W power output, and all the hands-free phone features found on other Parrot kits, including phonebook synchronization.



**Parrot RHYTHM N'BLUE**  
Typical retail price: €279

#### *Plug-&-play range*

The Group's plug-&-play range targets the market for accessories sold through outlets such as car centres and phone shops. In March 2003, Parrot was first to market with a lightweight, compact, ready-to-use (i.e. no additional cost to the user) Bluetooth® plug-&-play hands-free kit that took just a few minutes to set up



(initial twinning with user's Bluetooth® phone set) and could be easily transferred from one vehicle to another.

The Group's plug-&-play products feature a built-in loudspeaker and connect to the vehicle's cigarette-lighter outlet. In March 2006, the Group announced a May 2006 release date for its Parrot Driver Headset product, the first wireless headset specially designed for drivers preferring the headset format. Headset users face the dilemma of whether to put up with the short battery life of most models on the market, or with the need to repeatedly bring the headset close to the ear. The Parrot Driver Headset solves this problem by recharging on a charger connecting to the vehicle's 12-V cigarette lighter outlet.

The plug-&-play range comprises the following products:



**Parrot EASYDRIVE**  
Typical retail price: €99



**Parrot DRIVER HEADSET**  
Typical retail price: €79

### ***OEM range***

The OEM range (Parrot CK4X00) consists of hands-free systems fitted by car makers in new vehicles, as a standard or optional feature. The Group develops partnerships with car makers directly or with their traditional automotive equipment suppliers. Depending on the application, the Group supplies an electronics platform (Parrot4, Parrot5) with its Bluetooth® software suite, or a fully developed hands-free system ready for industrial-scale integration. In both cases, the Group provides an added-value turnkey solution. Partnerships have been forged with Magneti Marelli, Siemens VDO Automotive and Visteon.

The CK4000 released in 2004 was the Group's first OEM hands-free system. Compared with an aftermarket system, the Parrot CK4000 includes an additional interface with the vehicle's information system, for integration with the multifunction display panel and steering-wheel controls. In addition, it uses industrial-grade electronic components and reinforced electrical protection, in order to meet the stringent requirements of automobile manufacturers.

The Parrot CK4000 was superseded by the Parrot CK4100 in September 2004. This model was selected by PSA Peugeot Citroën, and has appeared as an optional feature on most 2006 and later Peugeot and Citroën models. In early 2005, the Group released the CK5000, specially designed for integration with multimedia platforms (including vehicle sound systems) by the Group's OEM clients.

### ***Wireless peripherals for new mobile phone functions***

In March 2006, the Group announced the release of a new range of Bluetooth® peripherals providing consumers with enhanced user-friendly mobile phone functions such as music players and digital cameras. This new range would draw upon Parrot's prime technological expertise in the design of wireless devices for mobile phones. The Group's new range comprises the following products:

#### ***Parrot Photo Viewer***

The Parrot Photo Viewer, released in April 2006, is a photo frame that receives input (via Bluetooth®) and stores photos taken with a mobile phone or portable computer. The attractive, well-built frame (in leather or wood finish, with a choice of colours) holds a high-resolution LCD screen (320x234 pixels with 262,144 colours) which displays photos from the mobile phone (or computer) in fixed or slideshow mode. It

includes a light sensor enabling it to switch off automatically at night. The display supports portrait and landscape mode, and adjusts automatically to photo orientation.



**Parrot PHOTO VIEWER**  
Typical retail price: €229

### ***Parrot Sound System***

The Parrot Sound System, released in June 2006, takes the form of a pair of Bluetooth® loudspeakers designed for the wireless input of music stored in devices such as mobile phones. It works in wireless mode with any Bluetooth® source (phone, Walkman, PDA, portable computer) and includes an RCA line input for non-Bluetooth® audio sources (CD player, tuner, stereo system, computer, etc.). The Parrot Sound System has built-in decoders (including MP3), and each speaker has its own digital amplifier. The power rating is  $2 \times 60$  Watts.



**Parrot SOUND SYSTEM**  
Typical retail price: €359

### **Sales and Marketing**

#### ***From product-based to sales strategy***

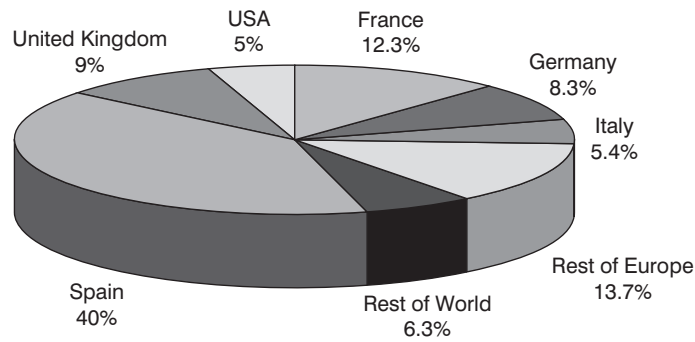
The Group's product strategy is based on the computer peripheral sector development model. In the same way as the product strategy for microcomputers, where a platform comprising an operating system and microprocessor is at the centre of a peripheral context providing for optimum utilisation of the computer, the Group has developed a number of peripheral ranges designed to provide for optimum utilisation of the mobile phone. This range has been expanded in 2006 to keep up with changes in mobile phone usage.

#### ***International approach***

The Group is expanding its activity principally in those countries where mobile phones are operated under GSM, GPRS and UMTS standards. Launched historically in Europe, the GSM standard (and GPRS) is now established as the mobile phone standard worldwide. The Group currently distributes its products (excluding the OEM market) in over 60 countries.



### Geographical breakdown of Group sales in 2005



The main countries targeted in Europe are Germany, Spain, France, Italy and the United Kingdom. These represented approximately 75% of Group sales in 2005. The acquisition of Inpro Tecnología S.L. in Spain has led to the integration of the leading distributor of Group products within the Group itself. In 2005, sales to Inpro Tecnología S.L. represented approximately 40% of Group sales for the year. The Company formed subsidiaries in Germany, England and Italy in 2005 in order to expand the marketing of its products in these countries. The Group also distributes its products in all the other countries in Europe, including Belgium, Denmark, Finland, Hungary, Norway, the Netherlands, Poland, Slovakia and Sweden. Outside Europe, the most important countries for GSM phones are South Africa, Australia, and the United States.

The evolution of Bluetooth® standard applications in the United States is lagging behind Europe, due in particular to the delayed creation of a GSM/GPRS mobile telephony network, the majority of advanced telephone functions being launched on this standard. Regulations concerning the use of mobile phones while driving were also less developed in the United States than in Europe. However, the strong growth of the GSM market since 2003 (the number of subscribers to GSM/GPRS networks in the United States/Canada has increased from 24.9 million at the end of 2002 to 50.2 million in the third quarter of 2005<sup>(3)</sup>), the recent introduction of Bluetooth® functions on phones proposed for the CDMA networks, and the adoption of restrictive regulations for motorists, in particular in the State of New York, have made the United States a fully-fledged market with a strong potential for the Group.

The Company consequently decided to set up a distribution subsidiary in the United States (Parrot, Inc.) in 2004, and invested extensively in the development of its teams within the framework of its American subsidiary during 2005, to become a major transatlantic player and to support the growth of Bluetooth® in North America.

#### *Diversified marketing*

To support this sales drive, a key component of its strategy, the Group set up a marketing and communication division with a staff of seven people on 31 December 2005. This is designed around round three centres of excellence:

- the “product” centre of excellence provides a corporate coordination function, interfacing with the research and development, production and sales departments;
- the “press” centre of excellence provides a coordination function for worldwide product launches;
- the “Web” centre of excellence is in charge of corporate coordination on Internet, as a strategic tool and part of online strategy. The Group uses its Internet site principally for the following purposes:
  - promotional and end user customer communication: information concerning the Group, Group products, press releases, contacts, etc.;
  - communications exclusive to customers: e-newsletters issued every two months; user support, managed by the support department: online support, user forums, etc.;
  - online advertising: the Group has decided to initiate targeted Internet advertising campaigns as from 1 April 2006 to promote its new products.

<sup>(3)</sup> Source: [www.gsmworld.com](http://www.gsmworld.com)

### ***Reinforced presence in the field***

At the end of 2005, the Group introduced a policy of strong point of sale presence, including in particular deployment of specific descriptive data and a product display stand, the Parrot “totem”. The Group also pays particular attention to its distributor margin policy, whereby distributors can enjoy a substantial rate of return on Group products sold, and are thus encouraged to promote these products.

### ***Multi-channel distribution strategy***

As for the distribution of IT products, based on a combination of distribution channels, the Group’s sales strategy is founded on the parallel development of a number of distribution channels, each providing for a form of distribution appropriate to its various products:

- mobile phone specialists: (i) telecom points of sale for telecom operators, (ii) sales networks specialised in mobile telephony and (iii) retail distribution;
- automotive specialists: distributors of automotive accessories, repair and equipment installation outlets, dealers and importers; and
- automobile and automotive equipment manufacturers (OEM).

The Group is now well positioned with regard to these different distribution channels, and each segment has the benefit of a dedicated strategy. A major effort is being made by the Group to increase its penetration via these various channels.

Breakdown of hands-free product distribution sales for vehicles (excluding OEM) was as follows in 2005<sup>(4)</sup>:

<b><i>Mobile phone specialists</i></b> . . . . .	<b>37%</b>
Telecom points of sale (operators, telephony chains, boutiques) . . . . .	27%
Retail distribution . . . . .	10%
<b><i>Automotive specialists</i></b> . . . . .	<b>63%</b>
Car centres / equipment installation outlets . . . . .	51%
Dealers and importers . . . . .	12%
<b>Total</b> . . . . .	<b>100%</b>

The Group’s sales organisation comprises (i) a distribution department in charge of specialist and retail distribution channels (*Aftermarket*) and (ii) an OEM sales department in charge of the OEM professional channel.

### ***Distribution department***

The distribution department staff numbered 23 at 31 December 2005, including a “distributors” manager, a “brands” manager and eight salespersons for France. International activities are handled by eight sales managers (Southern Europe, Benelux and Ireland, Scandinavia/Austria/Switzerland, Eastern Europe, Africa and the Middle East, Asia Pacific, Latin America and mobile telephony operators).

### ***OEM department***

The OEM sales department comprised three account managers at 31 December 2005, responsible for overall management of a customer portfolio and follow-up of the sales and strategic policy regarding each customer. Each account manager prepares a policy, in close collaboration with the Company’s subsidiaries with regard to the purchasing strategy in relation to each customer, which meets the technical and sales expectations of customers in each region (United States, Europe, Japan, etc). The Group has set up an OEM sales relay function for each strategic region.

### ***Mobile phone specialists***

The mobile phone distribution channel is multi-form, incorporating the telecom operator sales networks, mobile phone distributors, telecom boutiques and retail distribution. The Group’s distribution department continues to develop sales of its plug-&-play range products on this distribution channel, and is strengthening its distribution and sales networks to maximize the penetration of its products and

<sup>(4)</sup> Source: survey conducted by the Company with its leading wholesale customers in February 2006.

reputation of the Parrot brand with the general public. New mobile phone peripheral products, outside the automotive context, and which accompany new mobile phone applications (music, photos, etc.) are also launched via this distribution channel.

#### *Mobile phone operators and mobile telephony distributors*

In 2005, 27%<sup>(5)</sup> of hands-free car kit products (excluding OEM) were sold via mobile phone specialist points of sale: operators, independent telephony stores or store chains. The majority of sales were made via Group distributors. The Group continues to develop partnerships with the leading mobile phone operators and distributors in Europe, and is selling the plug-&-play range of products and a number of installed hands-free kits via this distribution channel. The May 2006 launch of the Parrot Driver Headset has enabled the Group to broaden its range in this network, with integration of the earphone segment.

Regarding mobile phone operators, Group products are sold by, among others, Orange and SFR in France, KPN in the Netherlands, Vodafone in Spain and the Netherlands, Movistar in Spain, Orange in Switzerland and the Netherlands, Amena in Spain, O<sup>2</sup> in Ireland, T-Mobile in the United Kingdom and Eurotel in the Czech Republic.

With respect to mobile telephony distributors, Group products are marketed, among others, by the Carphone Warehouse (known in France under the name of The Phone House), in Belgium, Spain, France, the Netherlands, Portugal, the United Kingdom and Switzerland, and also by Tel & Com in France, T for Telecom in the Netherlands, 4 You in the United Kingdom and Te abla and Tienda futura in Spain.

Outside Europe, the Group's products are marketed by, among others, ATT Wireless in the United States, Meditel in Morocco, Movistar in Chile and Vodacom in South Africa. Group products are also marketed by mobile phone distributors such as Strathfield in Australia and Phynx in Argentina.

#### *Specialist and general retailers/E-commerce*

In 2005, 10%<sup>(6)</sup> of hands-free products for vehicles (excluding OEM) were sold via specialist points of sale or general retail outlets. The majority of sales were made via Group distributors.

Plug-&-play range products and a number of installed hands-free car kits are sold through with distributors specialising in retail or generalist electronics (or corresponding purchasing groups). Group products can also be purchased from a number of Internet merchant sites, including telecom, automobile distribution/repair, general retail and electronics retail sites. The Group does not operate its own online sales for the moment.

The Group's products are mainly sold in Europe via the following chains:

Specialist distributors (electronic products)	General retail distributors
FNAC (France)	El Corte Inglés (Spain)
Darty, Boulanger (France)	Auchan, Carrefour, Cora, Metro (France)
Surcouf (France), Rue du Commerce (France)	Aunika (Czech Republic)
Mediamarkt (the Netherlands)	Feiranova (Portugal)
Dixon's, Comet (United Kingdom)	Karstadt (Germany)

The Group's products are sold outside Europe principally by:

Specialist distributors (electronic products)	General retail distributors
Mass Mart (South Africa)	Carrefour (Tunisia and Egypt)
MediaMarkt/Saturn (Germany)	Falabela (Chile)

#### *Automotive specialists*

The automotive accessory distribution market is the most important to the Group. All installed hands-free car kit products, and to a lesser degree, plug-&-play products, are distributed in this market. The products

<sup>(5)</sup> Source: survey conducted by the Company with its leading wholesale customers in February 2006.

<sup>(6)</sup> Source: survey conducted by the Company with its leading wholesale customers in February 2006.

available via this distribution channel are the most recent, while original equipment products sold via the OEM channel, due to the timing of automaker's programmes, are generally one or two generations behind.

The market can be compared to the car stereo market. Car stereos were initially marketed on a retrofit basis, before becoming standard, original products installed in the majority of vehicles many years later. Despite the general pre-installation of car radios, the retrofit car stereo market continues to exist in the automotive accessory market, enabling the consumer to improve the quality of his or her equipment, and to take advantage of the latest technological progress in areas such as CD and MP3. The technological acceleration in the hands-free kit market is more marked than in the car stereo market, and consequently enables the Group to anticipate better retrofit sales in the years to come.

#### *Automotive accessory distribution*

In 2005, 51%<sup>(7)</sup> of hands-free car kit products (excluding OEM) were sold via car centres and equipment installation outlets.

The automotive accessory distribution channels are those set up for car stereo sales. Hands-free systems and navigation products enable these distribution networks to extend their range into the car radio market. Group products are principally distributed via Norauto (Spain, France and Italy), Feu Vert (France), Halfords (Great Britain and the Netherlands), Autobahn (Chile), Eldorauto (France), AutoTop (Czech Republic), Aneta Group (South Africa) and ANN (Benelux).

#### *Dealers and importers*

In 2005, 12% of hands-free products for vehicles (excluding OEM) were sold to importers and dealers. The majority of these sales were made via Group distributors. Among the car makers, BMW (Spain) and SAAB (France) install and distribute numerous Group products via their networks. Peugeot and Citroën sell Group installed hands-free kits under their own brand names via their French and European networks. This market enables the Group to position itself *vis-à-vis* the automakers and paves the way for OEM contracts, in the same way as it has enabled the car radio manufacturers to prosper.

As regards imports, Parrot CK3000 Evolution and Parrot CK3100 products are distributed in particular by Ford (Spain, Portugal, South Africa, Turkey, etc), BMW (France, Spain, South Africa, Turkey, etc), Toyota (UAE, Italy, Spain, France, etc), Citroën (France, Brazil, Portugal, etc), Hyundai (France), Rover (France), Kia (Czech Republic), Nissan (South Africa) and Subaru (Chile).

#### *Car maker and automotive equipment manufacturers (OEM)*

In the OEM market, restricted by definition to original equipment products, the Group's OEM department sets up partnership arrangements with leading automotive equipment manufacturers, and in some cases directly with the car makers themselves. This market represented 2.4% of Group sales in 2005.

As a result of its in-depth knowledge of the automotive industry, the Group has been able to become integrated in the industrial organisation of the automotive sector. Traditionally, the manufacturers in this sector issue calls for tenders to the leading equipment specialists. These then use sub-contractors or products with high value added to win their contracts. The Group provides leading equipment manufacturers with a choice of various turnkey integration solutions according to their own needs, and those of the car makers. The Group thus supplies the main component, namely the software and production file, to leading manufacturers.

Group OEM products are installed on the vehicle assembly line, as standard or optional accessories, according to the manufacturer's models and sales policy. Integration of our products in the vehicle on the assembly line enhances the Group product service. The functions of the hands-free kit are more natural, and indeed more secure, with steering wheel access to the screen and controls.

The principal leading equipment manufacturers with which the Group has concluded partnership agreements are Magneti Marelli, Siemens VDO, and Visteon.

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<sup>(7)</sup> Source: survey conducted by the Company with its leading wholesale customers in February 2006.

Examples of contracts concluded include:

- January 2002: PSA Peugeot Citroën concluded a contract with Siemens VDO for integration of a Group hands-free system in its top-of-the-range 607;
- since December 2002: the Group has been collaborating directly with Ferrari on vehicle integration of a hands-free system;
- since September 2004: the Group has been developing a new hands-free system for the new PSA Peugeot Citroën “CAN PSA” electronic architecture;
- 2004: Nissan concluded a contract with Visteon (China) for integration of a new hands-free system. Visteon selected the Group for the development and vehicle integration of this system; and
- since March 2005: the Group has been collaborating directly with the Renault technical centre on vehicle integration of a hands-free system for the Renault range.

#### *Special editions*

The Group establishes partnership arrangements with car makers, and in certain cases with automotive equipment manufacturers, for the supply of hands-free kit solutions for integration in special edition vehicles. These kits are not integrated in the vehicle on the assembly line, but fitted just before the sale. The Group has concluded partnership arrangements of this type with Nissan, Visteon, Toyota, Mitsubishi and Delphi in particular. For example, early in 2004, Toyota (Italy) proposed the Group’s Bluetooth® system for a special edition of the Yaris for the Italian market. This special edition and its Group Bluetooth® telephony equipment were featured in a television piece. This operation was conducted with the automotive equipment manufacturer Visteon in the United Kingdom and directly by the Group in Italy.

This market segment enables car makers to differentiate their products from those of their competitors, and sell the hands-free telephony system for one euro, in the same way as they sold vehicles with air-conditioning systems for the same price in the 1990s.

#### **Manufacturing**

##### *Industrial strategy: “fab-less” model*

The Group is organised round a “fab-less” model, according to which both manufacture and logistics are outsourced. This method of operation enables flexibility and rapid execution in all segments of the market in which the Group operates. Group industrial policy is built around three vectors: drastic cost reduction, constant enhancement of quality, and flexibility and reactivity to adapt to a highly volatile market. This policy is based on a permanent search for new, low-cost components, and product qualification and redesign.

Industrial policy is also based on permanent renegotiation with the Group’s main sub-contractor partners, to obtain the best possible prices. Furthermore, relocation of a substantial part of production to Southeast Asia (essentially completed at the end of 2005) has made it possible to reduce labour costs significantly.

Quality enhancement is a permanent requirement in view of ever more demanding customers, in particular in the OEM market. All main Group sub-contractors hold ISO TS 16949 certification, the reference quality certification in the automotive sector, and have recognised experience in the automotive domain. The Group set up its own ISO 9001 (2000 version) quality system in August 2002, and keeps a close eye on the quality indicators of its sub-contractors and products. This has made it possible to reduce the rate of product return very substantially. An average of 400 products per week were returned in 2005, corresponding to a return rate estimated at about 2.3% (percentage of number of parts returned in week N/number of parts delivered in week N-12).

Finally, the flexibility and reactivity of the production lines are essential factors for dealing with a volatile market. The Group sets up logistic contracts with its various partners, providing for the maintenance of safety stocks reserved for the Group. This makes it possible to double the production rates in less than one month, or to smooth initially scheduled production over a longer period.

### ***Group production department***

The production department, with a staff of 22 at 31 December 2005, is responsible for the introduction of new projects, and transfer of responsibility to the production plants up to delivery of the product to the customer and provision of after-sales support.

This team is in charge of a number of functions, and allocates dedicated staff to each:

- collaboration with the research and development department, to ensure integration of industrial constraints as from project start-up, with the aim of optimised quality and costs;
- import of products for the logistic platform, and software updating, packaging of products and preparation and delivery of orders in particular;
- design and maintenance of test facilities, including *hardware* maintenance of products or the *redesign* of certain functions aimed at cost reduction; and
- quality and technical support, in particular for product test operations, software updates, correction of errors and customer service.

### ***Rigorous selection of suppliers and sub-contractors***

A “fab-less” company concentrates on the quality and management of sub-contractors selected for their particular excellence.

The Group selects a number of strategic partners for each new product, in particular for manufacture of the Parrot ASIC, a key element in the Group product range, and for the assembly of components, namely the creation of sub-assemblies (e.g. electronic modules), which are then assembled by the French company Jabil SAS, (the logistic platform) to create the finished products. All low value-added sub-assemblies, and those requiring a major labour input, are assembled in Asia, principally by Jabil Circuit Ltd (China), Aztech and ACT. These items include microphones, cables, keypads, LCD screens and electronic modules.

The Group procures these sub-assemblies from its sub-contractors. The sub-contractors then purchase from suppliers pre-selected by the Group, and contract at prices and other conditions re-negotiated by the Group, in particular for key components such as the Parrot ASICs and memories. These sub-assemblies are packaged in France by the logistic platform, Jabil Circuit (France), during the final assembly phase.

### ***Manufacturing partners for the Parrot ASIC***

With respect to manufacture of the Parrot ASIC, the Group is responsible for all aspects of product creation. Actual manufacture is outsourced to an independent foundry, working to specifications supplied by the Group, and drafted in collaboration with the foundry.

On completion of the development phase for each new generation of the Parrot ASIC, the Group determines which application-specific integrated circuit manufacturer and foundry market appears to best meet the Group’s needs in terms of quality, delivery dates and price. The Group has selected Atmel for manufacture of the Parrot4 and Parrot4+ ASICs, and STMicroelectronics for the Parrot5 ASIC, two world class foundries operating in the semiconductor market.

Setting up a new partnership agreement with a foundry for manufacture of a chip requires initial investment, in particular for the creation of working masks. This means that the Group is to some extent dependent on the foundries initially selected for the manufacture of its chips. This is why the Group selects foundries of high repute, possessing the necessary certifications and an adequate wealth of experience. The Group communicates regularly with these foundries so as to be forewarned of any difficulty.



### ***Manufacturing partners for sub-assemblies and the logistic platform***

The main Group partners for the manufacture of sub-assemblies for incorporation, after assembly, in finished products, were as follows at 31 December 2005:

- Jabil Circuit Ltd (China) (electronic module sub-assemblies and cigarette-lighter loud speakers for the Parrot EasyDrive, Parrot 3200 LS electronic module sub-assembly, Parrot 3400 LS electronic module sub-assembly, the LCD screen sub-assembly for the Photo Viewer, and the Parrot Sound System speaker sub-assembly). Jabil has extensive production capacity (staff of 40,000 at 54 centres, including 5 in China and 20 in Europe). Jabil offers the Group the advantage of a production centre not only in China (HuangPu complex, certified for the automotive sector), but also in France at Meung-sur-Loire (also certified for the automotive sector);
- Jabil Circuit (France), operating as an assembler and manufacturing the sub-assembly comprising the Parrot CK3100 electronic module;
- Aztech (Parrot CK3100 B/W screen sub-assembly, Parrot CK3000 Evolution key-pad sub-assembly, and the Parrot 3200 LS MUTE electronic module sub-assembly);
- ACT (cable sub-assemblies);
- TES (electronic module sub-assembly for the Parrot CK3000 Evolution); and
- ForYou (Parrot Rhythm n' Blue car stereo sub-assembly, noting that this is a finished product in its own right).

The main Group suppliers at 31 December 2005 were consequently:

Supplier	Location	Amounts billed in 2005 (in millions of euros)
Jabil Circuit SAS (France)	Europe	10.1
Aztech	Asia	7.1
Jabil Circuit Ltd (China)	Asia	5.5
ACT	Asia	5.1
Atmel	Europe	3.0
Foryou	Asia	1.5
TES	Europe	2.0

The Group uses the services of numerous component suppliers, the aim being to have at least two manufacturers for each component, both of which will contract directly with the sub-assembly assemblers. Thus, in 2005, the LCD screens were supplied by Wintek and Primeview, and the memory components by Atmel, STMicroelectronics, SST and Macronix.

Furthermore, the Group takes steps to have buffer stocks of components, either in its manufacturers' premises, or in its distribution centres, so as to reduce the risks of dependence in respect of its suppliers.

Basic component prices in the semiconductor market are generally on the increase. However, high tech innovations make it possible to reduce costs in certain cases. Thus, as regards memory components, the Group decided to change the type of technology for memories used in its products in September 2005. The new types of memory can be three times cheaper than those used in the previous Parrot4 ASIC generation (NAND flash memory in place of the NOR flash memory, and replacement of the SRAM by a type SDRAM memory for the live storage function).

### ***Assembly of component sub-assemblies***

The final production phase, packaging or final assembly of sub-assemblies in finished products, is conducted by Jabil Circuit (France) in its capacity as logistic platform.

### ***Integration of third party technologies***

As a complement to the Group's technology, Group products integrate elements supplied by third parties which, where appropriate, can be protected by intellectual property rights. For example, the Parrot 5 ASIC



integrates the Bluetooth® Baseband module under Ericsson software licence. Furthermore, the various Parrot ASIC platforms can integrate the know-how of a number of Group suppliers having participated in their development. These include Infineon, Atmel and STMicroelectronics.

### ***Production and stock management***

With respect to standard products (namely for European language zones), the Group has a maximum target time of 24 hours between customer order and availability of products ready for delivery. This means it is essential to ensure the careful management of production, and to be able to anticipate requirements. The Group has set a completion time of 150 days (22 weeks) for manufacture of its products. Order and production scheduling is based on a nine-month period. The production control function is conducted from Paris on a daily basis, in order to detect any technical difficulties or the absence of certain components immediately.

The production time required for the electronic modules is principally linked to the component procurement lead time, generally 16 to 18 weeks for components such as the memories or Parrot ASICs. A further two weeks are required for assembly on the assembly line. Assembly operations include wiring of the components on the electronic card, integration of the card in its plastic housing, and the tests and verifications required at the end of the assembly line.

An additional two weeks are generally required to shift the products from their place of manufacture in China to the logistic platform in France. Low-value products manufactured in Asia (such as cables), and those which are heavy (car radios and loud speakers) are shipped by sea (approximately 6 weeks). High value added products such as the electronic modules are sent by air. Stock management rules for 2006 provide for three weeks' worth of consumption of components, one week of finished products (fully packaged, ready for delivery to customers) and two weeks for semi-finished products (sub-assemblies, ready for packaging).

Early in 2006, the Group set up safety buffer stocks of semi-finished products with its partners, held by the partners and located in their premises (for example, with Jabil Circuit (France) for the Parrot CK3100 electronic module sub-assembly, and Jabil Circuit Ltd (China) for the Parrot 3200 LS electronic module sub-assembly). Negotiations are being held with a view to transferring and combining consignment stocks to a location close to the Group's logistic platform, so as to optimise transport time and take advantage of peaks in production peaks.

The Group has been using the SAP Business One solution for management and monitoring of orders, deliveries and stock control, and the SAP Industry One solution for monitoring manufacture since June 2005. Product parts lists are created and filed in SAP. Product changes are also managed in SAP by incrementation of product code indices.

### ***Quality control policy***

The Group has introduced a production quality control policy. This means that Group's suppliers must respond to any request from the Group with corrective action plan within 48 hours. In addition, all suppliers send monthly quality indicators to the Group. The Group also conducts regular supplier audits, in particular in regard to standards applicable in the automotive sector. Furthermore, the Group monitors weekly indicators for customer service product returns and supplier evaluation.

### ***Progressive relocation***

With its "fab-less" policy, the Group enjoys a high degree of flexibility for the location of its manufacturing centres. This flexibility means that it is possible to produce in low-cost manufacturing zones, and thus absorb the drop in selling prices for certain product generations. The Group's strategy involves increasing industrial development in Asia, where production capacities are very substantial. In due course, procurement will be undertaken by Parrot Asia Pacific Ltd (Hong Kong). The local subsidiary should enable the Group to obtain better financial conditions, increase facilities for management located close to production, and achieve even more efficient selection of manufacturer and supplier partners, with an accompanying reduction of costs stemming from the use of local resources.

## **Customer and after-sales service**

### *Customer service*

The customer service department has a staff of four, all of whom are multilingual. This department is open to the public from 9 a.m. to 6 p.m., ready to assist individual customers, distributors and industrial partners, communicating in French, English, Spanish and German, by telephone, e-mail and discussion forums on the Internet, and posting of user aid documents on the Group's Internet sites.

The customer service department is attached to the technical support department, staffed by six engineers in charge of Bluetooth® phone compatibility tests with the Group's product range. The technical support department produces and manages updates of all online aid documents, update tools and guides, user manuals and vehicle installation diagrams and guides. This department also collects and distributes both in-house and externally information concerning the utilisation of the Group's products in different contexts, namely mobile and car phone, and also as regards competitors.

### *After-sales service*

The after-sales service team has four technicians and operators located at the Group's headquarters in Paris. The number of products returned averaged 400 per week in 2005, corresponding to a product return rate of approximately 2.3% (calculated on the basis of the number of products manufactured). All products returned to the after-sales service department are logged in a database, making it possible to trace customer references, date of receipt, date of repair and redispach, number of products, and the range concerned and the type of fault in each case. This information is distributed to each sales division on a weekly basis to keep them informed of products returned by their customers. The database is also available to the customer service department, to provide information on individual customers who have returned their product to the Group.

The Group's policy is to return products received and repaired within seven days wherever possible. In the vast majority of cases, a software update is sufficient to repair a product received by the after-sales service department. Where an update is not effective, or where the product cannot be repaired and/or the fault is attributable to the supplier, an appraisal is conducted by the after-sales service department and/or supplier, and a standard exchange is offered to the customer.

All technical problems identified by the after-sales service department (apart from software updates) are communicated to the quality control department which then passes on the information, according to the type of fault, either to the production department or the design team, so as to correct any potential problem at source as rapidly as possible.

## **Environment**

The Company has held ISO 9001 quality environment certification since August 2002, and applies all environmental regulations relevant to its activities, design and production processes and products. The Group also pays particular attention to compliance with environmental regulations by its sub-contractors. All the main Group sub-contractors possess ISO TS 16949 qualification, the quality certification required in the automotive sector.

In particular, the Group is subject to European Union Directive 2002/96/EC of 27 January 2003, on waste electrical and electronic equipment ("WEEE Directive"), and Directive 2002/95/EC of 27 January 2003 on the restriction of the use of certain hazardous substances in electrical and electronic equipment ("RoHS Directive"), which stipulates, for Group products subject to these directives, eco-design obligations, prohibition of the use of certain dangerous substances in electrical and electronic equipment, and the introduction or funding of collection and treatment systems for this equipment at end of life. The Group has introduced procedures as necessary for compliance with its environmental obligations.

## **Research and Development**

### *A key factor in the Group's success*

The Group's research and development is one of its key strengths, increasing its competitive advantage, making it more flexible, reducing costs and enhancing its technological independence. The permanent objective of the Group's research and development activity is to enhance existing products by adding new functions and to develop the innovation of new products.

In September 2001, the Group was the first to launch a Bluetooth®-compatible hands-free car kit, almost a year before Nokia, which did so in the summer of 2002. Similarly, in the spring of 2004, the Group was the first to launch hands-free car kit products with screens, approximately six months before rival Funkwerk Dabendorf launched its Audioblue product. The Group's engineers were trained at some of the most prestigious universities, both in France and abroad (such as Ecole Supérieure d'Electricité, Ecole Nationale Supérieure des Télécommunications, Ecole Centrale des Arts et Manufactures, Ecole Polytechnique, Georgia Tech and Stanford University). The Group has in-house expertise in all technologies required to develop its products. In particular, it designs its own integrated circuits and chips (the Parrot4, Parrot4+ and Parrot5 ASICs), along with its own signal processing algorithms.

The Group also stands out through its expertise in the Bluetooth® stack (the set of software required to use the Bluetooth® standard). This is vital for upstream product development and for optimal interoperability during product life.

Today, the Group is also applying its permanent innovation strategy outside of the automotive industry. The research and development department has developed two new products: Parrot Sound System, a wireless speaker system, and Parrot Photo Viewer, a frame that displays digital photos.

### ***Substantial research and development expenditure***

At 31 December 2005, the Group's research and development team had 66 employees out of a total of 163 (including 149 at the Company). As a result, research and development staff make up almost half the workforce. The size of the research and development team reflects its crucial role within the Group.

### ***Group technologies***

The Group's core areas of technological expertise are as follows: digital signal processing, electronic chips for specific applications (also known as Application Specific Integrated Circuit (ASIC) designs), knowledge and expertise in Bluetooth® wireless data transfer technology, mechanical design, electronics and software development. These different areas of expertise are central to the Group's Bluetooth® hands-free telephone kits and its new consumer electronics products.



The development of the new Parrot5 chip will provide the Group with greatly increased processing capacity and new functions, giving a new dimension to these technologies. The Group is keen to adopt standard and open-source solutions, to ensure that its solutions are upgradeable and easily adapted to customer requirements. For its new generation of chips, it has selected the eCos open-source operating system. Open-source software is provided to users either free of charge or in return for payment, and is based on shared and freely exploitable source code.

### ***Signal processing***

Since 1994, the Group has been active in the development of new DSP (digital signal processing) technologies, which are vital to the audio quality of products. Since 1997, the Group has developed extensive expertise in signal processing algorithms for automotive applications. One of its key areas of expertise is in processing speech in environments with high levels of background noise.

In addition to its advanced skills in this area, the Company owns and has applied for patents for voice-recognition technologies used in hands-free car kits, along with noise reduction and acoustic echo cancellation technologies.

The Group's expertise in signal processing covers the following specific areas:

- *voice recognition*: since 1994, the Group has been developing voice recognition solutions in-house. Certain parts of its voice recognition algorithms are included in another of Parrot's key technologies, i.e. its Parrot ASICs. A major application of voice recognition is to enable users to control products using their voices;
- *acoustic echo cancellation*: acoustic echo cancellation is one of two critical algorithms for establishing high-quality communication using a hands-free device. During a telephone call, the hands-free user hears the other person's voice over a loudspeaker. Acoustic echo is the phenomenon by which the other person hears the echo of his or her own voice. It is caused by the fact that the hands-free user's microphone picks up not only the user's voice, but also the signal from the loudspeaker. The Group has been working on solutions to this problem since 1997. For example, the VSSLMS algorithm for vehicle hands-free kits reduces echo by up to 50dB (decibels). Along with this algorithm, the Group has recently invented a residual echo cancellation method, giving it a key advantage in designing small products where the speaker is very close to the microphone;
- *noise reduction*: the distance between a hands-free kit's microphone and the user's mouth, along with the inevitable background noise in any vehicle while driving, mean that ingenious solutions are required to ensure high-quality communication. Since 1997, the Group has been developing noise reduction solutions in-house. Its technology allows for noise reduction of up to 16dB for a single microphone. The Group has also enhanced its noise reduction system by using algorithms based on several microphones, allowing noise reduction of up to 25dB. New algorithms recently developed by the Group should provide unrivalled call audio quality, further increasing its competitive edge in this area. The Group's technology means that its products boast excellent sound quality.

#### ***Parrot ASIC platforms***

The Group's products are based on Parrot ASIC (application-specific integrated circuit) platforms, which are developed in-house.

The Group started developing its Parrot ASIC platforms in 1994, taking the view that owning its own hardware solution would lead to greater innovation capacity, greater independence and improved cost control. At 31 December 2005, 80% of products sold by the Group featured the Parrot4 or Parrot4+ ASIC.

The new Parrot5 ASIC includes Ericsson's Bluetooth® Baseband software module, an audio CODEC, a SDCARD interface and a Bosch CAN controller. In the Parrot4 ASIC platform, these modules were not integrated into the chip itself. The increased integration of Parrot5 reduces the cost price of products and reduces the size of the electronic card. In 2006, the Parrot5 ASIC will be included in most of the Group's existing product range.

The development of the Parrot5 platform has allowed the Group to improve the functions offered by its products. The platform is based on an ARM9 processor, which can comfortably handle large software applications. As a result, the Parrot5 ASIC allows both audio and video streaming (see glossary) via a Bluetooth® connection. ARM processors are the most widely-used processors in the market.

#### ***Bluetooth® expertise***

Bluetooth® wireless data transmission technology can only be used with sophisticated control software. To comply with the standards of the Bluetooth® SIG (special interest group), such software must be able to manage a large number of standard functions (the Bluetooth® "stack"), allowing transparent communication between the various electronic devices equipped with the technology. The Group started developing its own Bluetooth® software solution in 1999. As a result, the Group was one of the first to develop Bluetooth® hands-free phone systems, starting with the Parrot CK3000 in 2001. At 31 December 2005, the Group had eight engineers working exclusively on developing the Bluetooth® stack.

Having its own Bluetooth® communication management software gives the Group a key advantage over its rivals. This in-house expertise is crucial to ensuring the interoperability of Group products with all Bluetooth® mobile phones on the market. It is also a key factor in differentiating the Group's products from those of its competitors. Many rival products use generic software developed by third parties, which has not been specially developed for their products. These generic solutions are by their nature less adaptable than software developed in-house, such as the Group's. The Group's in-house software can be adapted more quickly and easily to its specific needs and to market developments.

The Company is a member of the Bluetooth® SIG and contributes to Bluetooth® working groups. Along with its close collaboration with mobile phone manufacturers and its systematic verifications of compatibility with all new mobile phones, this enables the Group to ensure that its products are fully interoperable with new products appearing in the market.

#### ***Visual and mechanical design***

Designing high-quality products also requires tight control over their visual and mechanical aspects. At 31 December 2005, the Group had four engineers working full-time on these issues in conjunction with the research and development department's other teams. The Group has made significant progress in this area, particularly in microphone assembly technologies. These technologies now allow a 15dB decoupling between microphone and loudspeaker, an important advancement in designing products where the microphone and loudspeaker are extremely close to each other.

#### ***Electronics***

The Group's products contain a large number of integrated circuits, which is common in this industry. The Group's hardware team has solid expertise in miniaturisation and power consumption management.

#### ***Software development***

All Group software applications are also developed in-house. The Group has developed high-level expertise in many areas such as multilingual interfaces, graphic displays and online services.

#### ***Intellectual property***

The Group's design process involves drawing up product specifications and then having products manufactured and assembled by subcontractors. For some complex components, such as the various Parrot ASIC platforms, subcontractors may contribute to the development process, and the components may incorporate their expertise. The Group also develops software.

The Group has protected some of its inventions with patents held by the Company. In addition, software developed in-house by the Group may be covered by copyright, provided it is original. The Group may also take steps to protect its expertise by measures designed to ensure the confidentiality of its technical knowledge, such as confidentiality clauses in contracts with its technical partners.

The Group has a certain degree of *de facto* protection against its technology being copied by competitors, due to the technological lead it enjoys thanks to its continuous research and development efforts and new product launches.

The Group ensures that the assembly companies and subcontractors with which it works are "neutral"; they do not market any finished products that compete with those of the Group. However, the Group does not have exclusive relationships with any of these assembly companies and subcontractors.

#### ***Trademarks***

At 31 December 2005, the Company owned trademarks and had filed trademark registration requests for PARROT, PARROT and the logo, PARROT RHYTHM N'BLUE, EZDRIVE, EASYDRIVE and NAVIGATION PACK, in France and other (mainly European) countries for various class-9 products and for certain class-38 services.

In addition, as a member of the Bluetooth® SIG, the Company holds a trademark licence for the term "Bluetooth", allowing it to attach the term to the names of its products that meet the Bluetooth® standard and that have been validated according to the process established by the Bluetooth SIG.



### **Patents**

The Group is aware that patents are a way of enhancing the value of and protecting technological advances. It carries out prior examination of the patent potential of all new technologies developed by its research and development department on an individual basis, by consulting an industrial property consultant.

In 1997, the Company filed a French patent for a hands-free telephone kit with voice-recognition and phone book synchronisation under patent no. 97 04168 (*“Dispositif de commande vocale pour radiotéléphone, notamment pour utilisation dans un véhicule automobile”*— voice-command system for mobile phones, particularly for use in an automotive vehicle). The Company obtained an extension for this patent in some European countries (no. 98917307.5) in 2005 and in the United States (no. 09/411382) in 2001.

In 1999, the Company filed a French patent to protect a new echo-cancellation technology under patent no. 99 04329 (*“Procédé de suppression de l'écho acoustique d'un signal audio, notamment dans le signal capté par un microphone”*— procedure for cancelling the acoustic echo of an audio signal, particularly in the signal picked up by a microphone).

In 2002, the Company filed a French patent to protect its CK4000/Audio invention for interfacing a hands-free telephone kit with a car's audio system (*“Adaptateur de téléphone mains-libres de voiture, notamment pour installation en première monte, comprenant un circuit de sortie audio universel autorisant de multiples configurations de raccordement”* — a car-based hands-free phone adaptor, particularly for OEM installation, including a universal audio output circuit allowing multiple connection configurations). This patent was filed in France under no. 02 05917. An extension request for certain European countries was filed under no. 03291120.8 in 2003.

In 2004, the Company filed a patent request for voice menus under no. 04 00299 (*“Interface vocale de recherche et de sélection d'une rubrique, notamment pour un téléphone mobile embarqué dans un véhicule”* — a voice interface for the search and selection of a menu heading, particularly for a vehicle-based on-board mobile phone). This invention provides a voice interface for the search and selection of a heading in the menu of the hands-free telephone kit.

In 2004 and 2005, the Company filed several patent requests which are still under consideration. They included a detachable hands-free system for mobile telephones in an automotive vehicle (*“un dispositif de type mains-libres pour téléphone portable, adaptable de manière amovible sur un véhicule automobile”*; French patent filing no. 04.12289) and a car radio with a wireless link to a mobile phone allowing hands-free functions (*“autoradio à liaison sans fil à un téléphone mobile permettant un fonctionnement de type mains-libres”*; a French patent filing no. 05.03663).

Other patent requests in the fields of noise reduction and acoustic echo cancellation are likely to be filed in 2006.

### **Domain names**

At the date of this Information Document, the domain names owned by the Company include **www.parrot.biz** and **www.parrot.fr**. The Company communicates via websites on these domains. The Company does not own the **www.parrot.com** domain name, which is owned by a third party.

### **Software**

Most of Parrot's software (operating systems, digital signal processing algorithms, Bluetooth® stack, applications) has been developed in-house by engineers in the Group's research and development department. This team consists mainly of engineers employed by the Group. Other engineers involved in software development are seconded from external companies, particularly IT service companies.

The Bluetooth® stack was developed in the C computer language by the Group. Since the Parrot5 generation of ASICs, the stack has operated in conjunction with Bluetooth® Baseband, the software element of which has been licensed to the Company by Ericsson. Under this licence, the Company is authorised to include the software element of Bluetooth® Baseband in its products, in return for a fixed sum along with a royalty calculated for each product sold by the Company above a certain number prior to 31 December 2006. As Ericsson has ceased all operations in this area, it has not ensured the maintenance

of the software element of Bluetooth® Baseband since 31 March 2005. However, the Group is confident in the quality of Ericsson's software. In any case, it does not currently anticipate any need to alter the software element of Bluetooth® Baseband integrated into the Parrot5 ASIC. For future generations of Parrot ASICs, another supplier of Bluetooth® Baseband software will be chosen.

With respect to the Parrot4 ASIC platform, the Bluetooth® Baseband module is not integrated into the Parrot4 ASIC chip, and is supplied by Infineon, particularly for hands-free kits. The operating system of the Parrot4 ASIC (OS Parrot) was a proprietary solution. The Group subsequently shifted to an open-source strategy, adopting the open-source eCos operating system for the Parrot5 ASIC.

Open-source software is provided to users either free of charge or in return for payment. It is distributed under a special kind of licence that usually allows the user to modify and re-use the software without any specific prior authorisation from the owner of the rights. Under certain licences, developments that include open-source software must in turn be freely accessible and re-usable by third parties under the same terms as the initial open-source software. By using open-source software, a company can benefit from the expertise of a community of developers and reduce costs with respect to market solutions.

### *Designs and models*

The Group has made six Community Design applications intended to protect the appearance of some of its products, including a hands-free telephone system and various wireless telephony items.

### **Major agreements and partnerships**

Other than in the normal course of business, the Company has not entered into any material contracts in the last two years with the exception of those summarised below:

#### *Purchase agreement relating to the acquisition of a majority shareholding in the capital of the company Inpro Tecnología S.L.*

A share purchase agreement was entered into on 29 March 2006 between, the Company, as purchaser, and the company Investigación y Producción SA, Mrs Cristina Sanz Ortiz and Mr Jesús Olivares Abad, shareholders of the Spanish company Inpro Tecnología S.L., as vendors. Under the terms of this agreement, the Company purchased 56.3% of the authorised share capital and voting rights of Inpro Tecnología S.L. (50.03% owned by Investigación y Producción SA, and 3.12% owned by Mrs Cristina Sanz Ortiz and Mr Jesús Olivares Abad, respectively) (the "Acquisition"). The total price of the Acquisition was approximately €9 million, payable on the following terms:

- in respect of the shares sold by Investigación y Producción SA:
  - (i) €5 million on the date of completion of the Acquisition; and
  - (ii) the balance in three successive payments, each in an amount of approximately €1 million made respectively on the first, second and third anniversary of the date of completion of the Acquisition, and bearing interest at the annual EURIBOR rate plus 2%, on an annual basis;
- in respect of the shares sold by Mrs Cristina Sanz Ortiz, approximately €500,000, on the date of completion of the Acquisition; and
- in respect of the shares sold by Mr Jesús Olivares Abad, approximately €500,000 on the date of completion of the Acquisition.

In the context of the Acquisition, Investigación y Producción SA, Mrs Cristina Sanz Ortiz and Mr Jesús Olivares Abad gave the Company standard warranties for this type of transaction. Any claims by the Company are subject to an individual excess of €5,000 and to a ceiling equal to the purchase price of the shares owned by Investigación y Producción SA, Mrs Cristina Sanz Ortiz and Mr Jesús Olivares Abad, respectively. The Company may make claims (i) as regards ownership of the shares, and in tax and social security matters, until the expiry of the applicable limitation periods, and (ii) as regards any other claims, for a period of two years from the date of completion of the Acquisition.



### *Shareholders' agreement entered into in the context of the Acquisition*

In the context of the Acquisition, a shareholders' agreement was entered into on 29 March 2006 between the Company, Inpro Tecnología S.L., Mr Jesús Olivares Abad and Mrs Cristina Sanz Ortiz, the purpose of which is (i) to provide Mrs Cristina Sanz Ortiz and Mr Jesús Olivares Abad, as shareholders and managers of Inpro Tecnología S.L., with an incentive to remain minority shareholders of that company (with a shareholding of approximately 21.8% each) and to develop its business, and (ii) to enable the Company to buy back the balance of their respective shareholding in the capital of Inpro Tecnología S.L. at a price calculated, in particular, on the basis of that company's future performance.

The main provisions of this shareholders' agreement are as follows:

- The Company has granted put options to Mrs Cristina Sanz Ortiz and to Mr Jesús Olivares Abad, the main terms of which are as follows:
  - (i) the put options are exercisable upon the expiry of a period of two years following the date of completion of the Acquisition, and until the expiry of a period of 10 years from that date, save in certain special cases;
  - (ii) the exercise price of the put options varies according to a multiple of EBITDA, increasing over time in the following manner:
    - (a)  $2 \times$  the EBITDA of the tax year preceding the exercise date in the event of the exercise of the put options between the second and third years;
    - (b)  $2.5 \times$  the EBITDA of the tax year preceding the exercise date in the event of the exercise of the put options between the third and fourth years;
    - (c)  $3 \times$  the EBITDA of the tax year preceding the exercise date in the event of the exercise of the put options between the fourth and tenth years;
    - (d) the multiple of EBITDA applied to the call options granted to the Company by Mrs Cristina Sanz Ortiz and Mr Jesús Olivares Abad (see paragraph 2 below), in the event of a change of control of the Company or of Inpro Tecnología S.L., the wrongful dismissal of Mrs Cristina Sanz Ortiz or of Mr Jesús Olivares Abad, the adoption by the Board of Directors or by the general meeting of shareholders of Inpro Tecnología S.L. of any of the prescribed decisions which are liable to have an impact on that company's EBITDA;
  - (iii) the minimum exercise price of the put options is €16 million  $\times$  21.863%, and the maximum exercise price is €32 million  $\times$  21.863%;
  - (iv) the put options will lapse if Mrs Cristina Sanz Ortiz or Mr Jesús Olivares Abad leaves Inpro Tecnología S.L. within two years of the date of completion of the Acquisition.
- Mrs Cristina Sanz Ortiz and Mr Jesús Olivares Abad have each granted a call option to the Company, the main terms of which are as follows:
  - (i) the call options are exercisable upon the expiry of a period of one year following the date of completion of the Acquisition, and up to the end of a period of 10 years following that date, save in certain specific cases;
  - (ii) the exercise price of the call options varies according to a multiple of EBITDA, increasing over time in the following manner:
    - (a)  $4.5 \times$  the EBITDA of the tax year preceding the exercise date in the event of the exercise of the call options between the first and second years;
    - (b)  $4 \times$  the EBITDA of the tax year preceding the exercise date in the event of the exercise of the call options between the second and third years;

- (c)  $3.5 \times$  the EBITDA of the tax year preceding the exercise date in the event of the exercise of the call options between the third and tenth years;
  - (d)  $1 \times$  the EBITDA (i) in the event of breach of the non-competition and exclusivity undertakings contained in the shareholders' agreement, or (ii) if Mrs Cristina Sanz Ortiz or Mr Jesús Olivares Abad leave Inpro Tecnología S.L. within two years following the date of completion of the Acquisition;
  - (e) a discount of 50% of the EBITDA multiple applied to the put options granted by the Company (see paragraph 1 above) will be applied if Mrs Cristina Sanz Ortiz or Mr Jesús Olivares Abad leave Inpro Tecnología S.L. upon the expiry of a period of two years following the date of completion of the Acquisition without giving at least six months' notice.
- (iii) the minimum exercise price of the call options is €16 million  $\times$  21.863% and the maximum exercise price is €32 million  $\times$  21.863%, unless Mrs Cristina Sanz Ortiz or Mr Jesús Olivares Abad leave Inpro Tecnología S.L. within two years of the date of completion of the Acquisition.
- The shareholders' agreement also contains corporate governance rules, the principal of which is the following:
    - (i) the majority of the directors on the Board of Directors of Inpro Tecnología S.L. will be proposed by the Company;
    - (ii) Mrs Cristina Sanz Ortiz and Mr Jesús Olivares Abad will be directors of Inpro Tecnología S.L.;
    - (iii) certain decisions such as those relating to the determination of the annual budget of Inpro Tecnología S.L., transactions for external growth, loans and borrowings, may only be implemented with the prior authorisation of the Board of Directors, on the understanding that the Board of Directors may only validly make decisions if all the directors representing the Company are present or represented and if all the directors representing the Company vote in favour of the decision concerned.

#### ***Financing agreement — security***

The purchase price paid by the Company for the shares of Inpro Tecnología S.L. was partially financed by a bank loan concluded on 28 March 2006 with IXIS Corporate & Investment Bank. It is expected that the Group will use some of the proceeds from the Offering to repay this loan (see "Use of Proceeds").

#### **Insurance**

The Company has the following insurance policies:

##### ***Civil liability insurance: AIG Europe***

This policy mainly covers the Company's liability for injury or harm to third parties occurring before delivery of the products or for the completion of works (coverage limit: €7,500,000 per event and year), as well as the Company's liability for injury or harm caused to third parties occurring after delivery of the products or completion of works, although consequential damages are also covered (coverage limit: €7,500,000). The Group paid premiums of €31,409.78 for 2005. This policy was extended to cover Parrot Italia S.r.l., Parrot UK Ltd, Parrot GmbH and Parrot Asia Pacific Ltd, but not Parrot, Inc., which has its own insurance cover.

##### ***Comprehensive liability insurance: AGF***

The Company has taken out four insurance policies for each of the four floors of the building from which it operates covering *inter alia* the risk of fire, water damage, theft, broken glass, and risks relating to electronic and electrical equipment (coverage limit: €309,510 for the content of the premises, excluding electrical equipment, and €126,500 for damage to equipment). The Group paid premiums of €7,736.11 over a period of twelve months from 2005 to 2006.

#### ***Coverage of export accounts receivable: COFACE***

This policy covers the inability to recover amounts receivable from certain foreign customers of the Company located in zones “1” and “2” (respectively covering the countries of the OECD and the rest of the world based on criteria defined by COFACE) for export sales of the Company’s products, as well as sales made by the Parrot GmbH, Parrot Italia S.r.l. and Parrot UK Ltd. subsidiaries. The coverage limit is 90% of the net secured receivable excluding VAT. An extension of this policy to cover Parrot, Inc. and Parrot Asia Pacific Ltd subsidiaries is currently being arranged. The Group owed premiums of €88,965 for the period between 1 October 2004 and 31 December 2005 on the basis of financial year 2005. This policy does not provide for any limitation on the COFACE coverage, including on the basis of political risk.

#### ***Liability of executives and corporate officers***

The Company has insurance that covers the liability of its executives and corporate officers. It covers, up to a limit of €5 million per year, the potential personal liability the beneficiaries could incur individually or severally towards third parties in the event of professional errors or omissions committed in the exercise of their duties, regardless of the matter concerned (civil, criminal or administrative), the defence costs they could incur in the event of the assertion of their civil liability as well as, if applicable, any damages for which they may be liable. In addition, an extension of this policy covers any costs that could be incurred if the Company faced an internal crisis resulting, for example, from the disappearance of a member of the key personnel.

The Company considers that the insurance policies described above reasonably cover all major risks inherent to its activity, in France or abroad.

#### **Legal and arbitration procedures**

During the last twelve months, there has been no governmental, legal or arbitration procedure (including any procedure of which the Company is aware, whether suspended or threatened) likely to have or to have recently had a significant impact on the financial position or profitability of the Company or of the Group.

#### **Property, plant and equipment**

The Company carries out its activities at its registered office in premises located at 174-178, quai de Jemmapes, 75010 Paris, where it is a tenant pursuant to the terms of a lease entered into with the real estate company Neuilly Château SA.

There is no connection between the real estate company Neuilly Château SA and the Company or any of its officers.

The Group does not own any significant fixed assets and does not anticipate acquiring any in the near future.

## MARKET OVERVIEW

The majority of the data in this section on the market for Bluetooth® products comes from the IMS Research report *The Worldwide Market for Bluetooth* (September 2005) and from the ABI Research report *Automotive Bluetooth, a Strategic Review* (January 2006).

*The forward-looking statements below are based on estimates from independent organizations. Though the Group is not aware of any factors likely to invalidate the accuracy of these estimates of future market growth, it did not take part in preparing them and cannot guarantee their accuracy. Market growth can be affected by many factors, including those outlined under “Risk Factors”.*

The market for the Group’s products is growing fast, as a result of: (i) accelerating adoption of the Bluetooth® standard in consumer electronics products, especially mobile phones; (ii) current regulations favourable to the development and use of hands-free kits in vehicles; and (iii) strong growth in mobile telephony worldwide, driving development in new mobile phone applications (photo, music, etc).

### Market for Bluetooth® products

#### *Advantages of a proven standard*

Bluetooth® has emerged as the leading standard for short-range wireless communication between nomad devices and peripherals. It does away with wires and ensures secure, quality communication for devices such as mobile phones, printers, PDAs, portable computers and hands-free kits.

The Bluetooth® standard was designed and developed by the Bluetooth® SIG (Special Interest Group), which was founded in 1998 by Ericsson, IBM, Intel, Nokia and Toshiba, soon joined by Agere, Microsoft and Motorola. In addition to this initial group of eight “promoter” member companies, in charge of technical and strategic development of the standard, the Bluetooth® SIG also includes “associate” members. Parrot has been an associate member of the Bluetooth® SIG since 1999. Associate members enjoy preferential access to technical specifications and updates before they become public, and take part in Bluetooth® SIG working groups. In addition to these inner member circles, there is a third group of “adopter” members, who simply use the Bluetooth® standard for their products. All members can take part in qualification and test programmes organized by the Bluetooth® SIG.

The Bluetooth® standard is based on a set of specifications developed by Bluetooth® SIG working groups and adopted at meetings of special committees, formed by representatives from the eight promoter members and, in some cases, by representatives from the associate members. Version 1.0 of the Bluetooth® standard was issued in December 1999, version 1.2 in November 2003 and a version named “2.0+EDR” in early 2004.

The main advantages of the Bluetooth® standard are as follows<sup>(8)</sup>:

- there is no need for RF transmission authorization — Bluetooth® uses an authorization-exempted shared frequency band, the 2.4 GHz ISM band available worldwide (excepting a few residual local restrictions);
- security and transmission capacity — security is ensured by frequency-hopping (1,600 hops per second across a wide 79 MHz band split into 79 channels spaced at 1 MHz) and a built-in encryption system. Transmission power is adapted to signal receiver range, with a maximum theoretical data rate of 2.1 Mbps (3 Mbps in EDR mode) and a range of about ten metres;
- low power consumption — Bluetooth® was designed from the outset for very low electrical consumption, giving long battery life on portable devices;
- reasonable cost of manufacture and integration costs — the cost of a Bluetooth® chip recently fell below three dollars per unit<sup>(9)</sup>. Steadily falling costs drive accelerating market take-up, as Bluetooth® chips appear in more and more mobile devices, especially mobile phones and PDAs;

<sup>(8)</sup> Source: [www.bluetooth.com](http://www.bluetooth.com)

<sup>(9)</sup> Source: [www.bluetooth.com/Bluetooth/Learn/Technology/Compare](http://www.bluetooth.com/Bluetooth/Learn/Technology/Compare)

- intelligent wireless network capability; and
- sustained development and upgrade of the Bluetooth® standard within the Bluetooth® SIG.

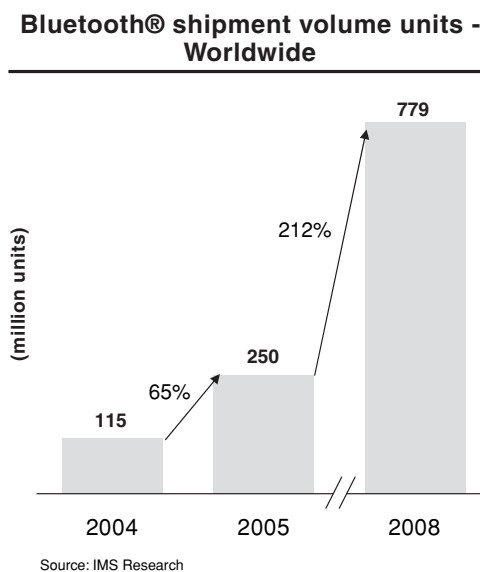
Bluetooth® has now emerged as the technical standard for wireless communications between mobile devices, including mobile phones. Before Bluetooth® was available in mobile phones, mobile phones sometimes incorporated infrared technology (IrDA). Infrared is a short-distance technology which has the disadvantage of requiring the sending and receiving devices to be aligned. Infrared has now largely been replaced by Bluetooth® in the mobile phone and PDA markets. In addition, the low transmission capability of infrared does not permit voice transmission.

WiFi (IEEE 802.11) is another standard for wireless communications, in particular for laptop computers. This standard was developed largely to allow wireless access to local area networks. Today its main uses are access to the Internet and Voice over IP. However, WiFi is not suitable for mobile phones as its power consumption is too high and WiFi chips remain expensive.

Other standards for wireless communications are currently being developed, in particular UltraWideband and Wireless USB, a USB derivation of UltraWideband. However, the WiMedia Alliance, which is developing UltraWideband, announced in 2005 the creation of a working group with the Bluetooth® SIG with the aim of bringing together the two communication standards in order to make them compatible. In March 2006, the Bluetooth® SIG announced the integration of part of the UltraWideband technology into the Bluetooth® standard in order to offer high data transfer rates for future applications, whilst ensuring compatibility with previous generations of Bluetooth®.

#### ***Fast-growing market***

The Bluetooth® standard is gaining increasing importance on the market for consumer electronics, IT and communication products. An estimated 250 million Bluetooth®-capable products were sold worldwide in 2005, up from 115 million in 2004<sup>(10)</sup>.

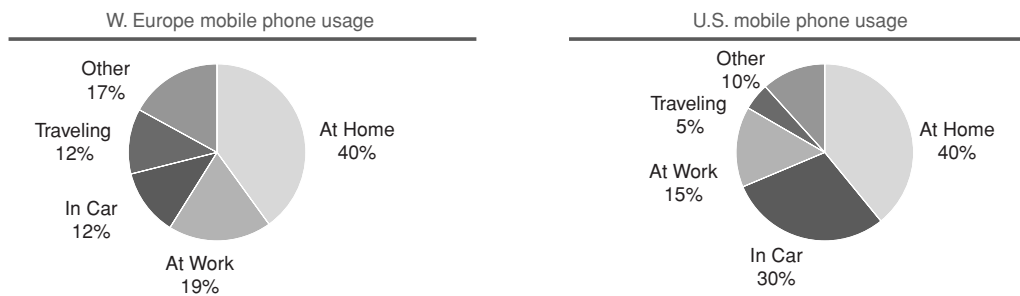
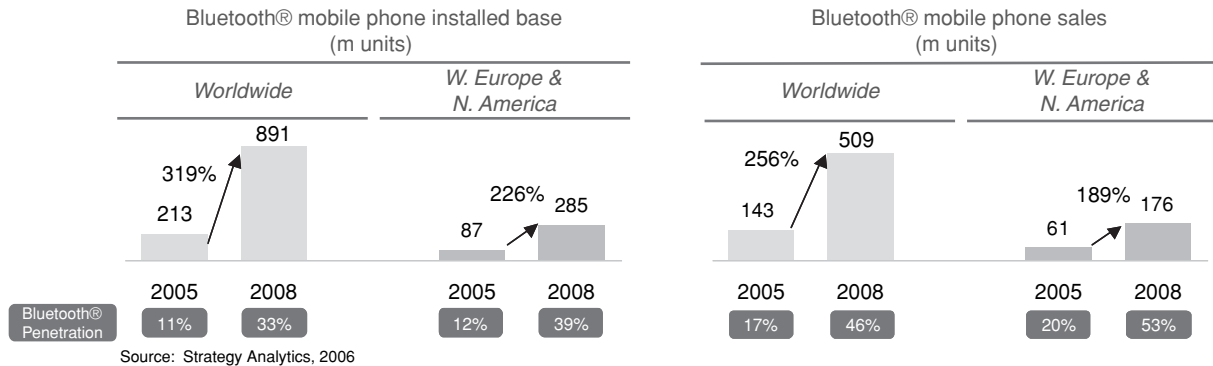


#### ***Bluetooth® in mobile telephony applications, a strong trend***

The first mobile phones were designed for the sole function of making and receiving telephone calls. Related features (directory, dual call, call transfer, buzzer, etc.) soon appeared, followed by non-telephony functions such as digital cameras, MP3 players, WAP browsers, SMS, e-mail and games. These new functions have been favourably received in the market, and provided that the additional cost is not a deterrent, will often sway the customer's choice with respect to a simple mobile phone. Bluetooth® phones appeared on the market in 2000, opening up capabilities for wireless communication between a mobile phone and other devices.

<sup>(10)</sup> Source: IMS Research 2006

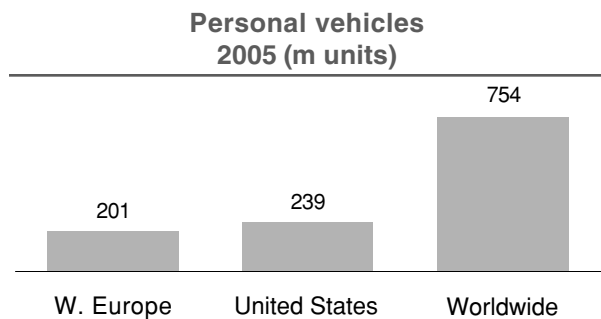
Bluetooth® chip production is increasing year by year, with mobile phones being the main application in which they are used, a trend that is expected to continue in 2006, according to IMS Research. In 2005, mobile phones accounted for over 67%<sup>(8)</sup> of Bluetooth®-capable devices, the remainder being mobile phone accessories, computer equipment (including hand-held computers) and Bluetooth® headsets. Bluetooth® chips are appearing in more and more new mobile phone sets. In 2005, approximately 20%<sup>(11)</sup> of mobile phones sold in Western Europe and North America were Bluetooth®-capable.



### Market for wireless hands-free products for vehicles

#### Strong market growth

The hands-free car kit is an ideal application for Bluetooth® technology: within the vehicle, the phone set will never be out of range; a Bluetooth® kit is much more convenient than a kit requiring wires; and a Bluetooth® kit offers compatibility with the vast majority of Bluetooth® phones on the market.

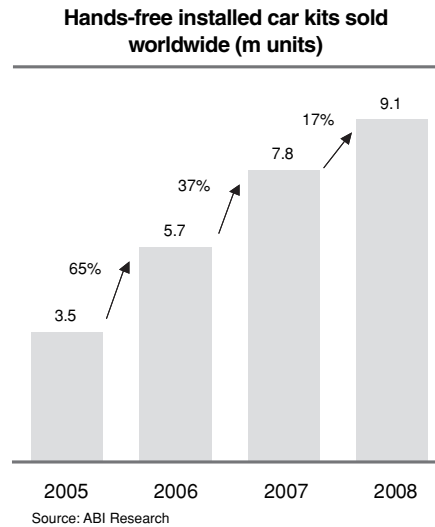


Source: Strategy Analytics, JD Power

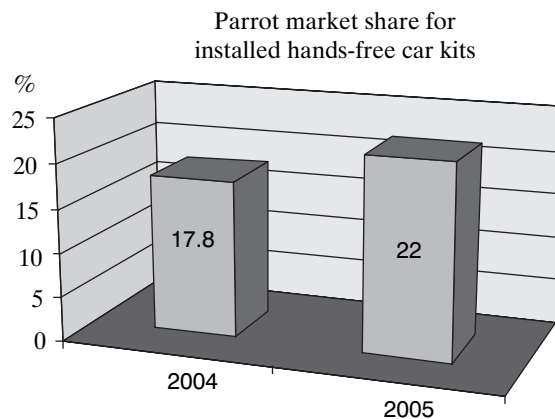
<sup>(11)</sup> Source: Strategy Analytics

**Market for aftermarket wireless hands-free kits**

The market for installed wireless hands-free car kits is rising steeply. This is the biggest wireless hands-free phone market (compared with the OEM and plug-&-play markets) in terms of the number of units shipped (about 5.7 million units expected for 2006<sup>(12)</sup>).



In 2005, Parrot experienced very strong growth in sales of installed wireless hands-free car kits from about 276,000 kits in 2004 to about 758,000 kits in 2005. The Group’s market share is on the rise and is estimated at approximately 22% in 2005, up from 17.8% in 2004.



Source: Parrot (from sales data and ABI Research 2006)

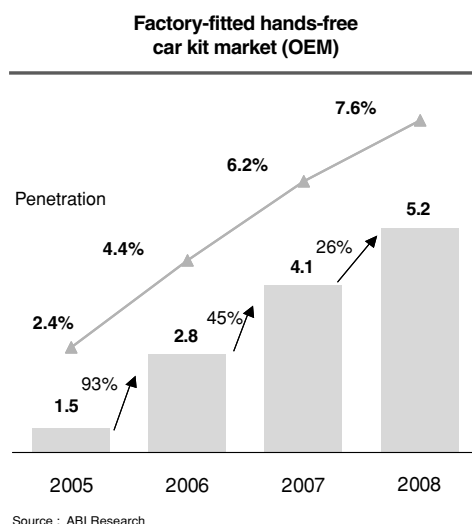
**OEM market**

Relatively few vehicles are built with installed hands-free mobile phone kits. This type of equipment is rarely a standard vehicle feature (except on certain upmarket models from certain car makers), though it can usually be ordered as an optional extra at additional cost.

<sup>(12)</sup> Source: ABI Research 2006



In 2005, only about 2.4% of vehicles sold worldwide came with an initial-fit Bluetooth® phone system, and most of those sales were in Europe. Forecasts point to a sharp rise in this figure, although the percentage of vehicles fitted with Bluetooth® hands-free car kits is not expected to take off in a big way until 2008.



The OEM market for hands-free car kits is far from mature, and is restricted by automotive industry constraints, especially with respect to new product development lead times. The development lead time for a new vehicle electronics system is two to three years. This time span covers very substantial development potential, giving rise to a technology lag of approximately two years between OEM products and recent aftermarket kits.

#### ***Market stimulus from road safety regulations***

Road safety regulations are constantly being tightened across the world. In most of the countries covered by the Group, regulations prohibit the driver from holding a phone while driving. In some countries (like Spain and Italy), the use of headsets and earphones while driving is also prohibited. However none of the countries in which the Group is present imposes an explicit ban on hands-free kits that enable the driver to keep both hands on the steering wheel while holding a telephone conversation.

In Germany, the United Kingdom, Spain, France and Italy, it is against the law for a driver to hold a phone set while driving. In Spain, drivers are not permitted to use earphones. In Italy, drivers are not permitted to use headsets and two earphones, by virtue of a requirement that a driver's hearing must be unimpeded on the road.

In the United States, New York State bans the use of mobile phones in cars, but allows the use of a hands-free kit provided the telephone conversation can be conducted with both hands on the steering wheel (except to take the call). In California, a draft bill banning the use of mobile phones in cars is under discussion, with no specific ban for the time being. The only current requirement is that drivers of school buses and public transport vehicles are allowed to use a mobile phone while driving only in the event of an emergency.

#### ***Fragmented competition***

The Group's rivals in the market for Bluetooth® wireless hands-free products for vehicles fall into four main categories: mobile phone vendors, automotive equipment vendors, small and medium-sized businesses specializing in hands-free kits, and manufacturers of Bluetooth® chipsets.

Competition is highly fragmented, and to the Group's knowledge there is no market survey of the competitive market environment in this segment. The Group nevertheless considers itself a leading market player in its area of expertise for the following reasons:

- to its knowledge, the Group released more new products than any other company in this market in 2005;

- in 2005, the Group sold approximately 758,000 installed hands-free car kits, out of a total market of 3.45 million units<sup>(13)</sup> giving it a market share of about 22% according to the Group.

#### ***Mobile phone vendors***

The Group's main competitors are major mobile-phone vendors such as Nokia, Motorola and Sony Ericsson, which offer rival aftermarket Bluetooth® hands-free wireless products. For these companies Bluetooth® hands-free products form a sub-category of their phone accessories business, which is itself a peripheral to their core business, namely the sale of mobile phone sets. Mobile phone vendors see this kind of peripheral as an enhancement to mobile phone functionality.

The Group's products have a number of technical advantages over rival products from mobile phone vendors: (i) built-in speech recognition; (ii) tight integration with vehicle sound systems; (iii) phonebook synchronization; (iv) optimum sound quality (with echo cancelling, noise limiting and full-duplex mode); (v) brand-independent compatibility with virtually all Bluetooth® phones on the market.

#### ***Automotive equipment vendors***

Several automotive equipment vendors offer Bluetooth® systems for the OEM market. Examples include the Harman Becker subsidiary Temic (which supplies Audi), Johnson Controls (which supplies Chrysler, Acura and Toyota), and Visteon (which supplies BMW). The Group operates as a level-two supplier to automotive equipment vendors and develops partnerships with some of them.

#### ***Manufacturers of hands-free phone kits***

The Group's historic rivals include a number of small and mid-sized (mostly German) businesses, including THB, Cullmann, Funkwerk Dabendorf, and Peiker. These companies have enjoyed previous success with classic wire-based hands-free systems, in which the mobile phone, in a special mechanical holder, is connected to the electronics unit via a cable. They took up the Bluetooth® standard late in the day and have suffered from a definite technology lag relative to the Group.

With its CK3100 LCD product, the Group, to the best of its knowledge, clearly outperforms its rivals in terms of features and user interface quality. The Group was the first player on the market to release products with an LCD screen.

Several Asian companies have recently released hands-free systems competing with the Parrot EasyDrive. These include Blue Ant, Westech, Seecode (Korea), Hamg Shing (Taiwan) and Southwing. By 30 March 2006, none of these companies' products offered the advanced functions (directory synchronization and voice recognition) or sound quality of the Parrot EasyDrive.

#### ***Bluetooth® chipset manufacturers***

On the OEM segment, the Group competes with ASIC manufacturers like Broadcom CSR or Freescale which supply certain automotive equipment manufacturers.

#### **Market for Bluetooth® mobile phone peripherals**

The market for Bluetooth® peripherals is growing fast, driven by sales of Bluetooth® earphones, which rose from 14 million units in 2004<sup>(14)</sup> to 31.7 million in 2005<sup>(15)</sup>.

Bluetooth® peripherals targeting new mobile phone uses (music and photos) only appeared in 2006, and have not yet been covered by any market surveys. However, information is available on the proportion of mobile phones with digital camera and MP3 player functions. Since mobile phones are the number-one application for Bluetooth® chips, this information provides an insight into potential market size.

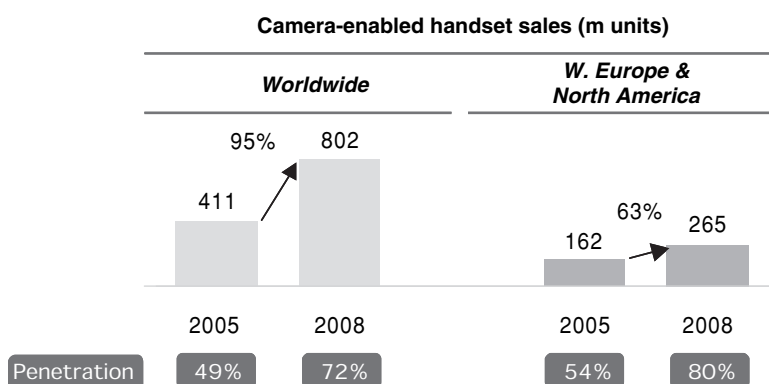
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<sup>(13)</sup> Source: ABI Research 2006

<sup>(14)</sup> Source: IMS Research 2005

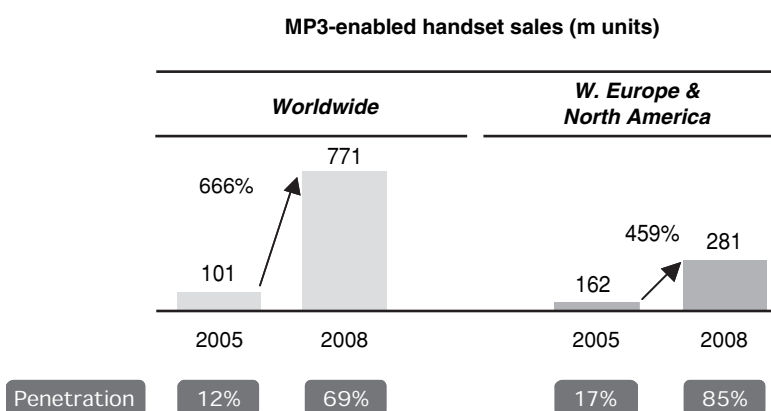
<sup>(15)</sup> Source: IMS Research 2005

Approximately 50% of the mobile phones sold worldwide in 2005 had a built-in digital camera. In light of this fast rise in digital photo capability, as well as the high proportion of mobile phones with Bluetooth® capability, a substantial existing market for wireless photo accessories may develop.



Source: Strategy Analytics, 2006

Similarly, 17% of mobile phones had an MP3/AAC player in 2005 in Western Europe and North America.



Source: Strategy Analytics, 2006

New mobile phone uses call for new wireless peripherals to make the most of such new functionalities, including for viewing photos and listening to music stored on MP3 capable phones. Many companies already offer accessories and peripherals (for the Apple iPod, for example) to enhance the operability and listening quality of MP3 players. Manufacturers might therefore be expected to come up with similar products, offering improved listening for tunes stored on mobile phones. Philips and Sony Ericsson, for example, sell classic wired loudspeakers, with the phone connecting directly to the loudspeakers or fitted on a special base. Jabra, Logitech, Nokia and Sony Ericsson (for its W950) have opted for audio streaming solutions with a Bluetooth® headset, with a wireless stereo headset offering hi-fi sound quality. Some vendors of accessories for the Apple iPod are also preparing Bluetooth® or WiFi devices connecting the iPod to a computer or stereo system.

The Group intends to use the trend in music-capable phones to target the home market, with new Bluetooth® speakers, providing wireless capabilities for listening to music anywhere in the home, using the mobile phone as volume control as well as sound source.

## MANAGEMENT AND EMPLOYEES

This section presents information on the composition and operation of the Company's management and control bodies as in effect as of the date of this Information Document.

The Company is governed by a Board of Directors. The Board of Directors is responsible for defining and implementing the Company's broad strategic objectives. Subject to those powers expressly reserved for the general shareholders' meeting and within the limits of the Company's corporate objects, the Board of Directors is competent to consider and settle all issues involving the proper functioning of the Company through the passing of its resolutions.

As required by law, the general management of the Company is the responsibility either of the Chairman of the Board of Directors, who then has the title of Chairman and Chief Executive Officer, or of another person appointed by the Board of Directors with the title of Chief Executive Officer. The Board of Directors is responsible for electing one of these two options for a period which may not be less than one year. Parrot's Board has chosen the first option to manage the Company's affairs, and has appointed Henri Seydoux as the Chairman and Chief Executive Officer. His appointment as Chairman and Chief Executive Officer shall expire at the end of the ordinary general meeting of shareholders held to vote on the accounts for the financial year ending 31 December 2008.

### **Executive managers**

The Group's executive managers are responsible for managing the Company's day-to-day operations and for co-ordinating the Group's various legal, financial, commercial and strategic actions. The executive managers include the following individuals:

**Henri Seydoux** founded the Company in 1994 and since its creation has held the position of chairman and CEO. Self-educated, he began his career in 1978 as a trainee at the Journal Actuel and was employed there as a journalist from 1979 to 1980. In 1981 he joined the sales department of the newspaper Le Matin de Paris. In 1982 he joined SSCI as an operating systems software developer and then from 1983 to 1984 he worked for Microarchi, also as an operating systems software developer. In 1985 he established the company BBS to market the Microarchi operating system. In 1986 he established BSCA, a company creating synthetic 3-D images, and became its Chairman and CEO from 1986 to 1990. In 1991 with three other partners he founded the luxury business Christian Louboutin, of which he became a director.

**Fabrice Hamaide** joined the Company in 2005 as administrative and finance officer. He is a graduate of the Sorbonne in Paris and Columbia University in, New York. He began his career in 1991 as credit manager of Eli Lilly in Paris. In 1992 he joined the Kraft Jacobs Suchard group in Paris where he became credit manager and then financial controller. In 1996 he became director of strategic and financial planning of the Logitech group in Fremont, California (USA), which he left in 1997 to become vice chairman and then chairman and CEO of Talkway Communication in Mountain View, California (USA).

**Eric Riyahi** joined the Company in 2005 as commercial director responsible for OEM activity. He is a graduate of INSEAD YMP and EUDIL in Lille. He joined Valeo Electronique in 1994 as an applications engineer and then head of projects responsible for costs, quality and deadlines. He joined the Visteon company in 1999 and became client account manager from 1999 to 2004 and then product manager for Europe from 2004 to 2005.

**Elise Tchen** joined the Company in 2000 to take charge of product manufacturing as production and quality officer. She has transformed this department into an industrial division capable of growing at the same rate as the Company. She is a graduate of ENSEM in Nancy. She began her career at Renault, where she was initially employed in the research division and then moved to the cable engineering research department.

**Jean-Marc Bourgoïn** joined the Company in 2006 as marketing officer. He graduated from the National Marketing Institute in 1989 and began his career in the Association of Transport Authorities (*Groupement des Autorités Responsables de Transport*) as public relations and development manager. In 1996 he joined the Publicis—Territoires agency as development manager. In 1999 he joined Business Objects as director of communication for France, where he stayed until 2001. He then created Selling Point, a communications

consultancy firm targeting companies specialising in data processing, and as such advised the Company from 2004 until he was recruited by the Company.

**Samuel Grand** joined the Company in 2005 as purchasing officer. He holds a degree (*DESS*) in purchasing from the University of Bordeaux. He validates modules with A.P.I.C.S. C.P.I.M. certification. He began his career at Tekelec Temex in Portugal where he was responsible for managing the implementation of a system designed to evaluate the performance of purchasers. From 1998 to 2001 he held the position of purchaser and senior purchaser, respectively, at Beta Electronics and ACT Manufacturing, both based in Ireland. From 2001 to 2005, he was head of purchasing at Eurologic and then at NCR.

**Mohamed Saighe** joined the Company in 1998 as a commercial officer responsible for distribution. He is a graduate of IAV in Morocco and became an applications engineer in food technology, later obtaining a degree in international affairs from C.E.S.C.I. in Paris. He began his career at the Office for Professional Training (*Office Formation Professionnelle*) in Morocco as training manager, then joined Société Française d'Eaux de Vie et Spiritueux in 1994, where he held the position of organisation manager. From 1995 to 1998 he was export manager at P.Y. Systems.

**Nicolas Besnard** joined the Company in 1994 and currently holds the position of technical officer having performed the roles of software development engineer and software development manager. He is a graduate of the *Ecole Supérieure d'Electricité* (Supelec) at Gif-sur-Yvette, and began his career at the space centre Kourou Centre—Arianespace in Guyana, where he performed software development research in the ground resources team for the European space rocket Ariane IV.

## Board of Directors

### *Composition and operation of the Board of Directors*

Subject to any limitations provided by law, the Board of Directors is comprised of not less than three and not more than twelve members, elected by ordinary resolution of the shareholders. Directors must own at least one share in the Company. Should one or more seats on the Board of Directors become vacant between two annual general meetings, either through death or resignation, the Board of Directors may appoint replacements on a provisional basis under the terms and conditions set out by law. However, if the number of Directors falls below the minimum legal requirement, the remaining Directors, or failing that the Statutory Auditors, shall immediately call an ordinary general meeting to elect new Directors. Directors are elected for a term of six years, ending at the conclusion of the annual general meeting held during the year in which they are due to retire by rotation. Directors may always stand for re-election.

The Board of Directors meets at least once per quarter at the Company's registered office or at any other place stipulated in the notice of meeting. Directors may take part in meetings by any means permitted by law or the Company's by-laws.

The members of the Board of Directors are:

Name, age and address	Position and duration of appointment	Other directorships and positions outside the Company
Henri Seydoux 45 years old 174-178, quai de Jemmapes 75010 Paris	Chairman and CEO for 6 years as from 24/06/2003  Date of first appointment: 31/01/1994	Director of Trimaran Director of Seymechamlou Director of Christian Louboutin Chairman of Parrot, Inc. Director of Parrot Italia S.r.l. Director of Parrot UK Ltd Manager ( <i>Geschäftsführer</i> ) of Parrot GmbH Director of Parrot Asia Pacific Ltd
Jean Bidet 69 years old 399, rocade du Belvedere 83140 Six Fours	Director for 6 years as from 04/05/2006  Date of first appointment: 22/03/2000	Chairman and CEO of Cofad S.A.

Name, age and address	Position and duration of appointment	Other directorships and positions outside the Company
<p>Jean-Marie Painvin 54 years old Compagnie Deutsch Tour Albert 1<sup>st</sup> 65, avenue de Colmar 92507 Rueil-Malmaison Cedex</p>	<p>Director for 6 years as from 24/06/2003  Date of first appointment: 31/01/1994</p>	<p>Chairman and CEO of Compagnie Deutsch Director of Golf des Baux de Provence Director of Golf du Médoc</p>
<p>Edward Planchon 72 years old 38, rue de Berri 75008 Paris</p>	<p>Director for 6 years as from 04/05/2004  Date of first appointment: 04/05/2004</p>	<p>Vice-Chairman, secretary and treasurer of Parrot, Inc. Director of Parrot UK Ltd Member of the Supervisory Board and advisor to the Chairman of the Board of Directors of Electricfil S.A. Director of Electricfil Corp. Member of the Supervisory Board and advisor to the Chairman of the Board of Directors of Vignal Systems S.A. Senior advisor – Automotive of Gedas AG Senior advisor – Global Automotive Industry Practice of Egon Zehnder International S.A. Chairman and CEO of EKPConsult LLC (Troy, Michigan, USA)</p>
<p>EPF Partners S.A. 5 – 7 Montessuy 75007 Paris represented by Olivier Gindre 58 years old</p>	<p>Director for 6 years as from 07/12/2004  Date of first appointment: 07/12/2004</p>	<p><u>Positions held by EPF Partners S.A.:</u> Director of Challenger Director of Paul Boyé S.A. <u>Positions held by Olivier Gindre in his individual capacity:</u> Chairman of the Board of Directors of EPF Partners S.A. Director of Corpfin</p>
<p>SPEF Venture S.A. 5 – 7 Montessuy 75007 Paris represented by Valérie Gombart 30 years old</p>	<p>Director for 2 years as from 07/12/2004  Date of first appointment: 07/12/2004</p>	<p><u>Positions held by SPEF Venture S.A.:</u> Member of the Supervisory Board of Access Commerce Member of the Supervisory Board of W4 (ex-Akazi) Supervisor (<i>censeur</i>) on the supervisory board of Alchimer Director of Anyware Technologies Director of Arkeia Director of Baracoda Director of Bewan Systems Director of Bottin Director of DSO Interactive (ex-Convergence) Director of Criston Director of Delia Systems Director of DXO Labs (ex-Do Labs) Director of EmailVision Director of Eovia Director of Voxpilot (ex-Eureka Soft) Director of Europe Technologies Member of the supervisory board of Fluxome (Denmark) Director of Glow Entertainment Group (Glowria) Director of Idtect Director of Idylis Director of Intranode Member of the supervisory board of Meristem Therapeutics</p>

Name, age and address	Position and duration of appointment	Other directorships and positions outside the Company
		Member of the supervisory board of Metabolic Explorer Director of Micropole-Univers Supervisor ( <i>censeur</i> ) on the supervisory board of Monte Cristo Multimedia Director of Natexis Venture Selection Director of Ness Member of the supervisory board of Netasq Director of OPI Member of the supervisory board of Polyspace Director of Satimo Member of the supervisory board of Swapcom Member of the supervisory board of Theraptosis <u>Positions held by Valérie Gombart in her individual capacity and as standing representative:</u> Member of the Board of Directors and second in charge of managing and strategic planning of the management company SPEF Venture S.A. Standing representative of SPEF Venture S.A., director of Memscap, Standing representative of SPEF Venture S.A., director of Quescom Standing representative of SPEF Venture S.A., director of Sefas Innovation Standing representative of SPEF Venture S.A., member of the supervisory board of Volubill Standing representative of SPEF Venture S.A., director of Xiring
Valeo Ventures S.A.S 43, rue Bayen 75017 Paris represented by Céline Lagniez 34 years old	Director for 6 years as from 04/05/2006  Date of first appointment: 18/10/2000	None

It is expected that Mr Jean Bidet, Valeo Ventures S.A.S. and EPF Partners S.A. will resign as directors of the Company following the Offering and will be replaced by independent directors nominated in accordance with the Company's board charter adopted by the Board of Directors (see "Board Charter" below).

As far as the Company is aware:

- there are no family ties between directors of the Company, with the exception of Mr Henri Seydoux and Mr Jean-Marie Painvin who are related;
- no director has been convicted of fraud during the last five years;
- except as mentioned in the table above listing all of the companies in which directors of the Company have been members of the administrative, management or supervisory bodies or silent partners at any time during the last five years, no director has been involved in any bankruptcy, sequestration or winding up in the last five years;
- no criminal investigation has been brought against or official public sanction imposed on any director by statutory or regulatory authorities (including designated professional bodies) in the last five years; and



- no director has been disqualified by a tribunal from acting as a member of an administrative, management or supervisory body of an issuer or from taking part in the management or running of the business of an issuer during the last five years.

#### ***Biographical information of the members of the Board of Directors***

**Henri Seydoux** founded the Company in 1994 and since its creation has held the position of chairman and CEO. Self-educated, he began his career in 1978 as a trainee at the Journal Actuel and was employed there as a journalist from 1979 to 1980. In 1981 he joined the sales department of the newspaper Le Matin de Paris. In 1982 he joined SSCI as an operating systems software developer and then from 1983 to 1984 he worked for Microarchi, also as an operating systems software developer. In 1985 he established the company BBS to market the Microarchi operating system. In 1986 he established BSCA, a company creating synthetic 3-D images, and became its Chairman and CEO from 1986 to 1990. In 1991 with three other partners he founded the luxury business Christian Louboutin, of which he became a director.

**Jean-Marie Painvin** was appointed director of the Company on 24 June 2003. A graduate of Rice University in Texas with a Master's in mechanical engineering, his career began in 1975 as regional director of Traylor SA where he became sales and marketing director from 1981 to 1988. In 1988 he became Chairman of Deutsch Relays, Inc. in the United States, and was then appointed to the senior management of Compagnie Deutsch in 1994 where, since 1999, he has held the position of Chairman and CEO.

**Jean Bidet** was appointed director of the Company on 22 March 2000. His secondary and further education was at Prytanée Militaire de La Flèche. He became an ocean trade officer in the Merchant Navy from 1959 to 1963 and then a reserve officer in the national navy. From 1965 to 1967 he was responsible for training wholesalers and retailers in the Sopégros retail group. In 1970, he became Mr Leroch's assistant in relation to the founding, organisation, implementation of logistical structures, public relations and transportation for the Intermarché association where he became a director until 2000.

**Edward Planchon** was appointed director of the Company on 4 May 2004. He has a degree in economic sciences and international affairs from the University of Michigan, where he also obtained an MBA. He has lived in and travelled to numerous countries and speaks six languages. He began his career in 1957 at Chrysler where for 22 years, in the United States, Europe and Japan, he was responsible in turn for financial management, marketing and sales worldwide. He has held the different positions of director of Chrysler's European distribution subsidiaries, negotiator of the Chrysler-Mitsubishi agreements and CEO responsible for the distribution networks for the automobile and heavy goods vehicle brands of Chrysler, Dodge and Mitsubishi in the world markets (excluding North America and Japan). He joined Valeo in 1987 and has been in general management for 16 years. As director of international affairs and marketing he is responsible for the worldwide commercial development of the group. In 2000, he was promoted to Senior Group Vice-President of the Valeo group. In 2002, he was appointed as adviser to the Chairman of the Valeo group and left that company (retired) in 2003.

**Olivier Gindre** is the standing representative of EPF Partners S.A. which was appointed as director of the Company on 7 December 2004. He began his career in 1980 by joining the Crédit National group (now Natexis Banques Populaires). In 1986 he was seconded to the *Commission des opérations de bourse* (COB) and joined the recently founded Financière Saint Dominique (which later became Natexis Private Equity) in 1989 as director of financial operations and member of the Board of Directors of *Saint Dominique finance et rapprochement*. In 1996, he established EPF Partners S.A., a management company authorised by the COB to manage venture capital investment funds (FCPR) specialising in minority development capital and became chairman of the Board of Directors.

**Valérie Gombart** is the standing representative of SPEF Venture S.A. which was appointed as director of the Company on 7 December 2004. A graduate of the business school ESC Nantes and with a university degree in the "law of financial engineering", she began her career as an analyst with Banque Populaire Création, the priming fund of the Banque Populaire group. In 1997, she took part in the launch of the first Innovative Technologies Investment Fund (*FCPI*) in France. She is a member of the Board of Directors of SPEF Venture S.A., where she runs the information technology sector investment team.

**Céline Lagniez** is the standing representative of Valeo Ventures S.A.S which was appointed as director of the Company on 18 October 2000. A graduate of *Université de Paris-Dauphine* in June 1995, she began her career at Ernst & Young Audit. She then spent two years at Deloitte and a further two years at Natexis in

the mergers and acquisitions department. In August 2004, she joined the mergers and acquisitions department of Valeo.

### ***Powers of the Board of Directors***

The Board of Directors is responsible for the management of the Company and pursuant to its legal and statutory obligations the Board:

- on a regular basis examines the strategic plans of the Company and of the Group (made up of the Company and its consolidated entities), its investment plans, disinvestment or internal restructuring, the Group's general human resources policy, in particular its employee remuneration policy, profit sharing and incentive policies, assesses management performance on annual basis and is consulted with respect to recruitment of members of the management;
- approves all agreements entered into, directly or indirectly, between a director of the Company and the Company or any of its subsidiaries;
- decides on acquisitions or sales of equity investments or assets, on partnership or joint venture agreements for research, development, or industrial or commercial partnerships, alliances or cooperations and, in general, and on any operation or undertaking likely to significantly affect the financial or operational situation of the Group;
- is kept informed by its Chairman and by the committees of any significant events relating to the state of business, the financial and cash flow situation of the Company and the Group; and
- ensures that shareholders and the public are kept properly informed, in particular by monitoring the information disseminated by the Company; in this regard, it defines the Company's policy with respect to communication, in particular with respect to the frequency of publication of financial information relating to the Group.

The Board of Directors must be made up of directors who have been chosen for their skills and experience in relation to activities carried on by the Company or the Group and at least two of the directors must be independent directors.

All directors are required within a period of five (5) business days of their occurrence to provide details to the *Autorité des marchés financiers* and the Company of all acquisitions, disposals, subscriptions or exchanges of financial instruments issued by the Company, including any transactions with respect to related financial instruments, in accordance with applicable regulations. The relevant director is obliged within the same period to deliver the confirmation slip relating to any such transaction to the *Autorité des marchés financiers*.

Members of the Board of Directors are remunerated in accordance with the by-laws of the Company and as determined by the Board of Directors taking account of (i) membership of the Board of Directors (ii) actual presence of each director at Board of Directors and committee meetings and (iii) any assignments given to directors. Expenses incurred by directors in the interests of the Company, including travel costs and expenses, are reimbursed upon provision of relevant receipts.

### **Board meetings**

The Board of Directors meets as often as required in the interests of the Company. Meetings are called by the Chairman. If the Board has not met for a period of over two months, at least one third of the directors, or the Chief Executive Officer if he is not also the Chairman, may ask the Chairman to call a meeting to discuss a particular agenda. The Chairman may not refuse to call a meeting under these circumstances. Should he fail to do so, the Chief Executive Officer, one of the Deputy Chief Executive Officers or at least two directors may call a Board meeting and set the agenda.

Notice of meetings may be sent by any means, including letter, fax, telex or electronic mail, not less than fifteen days before the date of the meeting, except in emergencies when notice may be sent by any means until the day before the meeting. Meetings may, notwithstanding, be called verbally and held immediately if all members of the Board agree.

### ***Quorum and majority***

The quorum required for the meeting to transact business is the effective presence of at least one half of the Directors. Resolutions are by majority vote of those Directors present in person or by proxy. In the event of a split vote, the Chairman has the deciding vote.

The Board's rules of procedure may permit those Directors attending the meeting via videoconferencing or other electronic means to be counted for the purposes of calculating the quorum and majority, within the limits and under the terms and conditions set out by law. More particularly, this option is not available for those resolutions referred to in articles L.232-1 and L.233-16 of the French commercial code.

### **Board Charter**

Under a resolution passed on 18 April 2006, the Board of Directors adopted an internal charter setting out the role and operation of the Board, in accordance with the provisions of the law, the Company's by-laws and standard corporate governance practice for listed companies. The main provisions of the Board Charter are described below.

### ***Board committees***

The Board has created two permanent committees; an Audit Committee and a Compensation Committee. The role and work of these committees as defined in the Board Charter is described below.

### ***Audit Committee***

The responsibilities of the audit committee are:

- to ensure the relevance and consistency of the accounting methods adopted to prepare the corporate and consolidated accounts, to examine and assess the scope of consolidation and to examine and verify the relevance of the accounting rules applied by the Group;
- to examine the corporate and consolidated accounts and budgets and forecasts prior to their presentation to the Board of Directors;
- to monitor the quality of, and compliance with, procedures, assess the information provided by management, internal committees and internal and external audits;
- to provide guidance with respect to the selection and reappointment of statutory auditors, giving opinions as to the amount of fees charged by the statutory auditors and submitting reporting on the same to the Board of Directors;
- to examine the detailed breakdown and relevance of fees paid by the Company and the Group to the statutory auditors and to ensure that the amount of such fees and the related services are not likely to affect the independence of the statutory auditors.

The audit committee is made up of three members chosen from the Board of Directors other than the Chairman of the Board of Directors, at least two of whom must be independent directors. The Board of Directors appoints a director from amongst the members of the audit committee to act as chairman of the audit committee. Audit committee meetings are held at least four times per year and are convened by its chairman.

In carrying out its responsibilities, the audit committee:

- submits to the Board of Directors proposals for the appointment, remuneration or replacement of the statutory auditors of the Company;
- together with the management and statutory auditors of the Company, reviews the quarterly, six monthly and annual financial statements, the accounting principles and methods used, the Group's audit and internal control policies and methods and the analysis and reports relating to financial reporting, accounting policies and communications between management and the statutory auditors of the Company;

- examines and checks the rules and procedures applicable to conflicts of interest, to expenses incurred by directors and to the identification and assessment of the principal financial risks, as well as how such rules are applied and submits an annual report on such matters to the Board of Directors;
- examines, checks and assesses on an annual basis the independence and control procedures of, and difficulties encountered by, the statutory auditors of the Company as well as the measures adopted to resolve such issues and carries out similar checks with respect to the functioning of internal audits;
- more generally examines, checks and assesses any matter likely to affect the exactness and fairness of the financial statements.

For these purposes, the audit committee has the right to all information necessary or desirable and may interview any person it considers necessary or desirable for the purpose of carrying out its controls.

#### *Compensation Committee*

The responsibilities of the compensation committee are:

- to make proposals to the Board of Directors with respect to all elements of the compensation of the CEO;
- to give advice with respect to the recruitment of principal members of the Group's management other than the CEO and to the level and future revision of all elements of their compensation;
- to make recommendations to the Board of Directors with respect to all compensation and staff incentive schemes in the Group, of whatever nature, including employee saving schemes, reserved issues of securities giving rights to acquire share capital of the Company and allotment of stock options.

The compensation committee is made up of three members chosen from amongst the directors, at least two of whom must be independent directors. The Board of Directors appoints a director from among the members of the compensation committee to act as chairman of the compensation committee.

If the Chairman of the Board of Directors is a member of the compensation committee, he or she shall not take part in or attend meetings relating to his compensation. In relation to meetings concerning the compensation of other corporate officers, the chairman of the Board of Directors may attend in a consultative capacity.

The compensation committee meets at least twice a year and is convened by its chairman or by the Chairman of the Board of Directors

#### **Conflicts of interest involving the administrative, management and supervisory bodies and senior management**

To the Company's knowledge, no potential conflicts of interest exist between the duties of members of the Board of Directors towards the Company and their private interests or other duties.

To the Company's knowledge, no other agreement or arrangement has been entered into with a client, supplier or any other party pursuant to which any of the directors of the Company has been appointed in such capacity.

## Management compensation

### Compensation and benefits in kind granted to directors and other corporate officers

Name	Position	Compensation and Benefits
Henri Seydoux	Chairman and CEO of the Company	From 01/01/2005 to 31/12/2005: Total gross compensation: €450,000 of which €150,000 fixed compensation and €300,000 variable compensation <sup>(1)</sup> Benefits in kind: none Joining and Leaving Bonus: None Supplementary pension scheme: None Directors fees: none
Henri Seydoux	Chairman of Parrot, Inc.	None
Henri Seydoux	Director of Parrot Italia S.r.l.	None
Henri Seydoux	Director of Parrot UK Ltd	None
Henri Seydoux	Manager of Parrot GmbH	None
Henri Seydoux	Director of Parrot Asia Pacific Ltd	None
Jean Bidet	Director of the Company	None
Jean-Marie Painvin	Director of the Company	None
Edward Planchon	Director of the Company	Fees received for provision of services: USD96,000 paid by Parrot, Inc. Reimbursement of expenses: USD37,042 paid by Parrot, Inc.
Edward Planchon	Director of Parrot UK Ltd	None
Edward Planchon	Vice-President, secretary and treasurer of Parrot, Inc.	None
EPF Partners S.A.	Director of the Company	None
SPEF Venture S.A.	Director of the Company	None
Valeo Ventures S.A.S	Director of the Company	None

<sup>(1)</sup> The variable element of the compensation of Mr Henri Seydoux in 2005 was calculated as follows:

- two performance bonuses, one of € 50,000 if consolidated revenues reached or exceeded the amount provided for in the 2005 budget, which was €45.519 million or more, and another also equal to €50,000 if consolidated earnings before interest, taxes and extraordinary items reached or exceeded €3.864 million; and
- two out-performance bonuses, one of € 100,000 if consolidated revenues reached or exceeded 130% of the amount provided for in the 2005 budget, which is €59.175 million or more, and another also equal to €100,000 if consolidated earnings before interest, taxes and extraordinary items reached or exceeded 200% of the amount provided for in the 2005 budget, which is €7.728 million or more.

*Compensation and benefits in kind granted to directors of the Company for the financial years 2003 and 2004*

Name	Position	Remuneration and Benefits	
		2003	2004
Henri Seydoux	Chairman and CEO of the Company	Total gross compensation: €81,025 Benefits in kind: none Joining and Leaving Bonus: None Supplementary pension scheme: None Directors fees: none	Total gross compensation: €250,000 of which €100,000 fixed compensation and €150,000 variable compensation <sup>(1)</sup> Benefits in kind: none Joining and Leaving Bonus: None Supplementary pension scheme: None Directors fees: none
Henri Seydoux	Chairman of Parrot, Inc.	None	None
Jean Bidet	Director	None	None
Jean-Marie Painvin	Director	None	None
Edward Planchon	Director	None	Fees received for provision of services: €22,500 paid by Parrot, SA. Reimbursement of expenses: €5,392 paid by Parrot SA.
Edward Planchon	Vice-president, secretary and treasurer of Parrot, Inc.	None	None
Valeo Ventures S.A.S, represented by Jean-François Landry	Director	None	None
Sofinnova Partners S.A., represented by Olivier Protard	Director	None	None

<sup>(1)</sup> The variable element of the compensation of Mr Henri Seydoux in 2004 was made up as follows:

- €25,000 if consolidated revenues for 2004 exceeded €21.695 million;
- €25,000 if consolidated earnings before taxes, excluding extraordinary items exceeded €1.683 million; and
- an extra €10,000 per additional tranche of €250,000 of consolidated earnings before taxes, excluding extraordinary items.

**Shareholdings and other securities held by corporate officers**

The table below shows the shares held by corporate officers at the date of this Information Document:

Director's name	Number of shares	Percentage of share capital and voting rights
Henri Seydoux . . . . .	2,844,999 <sup>(1)</sup>	32.14%
Jean Bidet . . . . .	70,000	0.79%
Jean-Marie Painvin . . . . .	100	NS <sup>(2)</sup>
Edward Planchon . . . . .	1 <sup>(3)</sup>	NS
EPF Partners S.A. . . . .	1 <sup>(4)</sup>	NS
SPEF Venture S.A. . . . .	1 <sup>(5)</sup>	NS
Valeo Ventures S.A.S . . . . .	1,314,682	14.85%
<b>Total</b> . . . . .	4,229,784	47.78%

<sup>(1)</sup> Mr. Seydoux will exercise 2,495,950 business founder warrants on 30 June 2006.

<sup>(2)</sup> Not significant.

<sup>(3)</sup> Loan of shares granted by Mr Henri Seydoux on 04/05/2004.

<sup>(4)</sup> Loan of shares granted by FCPR European Pre Flotation II on 07/02/05.

<sup>(5)</sup> Loan of shares granted by FCPI Banque Populaire Innovation on 11/01/2005.



**Business founder warrants allotted to Mr Henri Seydoux**

**2003 Plan**

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the French general tax code (“GTC”), at an extraordinary general meeting of the Company held on 24 June 2003, the shareholders resolved to implement “the 2003 business founder warrants (“bons de souscription de parts de créateur d’entreprise”) (“B.S.P.C.E.”) plan” (the “2003 Plan”) and, in accordance with applicable law, granted all powers to the Board of Directors to proceed with the issue and allotment of 71,200 B.S.P.C.E. in favour of Mr Henri Seydoux giving him the right to subscribe for 71,200 shares in the Company at a price of €1.76 per share each within a period of five years from the allotment of such B.S.P.C.E.

**Henri Seydoux Plan**

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the GTC, at an extraordinary general meeting of the Company held on 7 December 2004, the shareholders voted to implement “the Henri Seydoux business founder warrants plan” (the “Henri Seydoux Plan”). This general meeting resolved to allot to Mr Henri Seydoux 836,000 B.S.P.C.E. giving him the right to subscribe for 836,000 shares in the Company at a price of €3.59 each and 1,611,000 B.S.P.C.E. giving him the right to subscribe for 1,611,000 shares in the Company at a price of €7.19 per share. Mr Seydoux will exercise all of the B.S.P.C.E. allotted to him under the Henri Seydoux Plan on 30 June 2006.

**Second 2006 Plan**

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the GTC, at an extraordinary general meeting of the Company held on 4 May 2006, the shareholders voted to implement the second business founder warrants plan (the “2006 Plan II”) and in accordance with applicable law granted all powers to the Board of Directors to allot 2,400,000 B.S.P.C.E. Pursuant to this power, the Board of Directors decided to allot 2,400,000 B.S.P.C.E. to Mr Seydoux giving him the right to subscribe for 2,400,000 shares in the Company immediately from the date of their attribution, for a period of five years from the date of their allotment, at a price of €31.20 for 1,200,000 B.S.P.C.E., €41.60 for 720,000 B.S.P.C.E., and €52.0 for 480,000 B.S.P.C.E.

The table below shows the number and principal characteristics of the B.S.P.C.E. allotted to Mr Henri Seydoux:

Plan	Allotment date	Number of warrants allotted	Number of warrants exercisable during the exercise period	Number of shares to which such warrants give a right	Number of warrants exercised	Exercise price (in euros)	Exercise period
2003 . . . . .	Board Meeting 24/06/2003	71,200	71,200 <sup>(1)(2)</sup>	71,200	0	1.76	From 24/06/2003 to 24/06/2008
Henri Seydoux .	EGM 07/12/2004	836,000	836,000 <sup>(3)</sup>	836,000	0	3.59	From 07/12/2004 to 07/12/2008
Henri Seydoux .	EGM 07/12/2004	1,611,000	1,611,000 <sup>(4)</sup>	1,611,000	0	7.19	From 07/12/2004 to 07/12/2008
2006 II . . . . .	Board Meeting 12/06/2006	2,400,000	2,400,000 <sup>(5)</sup>	2,400,000	0	31.20 for 1,200,000 warrants 41.60 for 720,000 warrants 52.00 for 480,000 warrants	From 12/06/2006 To 12/06/2011
<b>Total . . . . .</b>		<b>4,918,200</b>	<b>4,918,200</b>	<b>4,918,200</b>	<b>0</b>		

<sup>(1)</sup> Up to 25% of the 71,200 B.S.P.C.E. may be exercised at the earliest at the end of a period of 12 months from their allotment date. At the end of this period, the remainder may be exercised at the rate of 1/12 per quarter at the end of each completed quarter during the 36-month period following the initial 12-month period. The B.S.P.C.E. are exercisable at the latest during the eight days preceding the expiry of the five-year period following their issue date.

<sup>(2)</sup> 48,950 of these B.S.P.C.E. will be exercised on 30 June 2006.

<sup>(3)</sup> These B.S.P.C.E. will be exercised on 30 June 2006.

<sup>(4)</sup> These B.S.P.C.E. will be exercised on 30 June 2006.

<sup>(5)</sup> These B.S.P.C.E. can be exercised at any time within 5 years of the date of allotment.



**Equity warrants issued in favour of Mr Edward Planchon**

At an extraordinary general meeting dated 6 July 2004, the shareholders resolved to issue 71,200 equity warrants (*bons de souscription d'actions*) ("B.S.A.") in favour of Mr Edward Planchon and, in accordance with the law, delegated all powers to the Board of Directors to proceed with the issue of 71,200 B.S.A.. Pursuant to this delegation of powers, the Board of Directors decided on 6 July 2004 to issue 71,200 B.S.A. in favour of Mr Edward Planchon, giving him the right to subscribe for 71,200 shares in the Company for a subscription price of €1.76 per share.

On 12 June 2006, pursuant to the authority granted to it by the shareholders at an extraordinary general meeting dated 4 May 2006, the Board of Directors allotted 25,000 B.S.A. in favour of Edward Planchon, giving him the right to subscribe for 25,000 shares in the Company for a subscription price of €31.20 for 12,500 B.S.A. and €41.60 for the remaining 12,500 B.S.A.

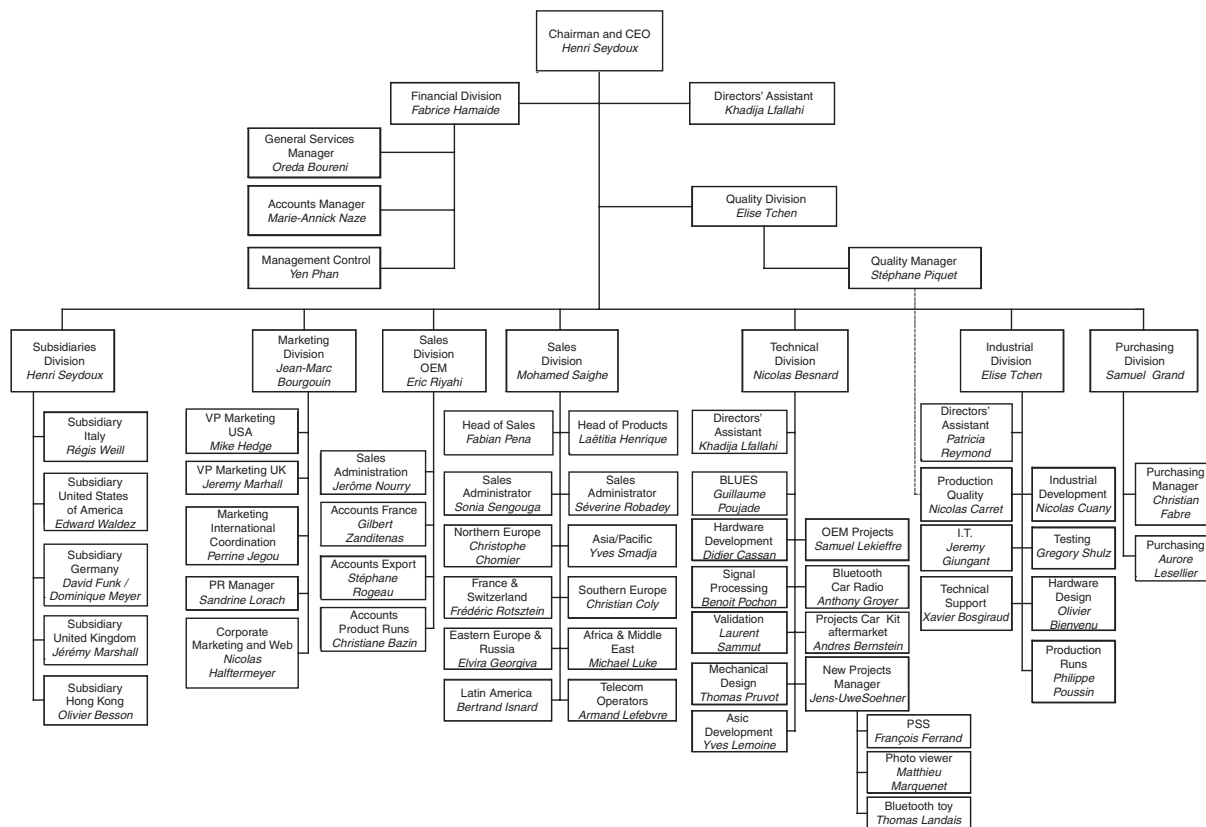
The table below shows the number and principal characteristics of the B.S.A. issued in favour of Mr Edward Planchon:

Beneficiary	Issue date	Subscription price per B.S.A. (in euros)	Number of warrants issued	Number of shares to which such warrants give a right	Subscription price per share (in euros)	Exercise period
Edward Planchon . . . . .	EGM 06/07/2004	0.0176	71,200	71,200	1.76	From 04/05/2005 to 28/06/2009 <sup>(1)</sup>
Edward Planchon . . . . .	Board Meeting 12/06/2006	10.40 for 12,500 B.S.A. and 13.87 for 12,500 B.S.A.	25,000	25,000	€31.20 for 12,500 B.S.A. and €41.60 for 12,500 B.S.A.	From 12/06/2006 to 12/06/2011 <sup>(2)</sup>
<b>Total . . . . .</b>			<b>96,200</b>	<b>96,200</b>		

<sup>(1)</sup> Up to 25% of the B.S.A. may be exercised at the earliest at the end of a period of 12 months beginning 4 May 2004, which is the date on which Mr Edward Planchon's appointment as director of the Company began. At the end of this period, the remainder may be exercised gradually at the rate of 1/12th per quarter at the end of each completed quarter during the 36 months following the initial period of 12 months. The B.S.A. are, in any event, exercisable at the latest during the eight days preceding the expiry of the five-year period following their issue date. If his appointment as director of the Company terminates, the exercisable B.S.A. must be exercised within a period of thirty (30) days from the effective date of the termination of his appointment; if not so exercised within this period, the B.S.A. will be deemed to be void.

<sup>(2)</sup> Up to 25% of the B.S.A. may be exercised at the earliest at the end of a period of 12 months beginning 12 June 2006. At the end of this period, the remainder may be exercised gradually at the rate of 1/12th per quarter at the end of each completed quarter during the 36 months following the initial period of 12 months. The B.S.A. are, in any event, exercisable at the latest during the eight days preceding the expiry of the five-year period following their issue date.

## Employees



### Employee headcount

As at 31 December 2005, the Group employed 163 people, of whom 149 were employed by the Company which accounts for 91.5% of the total workforce of the Group. Following the acquisition by the Company of the majority of the share capital of Inpro Tecnología S.L. the number of employees in the Group totals 211 as at 31 March 2006. The percentage of executives of the total staff of the Company was 87.25% in 2005, or a total of 130 executives out of 149 employees.

The Company is implementing a recruitment policy aiming to provide it with the highest level of skills to assist the Company's development. The number of collaborators joining with open-ended employment contracts has quadrupled in the last three financial years which is evidence of the Company's active recruitment policy.

Taking into account the structure of the staff representation (which is expected to change), the specific nature of the employment status of various staff, the expert profile of staff (90% independent engineers), the increased development of the business over the course of the last two years, the working time organisation will be reviewed in order to ensure compliance with applicable legislation and discussions will be held with the relevant personnel in this regard.

Company employee numbers over the last three financial years have changed as follows:

As at 31 December	2003	2004	2005
Sales . . . . .	9	19	28
Administration . . . . .	5	7	12
Purchases . . . . .	0	1	3
Marketing . . . . .	0	0	7
Research and development . . . . .	17	30	66
Logistics . . . . .	0	0	2
After sales Service . . . . .	3	5	7
Production . . . . .	4	12	22
Quality . . . . .	0	0	2
<b>Total . . . . .</b>	<b>38</b>	<b>74</b>	<b>149</b>

At 31 December 2005, the average number of employees carrying out aftermarket activities (calculated on the basis of the whole of 2005) occupying commercial posts in the Group in the countries listed below was as follows:

	2005
France . . . . .	3.5
United States of America . . . . .	4
Italy . . . . .	2
Germany . . . . .	2
United Kingdom . . . . .	3
Hong-Kong . . . . .	2
Spain <sup>(1)</sup> . . . . .	24

<sup>(1)</sup> This refers to Inpro Tecnología S.L.

To reinforce its innovation, capability in the Company can also call upon highly specialised engineering service providers in the research and development sector. As at 31 December 2005, the Company had 13 engineering service providers under contract. The Group had no employment reduction plans in 2005. Owing to the fact that it has fewer than 300 employees, the Company is not required to carry out an employee audit.

### Employee incentive schemes

#### *Incentive scheme, profit-sharing plans, business founder warrants held by, and free allotments of shares in favour of, employees of the Group*

##### *Profit-sharing agreements*

The Company passed the threshold of 50 employees in May 2004. Since the Company did not make any profit in the 2004 financial year as a result of prior losses being eliminated, the Company has been under an obligation since the end of the 2005 financial year to implement a profit-sharing agreement.

In this context a draft profit-sharing agreement is being negotiated between the Company's management and the staff delegate, the purpose of which is in particular to create a special profit-share reserve calculated in accordance with the legal formula in favour of the Company's employees and to define the procedures for managing the rights of employees, the dispute settlement procedure and the procedures for providing information to personnel on an individual and collective basis. Pursuant to the terms of this draft agreement, the amount of the special profit-share reserve for the financial year 2005 is €375,823.

##### *Business founder warrants*

The Company decided to allot business founder warrants (*bons de souscription de parts de créateur d'entreprise*) ("B.S.P.C.E.") to certain employees. For this purpose the Company implemented several plans during financial years 2003, 2004 and 2005.

Mr Henri Seydoux entered into contractual arrangements with employees holding B.S.P.C.E. allocated pursuant to the 2004 Plan II and the 2005 Plan pursuant to which he has a pre-emption right in the event of a disposal of shares resulting from the exercise of such B.S.P.C.E.

### 2003 Plan

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the French general tax code (“GTC”), at the extraordinary general meeting of the Company held on 24 June 2003, the shareholders resolved to implement “the 2003 business founder warrants plan” (the “2003 Plan”) and, in accordance with applicable law, granted all powers to the Board of Directors to proceed with the issue and allotment of 502,000 B.S.P.C.E.. Pursuant to this delegation of powers, the Board of Directors decided on 24 June 2003 to allot 493,300 B.S.P.C.E. which included 422,100 B.S.P.C.E. in favour of certain employees of the Company giving them the right to subscribe for 422,100 shares in the Company at a price of €1.76 per share within a period of five years resolved from the allotment of such B.S.P.C.E.

### 2004 Plan

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the GTC, at the extraordinary general meeting of the Company held on 6 July 2004, the Shareholders resolved to implement “the 2004 business founder warrants plan” (the “2004 Plan”) and, in accordance with applicable law, granted all powers to the Board of Directors to proceed with the issue and allotment of 200,000 B.S.P.C.E. Pursuant to this delegation of powers, the Board of Directors decided on 6 July 2004 to make an initial allotment of 174,300 B.S.P.C.E. in favour of certain employees of the Company giving them the right to subscribe for 174,300 shares in the Company at a unit price of €1.76 each for five years from the allotment of such B.S.P.C.E. Pursuant to a decision dated 18 November 2004, the Board of Directors of the Company decided to make a second allotment of 25,500 B.S.P.C.E. in favour of certain employees of the Company pursuant to the 2004 Plan giving them the right to subscribe for 25,500 shares in the Company at a price of €1.76 per share within a period of five years from the allotment of such B.S.P.C.E.

### Second 2004 Plan

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the GTC, at the extraordinary general meeting of the Company held on 7 December 2004, the shareholders resolved to implement “the second 2004 business founder warrants plan” (the “2004 Plan II”) and, in accordance with applicable law, granted all powers to the Board of Directors to proceed with the issue and allotment of 167,131 B.S.P.C.E. Pursuant to this delegation of powers, the Board of Directors decided on 18 October 2005 to allot 167,000 B.S.P.C.E. in favour of certain employees of the Company giving them the right to subscribe for 167,000 shares in the Company at a price of €3.59 per share within a period of five years from the allotment of such B.S.P.C.E.

### 2005 Plan

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the GTC, at the extraordinary general meeting of the Company held on 14 December 2005, the shareholders resolved to implement “the 2005 business founder warrants plan” (the “2005 Plan”) and, in accordance with applicable law, granted all powers to the Board of Directors to proceed with the issue and allotment of 123,300 B.S.P.C.E. Pursuant to this delegation of power, the Board of Directors decided on 14 December 2005 to allot 121,000 B.S.P.C.E. in favour of certain employees of the Company giving them the right to subscribe for 121,000 shares in the Company at a price of €8.12 per share within a period of five years from the allotment of such B.S.P.C.E.

### 2006 Plan

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the GTC, at the extraordinary general meeting of the Company held on 28 February 2006, the shareholders resolved to implement “the 2006 business founder warrants plan” (the “2006 Plan”) and, in accordance with applicable law, granted all powers to the Board of Directors to proceed with the issue and allotment of 89,700 B.S.P.C.E.

On 28 February 2006 the Board of Directors of the Company decided to allot 89,700 B.S.P.C.E. pursuant to a delegation of powers from the extraordinary general meeting of 28 February 2006, as well as 2,300 B.S.P.C.E. which had not been allotted by the Board of Directors meeting of 14 December 2005, which was acting pursuant to a delegation of powers by the extraordinary general meeting of the same date. On 28 February 2006, the Board of Directors therefore allotted a total of 92,000 B.S.P.C.E. in favour of certain employees of the Company giving them the right to subscribe for 92,000 shares in the Company with a unit price of €13.06 each within a period of five years from the allotment of such B.S.P.C.E.

## Second 2006 Plan

Pursuant to articles L.228-91 *et seq.* of the French commercial code and article 163 *bis* of the GTC, at the extraordinary general meeting of the Company held on 4 May 2006, the shareholders resolved to implement “the second 2006 business founder warrants plan” (the “2006 Plan II”) and, in accordance with applicable law, granted all powers to the Board of Directors to proceed with the issue and allotment of 250,000 B.S.P.C.E.

On 12 June 2006 the Board of Directors of the Company decided to allot 250,000 B.S.P.C.E. to certain employees of the Company pursuant to the delegation of powers from the extraordinary general meeting of 4 May 2006, at a price of €31.20 for 50% of the B.S.P.C.E allotted to each employee and €41.60 for the remaining 50% of the B.S.P.C.E allotted to each employee.

The table below shows the number and principal characteristics of the various allotments of B.S.P.C.E. made by the Company in favour of its employees:

Plan	Date of allotment by the Board of Directors	Number of warrants allotted	Number of warrants exercisable during the exercise period <sup>(1)</sup>	Number of shares to which the warrants give a right	Number of warrants exercised	Exercise price (in euros)	Exercise period <sup>(2)</sup>
2003 . . . . .	24/06/2003	422,100	405,163	405,163	6,273	1.76	From 24/06/2003 to 24/06/2008
2004 . . . . .	06/07/2004	174,300	52,438	52,438	438	1.76	From 06/07/2004 to 06/07/2009
2004 I . . . . .	18/11/2004	25,500	16,500	16,500	0	1.76	From 18/11/2004 to 18/11/2009
2004 II . . . . .	18/10/2005	167,000	164,000	164,000	0	3.59	From 18/10/2005 to 18/10/2010
2005 . . . . .	14/12/2005	121,000	121,000	121,000	0	8.12	From 14/12/2005 to 14/12/2010
2006 I . . . . .	28/02/2006	92,000	92,000	92,000	0	13.06	From 28/02/2006 to 28/02/2011
2006 II . . . . .	12/06/2006	250,000	250,000	250,000	0	31.20 for 50% of B.S.P.C.E. and 41.60 for 50% of B.S.P.C.E.	From 12/06/2006 to 28/02/2011
<b>Total . . . . .</b>		<b>1,251,900</b>	<b>1,101,101</b>	<b>1,101,101</b>	<b>6,711</b>		

<sup>(1)</sup> The remainder is made up of warrants not accepted by certain employees or which have become void due to the departure of the beneficiary.

<sup>(2)</sup> Up to 25% of the B.S.P.C.E. may be exercised at the earliest at the end of a period of 12 months from their allotment date. At the end of this period, the remainder may be exercised gradually at the rate of 1/12 per quarter at the end of each completed quarter during the 36 months following the initial period of 12 months. The B.S.P.C.E. are, in any event, exercisable at the latest during the eight days preceding the expiry of the five-year period following their issue date.

The table below shows the number and principal characteristics of the allotments of B.S.P.C.E. in favour of the ten employees of the Company to whom the greatest number was allotted:

Name of employee beneficiary	Plan	Date of allotment by the Board of Directors	Number of warrants allotted	Number of warrants exercisable during the exercise period	Number of shares to which the warrants give a right	Exercise price (in euros)	Exercise period
Fabrice Hamaide . . . . .	2005	14/12/05	50,000	50,000	50,000	8.12	From 14/12/2005 to 14/12/2010
Fabrice Hamaide . . . . .	2006 II	12/06/06	100,000	100,000	100,000	31.20 for 50,000 and 41.60 for 50,000	From 12/06/2006 to 12/06/2011
Eric Riyahi . . . . .	2005	14/12/05	25,000	25,000	25,000	8.12	From 14/12/2005 to 14/12/2010
Eric Riyahi . . . . .	2006 II	12/06/06	25,000	25,000	25,000	31.20 for 12,500 and 41.60 for 12,500	From 12/06/2006 to 12/06/2011
Jean-Marc Bourgoïn . . . . .	2006	28/02/06	25,000	25,000	25,000	13.06	From 28/02/2006 to 28/02/2011
Nicolas Besnard . . . . .	2003	24/06/03	54,000	54,000	54,000	1.76	From 24/06/2003 to 24/06/2008
Nicolas Besnard . . . . .	2006 II	12/06/06	25,000	25,000	25,000	31.20 for 12,500 and 41.60 for 12,500	From 12/06/2006 to 12/06/2011
Elise Tchen . . . . .	2003	24/06/03	71,200	71,200	71,200	1.76	From 24/06/2003 to 24/06/2008
Elise Tchen . . . . .	2006 II	12/06/06	75,000	75,000	75,000	31.20 for 37,500 and 41.60 for 37,500	From 12/06/2006 to 12/06/2011
Fred Sztanjkrzyer . . . . .	2004 II	18/10/05	25,000	25,000	25,000	3.59	From 18/10/2005 to 18/10/2010
Mohamed Saighe . . . . .	2003	24/06/03	52,200	52,200	52,200	1.76	From 24/06/2003 to 24/06/2008
Christophe Deffontaines . . . . .	2003	24/06/03	71,200	71,200	71,200	1.76	From 24/06/2003 to 24/06/2008
Didier Cassan . . . . .	2003	24/06/03	38,000	38,000	38,000	1.76	From 24/06/2003 to 24/06/2008
Samuel Grand . . . . .	2005	14/12/05	25,000	25,000	25,000	8.12	From 14/12/2005 to 14/12/2010
Jens-Uwe Soehner . . . . .	2004 II	18/10/05	25,000	25,000	25,000	3.59	From 18/10/2005 to 18/10/2010
<b>Total . . . . .</b>			<u>686,600</u>	<u>686,600</u>	<u>686,600</u>		

Basis: monthly salary as at 31 March 2006

#### Allotments of bonus shares

The extraordinary general meeting of the Company held on 14 December 2005 resolved to authorise the Board of Directors to proceed either all at once, or over several allotments, with the allotment of 51,000 bonus shares in favour of certain employees of the Company and delegated to it all powers to draw up the list of employee beneficiaries. By a decision dated 14 December 2005, the Board of Directors of the Company decided to allot 51,000 bonus shares to certain employees of the Company.

The table below shows the number and principal characteristics of the bonus shares allotted to certain employees of the Company at the date of this Information Document:

Beneficiary	Date of allotment by the Board of Directors	Number of shares allotted	Acquisition period	Retention period
Mohamed Saighe . .	14/12/2005	10,000	Two years from 14/12/2005	Two years from acquisition
Nicolas Besnard . . .	14/12/2005	20,000	Two years from 14/12/2005	Two years from acquisition
Didier Cassan . . . .	14/12/2005	18,000	Two years from 14/12/2005	Two years from acquisition
Oreda Boureni . . .	14/12/2005	3,000	Two years from 14/12/2005	Two years from acquisition
<b>Total . . . . .</b>		<b>51,000</b>		

*Stock options*

The extraordinary general meeting of the Company held on 14 December 2005 resolved to authorise the Board of Directors to grant a maximum of 175,000 options giving the right to subscribe for shares in the Company. Pursuant to this delegation of powers, the Board of Directors at a meeting on 14 December 2005 decided to allot 80,000 options to certain employees of foreign subsidiaries of the Company giving them the right to subscribe for 80,000 shares in the Company for a unit price of €8.12:

- Christophe Dissaux, distribution manager for Parrot, Inc.,
- Jon Kipper, OEM manager for Parrot, Inc.,
- Régis Weill, officer of Parrot Italia S.r.l,
- Olivier Besson, officer of Parrot Asia Pacific Ltd, and
- Edward Valdez, officer of Parrot, Inc.

At an extraordinary general meeting on 28 February 2006, the shareholders resolved to (i) partially annul the authorisation granted by the extraordinary general meeting of 14 December 2005 to the Board of Directors for the purpose of granting stock options giving rights to subscribe for a maximum number of 175,000 new shares and (ii) reduce to 107,000 the maximum number of shares able to be issued by exercising the stock options granted or to be granted at the extraordinary general meeting of the Company held on 28 February 2006 it was therefore noted that, given the number of stock options already allotted by the Board of Directors meeting of 14 December 2005, the maximum number of stock options available to be granted was 27,000.

At a meeting held on 28 February 2006 the Board of Directors resolved to allot 27,000 stock options to certain employees of foreign subsidiaries giving them the right to subscribe for 27,000 shares of the Company for a price of €13.06 per share.

- Tim Suri, sales engineer at Parrot, Inc.,
- John Haley, sales engineer at Parrot, Inc.,
- Olivier Besson, of Parrot Asia Pacific Ltd, and
- Dominique Meyer, sales engineer at Parrot GmbH.

At a meeting held on 12 June 2006, and pursuant to the delegation of power granted to the shareholders at an extraordinary general meeting held on 4 May 2006, the Board of Directors allotted 25,000 options to subscribe for shares in the Company to Mr Edward Valdez at a price of €31.20 per share for 12,500 shares and €41.60 per share for 12,500 shares.



The table below shows the number and principal characteristics of the stock options allotted to employees of foreign subsidiaries:

Beneficiary	Date of allotment by the Board of Directors	Number of stock options allotted	Number of shares to which stock options give rights	Subscription price (in euros)	Exercise period <sup>(1)</sup>
Christophe Dissaux . . . . .	14/12/2005	10,000	0 <sup>(2)</sup>	8.12	From 14/12/2005 to 14/12/2010
Jon Kipper . . . . .	14/12/2005	10,000	10,000	8.12	From 14/12/2005 to 14/12/2010
Régis Weill . . . . .	14/12/2005	10,000	10,000	8.12	From 14/12/2005 to 14/12/2010
Olivier Besson . . . . .	14/12/2005	25,000	25,000	8.12	From 14/12/2005 to 14/12/2010
Olivier Besson . . . . .	28/02/2006	3,000	3,000	13.06	From 28/02/2006 to 28/02/2011
Edward Valdez . . . . .	14/12/2005	25,000	25,000	8.12	From 14/12/2005 to 14/12/2010
Edward Valdez . . . . .	12/06/06	25,000	25,000	31.20 for 12,500 options 41.60 for 12,500 options	From 12/06/2006 to 12/06/2011
Tim Suri . . . . .	28/02/2006	10,000	10,000	13.06	From 28/02/2006 to 28/02/2011
John Haley . . . . .	28/02/2006	10,000	10,000	13.06	From 28/02/2006 to 28/02/2011
Dominique Meyer . . . . .	28/02/2006	4,000	4,000	13.06	From 28/02/2006 to 28/02/2011
<b>Total . . . . .</b>		<b>132,000</b>	<b>122,000</b>		

<sup>(1)</sup> Up to 25% of the stock options may be exercised at the earliest at the end of a period of 12 months from their allotment date. At the end of this period, the remainder may be exercised at the rate of 1/12 per quarter at the end of each completed quarter for a period of 36 months following the initial period of 12 months. The stock options are exercisable at the latest during the eight days preceding the expiry of the five-year period following their issue date.

<sup>(2)</sup> These stock options have become void due to the resignation of Mr Christophe Dissaux on 14 April 2006.

## RELATED PARTY TRANSACTIONS

### *Agreement between the Company and Edward Planchon*

The Company sought to make use of the wide experience of Mr Edward Planchon, a director of the Company since 4 May 2004, in marketing high-technology products in the United States of America, by requesting that he supervise the establishment of Parrot, Inc., the Company's U.S. subsidiary. For these services Mr Planchon, through EKP Consult LLC, a company which he controls, bills services to the Company or to Parrot, Inc., on the basis of time spent by EKP Consult LLC (at a daily rate of €1,500) for services rendered to the Company or to Parrot, Inc. In 2004, Mr Planchon billed the Company for services provided and was paid fees in an amount equal to €22,500 and reimbursed €5,392 in respect of expenses incurred. In 2005, Mr Planchon, through EKP Consult LLC, billed services to Parrot, Inc. and was paid fees in an amount of USD 96,000 and reimbursed USD 37,042 in respect for expenses incurred.

To the Company's knowledge, there are no other contracts for services that have been entered into between the Company or any of its subsidiaries and any of the members of the Board of Directors of the Company pursuant to which benefits have been granted.

## PRINCIPAL AND SELLING SHAREHOLDERS

### The Company's shareholders

The table below shows the share ownership and voting rights in the Company (i) at the date of this Information Document, (ii) following the Offering (both on a diluted and undiluted basis) but prior to the exercise of the option granted by certain of the Selling Shareholders to the underwriters to acquire additional Shares in the context of the Offering for 30 days from the date of this Information Document (the "Over-allotment Option"), and (iii) following the Offering and after the exercise in full of the Over-allotment Option (both on a diluted and undiluted basis).

	Share capital and voting rights at the date of the Offering Circular		Share capital and voting rights following the Offering prior to exercise of the Over-allotment Option				Share capital and voting rights following the Offering after exercise of the Over-allotment Option in full			
	Number	Percentage	Undiluted		Diluted <sup>(1)</sup>		Undiluted		Diluted <sup>(1)</sup>	
			Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
<b>FOUNDER</b>										
Henri Seydoux sub-total . . . . .	2,844,999	32.12%	4,661,218	37.34%	7,083,468	43.44%	4,661,218	37.34%	7,083,468	43.44%
<b>FORMER EMPLOYEES</b>										
Former employees sub-total . . . . .	78,501	0.89%	78,501	0.6%	78,501	0.5%	78,501	0.63%	78,501	0.48%
<b>EMPLOYEES</b>										
Employees sub-total . . . . .	90,510	1.02%	56,400	0.5%	1,323,790	8.1%	56,400	0.45%	1,323,790	8.12%
<b>INVESTORS</b>										
Sofinnova . . . . .	367,500	4.15%	99,154	0.8%	99,154	0.6%	0	0%	0	0%
SPEF Venture . . . . .	1,156,051	13.05%	948,300	7.6%	948,300	5.8%	871,535	6.98%	871,535	5.35%
SGAM . . . . .	573,322	6.47%	484,238	3.9%	484,238	3.0%	451,322	3.62%	451,322	2.77%
CM-CIC Capital Privé . . . . .	573,322	6.47%	447,731	3.6%	447,731	2.8%	401,325	3.21%	401,325	2.46%
EPF Partners . . . . .	1,533,032	17.31%	1,143,840	9.2%	1,143,840	7.0%	1,000,033	8.01%	1,000,033	6.13%
Investors sub-total . . . . .	4,203,228	47.46%	3,123,264	25.0%	3,123,264	19.2%	2,724,215	21.82%	2,724,215	16.71%
<b>OTHER INVESTORS</b>										
Other investors sub-total . . . . .	324,600	3.67%	324,600	2.6%	324,600	2.0%	324,600	2.60%	324,600	1.99%
<b>INDUSTRIAL PARTNERS</b>										
Valeo Ventures S.A.S. sub-total . . . . .	1,314,682	14.84%	197,202	1.6%	197,202	1.2%	0	0%	0	0%
<b>OTHERS</b>										
Others sub-total . . . . .	101	NS	4,042,168	32.38%	4,173,968	25.60%	4,638,419	37.16%	4,770,219	29.26%
<b>Total</b> . . . . .	<b>8,856,621</b>	<b>100%</b>	<b>12,483,353</b>	<b>100%</b>	<b>16,304,793</b>	<b>100%</b>	<b>12,483,353</b>	<b>100%</b>	<b>16,304,793</b>	<b>100%</b>

<sup>(1)</sup> Assumes that all existing options to subscribe for share capital are exercised.

<sup>(2)</sup> Not significant.

## Selling Shareholders

The following table shows the number of Shares that will be sold by the Selling Shareholders both prior to and after the exercise of the Over-allotment Option.

Selling Shareholder	Number of Shares to be sold	Number of extra Shares sold assuming the exercise of the Over-allotment Option in full
Henri Seydoux . . . . .	679,731	0
Sofinnova Capital II FCPR . . . . .	268,346	99,154
FCPI Banque Populaire Innovation . . . . .	80,321	29,679
FCPI Banque Populaire Innovation 2 . . . . .	32,602	12,047
FCPI Banque Populaire Innovation 3 . . . . .	32,602	12,047
FCPI Banque Populaire Innovation 7 . . . . .	41,484	15,328
FCPI Banque Populaire Innovation 8 . . . . .	20,742	7,664
FCPI GEN-I . . . . .	17,313	6,397
FCPI SOGE Innovation Evolution 1 . . . . .	71,771	26,519
FCPI CIC Innovation 3 . . . . .	69,075	25,523
FCPI Crédit Mutuel Innovation . . . . .	20,095	7,425
FCPI Crédit Mutuel Innovation 3 . . . . .	36,421	13,458
FCPR European Pre Flotation II . . . . .	389,192	143,808
Valeo Ventures S.A.S . . . . .	1,117,480	197,202
Nicolas Besnard . . . . .	12,000	0
Mohamed Saighe . . . . .	8,830	0
Elise Tchen . . . . .	13,280	0
<b>TOTAL . . . . .</b>	<b>2,911,285</b>	<b>596,251</b>

## Shareholders' voting rights

At the date of this Information Document, one vote is attributed to each share of the Company. Therefore the shareholders appearing in the paragraph of this section entitled “*Current share ownership and voting rights*”, have a number of voting rights equal to the number of shares held by them.

## Control of the Company

At the date of this Information Document, the principal shareholder of the Company is Mr Henri Seydoux, who holds 32.14% of the share capital and voting rights in the Company.

## Sale of existing Shares and exercise of B.S.P.C.E. by Mr Henri Seydoux

Mr Seydoux will sell 679,731 existing shares in the context of the Offering. Mr Seydoux will sell these Shares to fund the exercise of 2,495,950 business founder warrants (*bons de souscription de parts de créateur d'entreprise*) (“B.S.P.C.E.”) on 30 June 2006. In addition, the Company’s Board of Directors allotted a total of 2,400,000 B.S.P.C.E. to Mr Seydoux on 12 June 2006. See “Management and Employees” for more information.

## DESCRIPTION OF SHARE CAPITAL

### General information about the Company

#### *Incorporation, registration and form*

The Company is a French limited liability company (*société anonyme*) with a board of directors (*conseil d'administration*) and is subject to the provisions of Book II of the French commercial code and the *Décret* n° 67-236 of 23 March 1967. The Company, which is registered with the Paris Registry of Trade and Companies (*registre du commerce et des sociétés de Paris*) under number 394 149 496, was incorporated on 28 February 1994 for a period of 99 years expiring on 28 February 2093.

The Company is headquartered at 174-178, quai de Jemmapes, 75010 Paris. Its telephone number is +33 (0)1 48 03 60 60.

#### *Corporate purpose*

The Company's objects both in France and overseas are: the design, manufacture, marketing and distribution of electronic and computer products; carrying out and marketing economic and technical studies in the electronics and computer sector; all of the above directly or indirectly for its own account or for third parties either alone or with the other parties, through the creation of new companies, contributions, sponsorships, subscriptions, acquisition of securities or corporate rights, mergers, alliances, joint-ventures, or taking over or assigning of the leasing or management of all assets or rights or otherwise; and generally all financial, commercial, industrial, civil, real estate or movable property operations, directly or indirectly linked to one of the objects referred to above, or any similar or connected objects or any other object that would enhance the development of the Company's assets.

### Share capital

On the date of this Information Document, the Company's share capital is €1,350,386.71, divided into 8,856,621 fully paid shares of the same class each with a nominal value of €0.1524. The share capital and rights attached to the shares comprising the share capital may be altered under the terms and conditions set out by law, as the Company's by-laws contain no specific restrictions in this respect.

### Shareholders' Meetings and Voting Rights

#### *General Shareholders' Meetings*

##### *Ordinary general shareholders' meetings*

Business transacted by the shareholders at ordinary general meetings includes considering the reports of the Board of Directors and Statutory Auditors, approving the annual financial statements, deciding on the appropriation and distribution of net profits, appointing and removing Directors and fixing their compensation under the terms set out by law or the by-laws, and appointing the statutory auditors.

The shareholders may delegate authority to the Board of Directors at the Board's request to deal with all matters that are not specifically reserved for the extraordinary shareholders' meeting. More generally, all matters that do not entail a direct or indirect alteration to the by-laws qualify as ordinary business. An ordinary general meeting is held every year no later than six months after the end of the previous financial year-end, unless this time period is extended by court order.

The ordinary general meeting receives the management report of the Board of Directors and reports of the statutory auditors, approves the annual accounts, decides on the allocation of income and distribution of profits. It appoints and revokes the appointment of directors and determines their compensation under the conditions provided by law or the by-laws. It appoints the statutory auditors.

##### *Extraordinary shareholders' general meetings*

Extraordinary general meetings are required for approval of matters such as increasing or decreasing the share capital, creating a new class of equity securities or authorizing the issuance of convertible or exchangeable securities, the voluntary liquidation of the Company or any transaction which require modifications of the by-laws of the Company. Matters presented to extraordinary general meetings must

receive favorable votes by holders of at least two-thirds of the shares present or represented in order to be approved.

The extraordinary general shareholders' meeting may amend the provisions of the Company's by-laws. However, an extraordinary general meeting may not increase the shareholders' liability or change the nationality of the Company except under the terms and conditions set out by law or international treaties. Only the extraordinary general shareholders' meeting is qualified to verify and approve any contributions in kind or special benefits.

#### *Notice of shareholders' meetings*

General meetings are called by the Board of Directors or failing that, by the Statutory Auditors or any other person duly empowered by law. They take place at the registered office or any other place indicated in the notice of meeting. The agenda is set by the person calling the meeting. However, one or more shareholders or the works council may propose agenda items and resolutions under the terms and conditions set out by law. The shareholders may not consider items of business which are not on the agenda. However, they may in any event remove one or more Directors from office and elect replacements. The agenda may not be revised for an adjourned meeting. All shareholders have the right to attend shareholders' meetings and take part in the vote either in person or by proxy, regardless of the number of shares they hold, simply by providing evidence of their status as shareholder.

Once listed, the Company must announce general meetings at least thirty days in advance by means of a preliminary notice (*avis de réunion*), which is published in the *Bulletin des Annonces Légales Obligatoires*, or "BALO." The AMF recommends that simultaneously with the publication of the preliminary notice a summary of the notice be published in a newspaper of national circulation in France. The preliminary notice must contain, among other things, the agenda, a draft of the resolutions to be submitted to the shareholders and the procedure for voting by mail.

At least fifteen days prior to the date set for a first call, and at least six days prior to any second call, the Company must send a final notice (*avis de convocation*) containing the final agenda, the date, time and place of the meeting and other information for the meeting. Such final notice must be sent by mail to all registered shareholders who have held shares in registered form for more than one month prior to the date of the preliminary notice and published in a newspaper authorized to publish legal announcements in the local administrative department (*département*) in which the Company is registered as well as in the BALO. If no shareholder has proposed resolutions to be submitted to the vote of the shareholders at the meeting, the Company is not required to send the notice to its shareholders; publishing the notice will be deemed sufficient.

#### *Quorum*

The quorum required for an ordinary general meeting is the effective presence, in person, by proxy or by postal vote, of shareholders owning at least one fifth of the shares with voting rights. No quorum is required for an adjourned meeting. The quorum is calculated on the basis of all the shares comprising the share capital less any shares disqualified for voting purposes pursuant to the law or the provisions of the Company's by-laws.

The quorum required for an extraordinary general meeting is the effective presence, in person, by proxy or by postal vote, of shareholders owning at least one quarter of the shares with voting rights. The quorum required for an adjourned meeting is one fifth of the shares with voting rights. If the quorum required for an adjourned meeting is not reached, the meeting may be adjourned for a second time to a date no later than two months after the first adjournment. Shareholders attending the meeting by videoconference or other means of telecommunication that permits their identification and complies with the provisions of the law are counted as present for the purpose of calculating the quorum.

#### *Voting rights*

At ordinary and extraordinary general meetings, shareholders are entitled to as many votes as they hold shares or proxies, without limitation.

In order to participate in any general meeting, a holder of registered shares is required to have its shares registered in its name in a shareholder account to be maintained by the Company or on the Company's

behalf by an agent appointed by it at least five days prior to the date of the meeting. Similarly, a holder of bearer shares is required to obtain from the accredited financial intermediary (*intermédiaire teneur de compte*) with whom such holder has deposited its shares a certificate (*certificat d'indisponibilité*) indicating the number of bearer shares owned by such holder and evidencing the holding of such shares in its account until the date of the meeting. Such certificate is required to be deposited at the place specified in the notice of the meeting at least five days before the meeting.

## **Dividends**

After approval of the financial statements and recognition of a distributable profit within the meaning of the law, the general shareholders' meeting may resolve to transfer the distributable profit to one or more discretionary reserve accounts (for which they will fix the allocation or use) or retained earnings or to distribute it as a dividend. After deduction of any prior year losses, at least five percent of each year's net profit is transferred to the statutory reserve as required by law. This provision ceases to apply once the statutory reserve has reached one tenth of the Company's share capital.

The general shareholders' meeting may decide to distribute amounts from reserves to which the shareholders are entitled. In this case, their resolution must expressly indicate which reserve accounts are to be used. However, dividends must be drawn in priority from the year's distributable profit. The shareholders may resolve to offer payment of all or part of the dividend in cash or in shares at the personal choice of each shareholder. A shareholder's right in the profits and contribution to losses is proportional to the percentage of share capital owned. For additional information regarding the distribution of dividends, see "Dividend Policy".

## **Form and holding of Shares**

### ***Legal form of Shares***

The shares issued by the Company may be registered or bearer shares at the holder's choice. Existence of the shares is evidenced by their registration on securities accounts held in the name of the holder for that purpose under the terms and conditions set out by law either by the Company or its appointed custodian in the case of registered shares or by an intermediary authorized for that purpose in the case of bearer shares. In accordance with French law, shareholders' ownership rights are evidenced by book entries instead of share certificates. Share ownership confirmations may be issued by the financial institution that administers the Company's share register (currently BNP Paribas Securities Services), but those confirmations are not documents of title. Shares in bearer form clear through Euroclear France, the French clearing system, in which authorized financial intermediaries hold accounts. Shareholders may hold their shares through such financial intermediaries or through their international correspondent banks.

### ***Identification of bearer shareholders***

The Company may at any time, in accordance with the law and at its own expense, ask its clearing organization for information about the name or corporate name, nationality and address or registered office of holders of securities conferring the right to vote at general meetings either immediately or in the future, as well as the number of securities held and any restrictions attached thereto.

### ***Disclosure requirements***

#### ***Requirements for holdings crossing certain thresholds***

The French Commercial Code provides that any individual or entity, acting alone or in concert with others, that becomes the owner, directly or indirectly, of more than 5%, 10%, 15%, 20%, 25%, 33⅓%, 50%, 66⅔%, 90 or 95% of the outstanding shares or voting rights of a listed company in France, such as the Company, or that increases or decreases its shareholding or voting rights above or below any of those percentages, must notify the company within five trading days of the date it crosses the threshold, of the number of shares it holds and their voting rights. The individual or entity must also notify the AMF, within five trading days of the date it crosses the threshold. Registered intermediaries holding shares in custody must comply with the receding obligation whenever the aggregate holdings of their clients crosses such threshold, notwithstanding his own and each clients' individual reporting obligations as the proprietary owner of the shares. The AMF makes the notice public.

French law and AMF regulations impose additional reporting requirements on persons who acquire more than 10% or 20% of the outstanding shares or voting rights of a listed company. These persons must file a



report with the company and the AMF within ten trading days of the date they cross the threshold. In the report, the acquirer must specify if it acts alone or in concert with others and specify its intentions for the following twelve-month period, including whether or not it intends to continue its purchases, to acquire control of the company in question or to seek nomination to the board of directors. The AMF makes the report public. The acquirer may amend its stated intentions, provided that it does so on the basis of significant changes in its own situation or that of the shareholders. Upon any change of intention, it must file a new report.

In addition to the legal disclosure requirements set out in article L.233-7 of the French commercial code described above, any person or legal entity, acting either alone or in concert with other persons or legal entities, that comes to hold by any means a number of shares representing 2.5% of the share capital or voting rights, or any further multiple thereof, must, no later than five trading days after occurrence, advise the Company by fax of the total number and percentage of shares and voting rights held, with written confirmation sent the same day by recorded delivery mail. They are also required to advise the Company if their holding falls back below those thresholds, under the same terms and conditions.

Failure to comply with these requirements will result in the shares that should have been disclosed being disqualified for voting purposes at all general meetings held for a period of two years after the date on which the requisite disclosure is finally made, if requested by one or more shareholders separately or together holding one percent of the Company's share capital and voting rights and duly recorded in the minutes at the meeting. Disqualification is automatic in the case of failure to make the legal disclosures required under article L.233-7 of the French commercial code as described in the first two paragraphs of this section concerning thresholds.

#### **Purchase and sale of the Company's own shares**

Under French law, the Company may repurchase up to 10% of its share capital during a period of 18 months, subject to authorization of a share repurchase program by the general shareholders meeting.

#### ***Treasury shares***

At the date of this Information Document, the Company does not own any treasury shares.

However, at their ordinary general meeting held on 4 May 2006, the shareholders authorized the Board of Directors to purchase shares in the Company subject to certain terms and conditions and to the shares being listed on a regulated market. The Board of Directors of the Company has not implemented this authorization.

In accordance with the provisions of article L. 451-3 of the French monetary and financial code by virtue of the law n° 2005-842 dated 26 July 2005 the Company shall publish a notice with respect to the implementation of its share repurchase programme in accordance with the terms specified in articles 241-1 *et seq.* of the general regulations of the AMF.

#### ***Trading by the Company in its own shares***

Under the *Règlement général* of the AMF, the Company may not trade in its own shares for the purpose of manipulating the market. The requirements for trades by a company in its own shares to be considered valid are set forth in Regulation No. 2273/2003 of the European Commission dated 22 December 2003. Specifically, in order to be valid the following conditions must be met:

- the objective of the program, its duration and maximum consideration, and the number of shares to be acquired must be adequately disclosed to the public prior to the start of trading;
- each buy-back transaction must be recorded, trade reporting obligations of the relevant regulated market must be complied with and details of all buy-back transactions must be publicly disclosed within seven business days;
- under French law, the Company is required to disclose to the AMF on a monthly basis the number of shares purchased, sold or cancelled during the preceding month; and

- the issuer may not purchase shares at a price that is higher than the higher of the price of the last independent trade and the highest currently available independent bid, and may generally not purchase more than 25% of the average daily volume of the relevant shares on the relevant market.

There are two periods during which the Company is not permitted to trade in its own securities: the 15-day period before the date on which it makes its consolidated or annual accounts public, and the period beginning on the date at which it becomes aware of information that, if disclosed, would have a significant impact on the market price of the Company's securities and ending on the date this information is made public.

The requirements above do not apply to trades by the Company in its own shares that are executed on its behalf by an intermediary pursuant to a liquidity agreement; so long as the terms of the liquidity agreement comply with the ethics guidelines (*charte de déontologie*) approved by the AMF in its *Décision* of 22 March 2005, they are deemed valid.

### Authorized unissued share capital

#### *Securities giving the right to acquire shares in the Company*

##### *Equity Warrants ("B.S.A.")*

The Company has issued 96,200 B.S.A. in favour of Mr Edward Planchon and 35,600 B.S.A. in favour of Mr Christophe Combier, the principal characteristics of which are set out in the table below:

Beneficiary	Issue date	Subscription price per equity warrant (in euros)	Number of warrants issued	Number of shares to which such warrants give a right	Subscription price per share (in euros)	Exercise period
Christophe Combier .	24/06/2003	0.0176	35,600	35,600	1.76	From 24/04/2003 to 16/06/2008 <sup>(1)</sup> at latest
Edward Planchon . . .	06/07/2004	0.0176	71,200	71,200	1.76	From 04/05/2005 to 28/06/2009 <sup>(2)</sup> at the latest
Edward Planchon . . .	12/06/2006	10.40 for 12,500 B.S.A. and 13.87 for 12,500 B.S.A.	25,000	25,000	31.20 for 12,500 B.S.A. and 41.60 for 12,500 B.S.A.	From 12/06/2006 to 12/06/2011 <sup>(3)</sup> at the latest

<sup>(1)</sup> Up to 25% of the B.S.A. may be exercised at the earliest on at the end of a period of 12 months from 24 April 2002, which is the date on which Mr Christophe Combier's appointment as external consultant of the Company began. At the end of this period, the remainder may be exercised gradually at the rate of 1/12 per quarter at the end of each completed quarter during the 36 months following the initial period of 12 months. The B.S.A. are, in any event, exercisable at the latest during the eight days preceding the end of the five-year period following their issue date. If his appointment as external consultant of the Company terminates, the exercisable B.S.A. must be exercised within a period of thirty (30) days beginning from the effective date of the termination of his appointment; if not so exercised within this period, the B.S.A. will be deemed to be void. At the date of this Information Document, Christophe Combier has not exercised any B.S.A.

<sup>(2)</sup> Up to 25% of the B.S.A. may be exercised at the earliest at the end of a period of 12 months beginning 4 May 2004, which is the date on which Mr Edward Planchon's appointment as director of the Company began. At the end of this period, the remainder may be exercised gradually at the rate of 1/12th per quarter at the end of each completed quarter during the 36 months following the initial period of 12 months. The B.S.A. are, in any event, exercisable at the latest during the eight days preceding the expiry of the five-year period following their issue date. If his appointment as director of the Company terminates, the exercisable B.S.A. must be exercised within a period of thirty (30) days from the effective date of the termination of his appointment; if not so exercised within this period, the B.S.A. will be deemed to be void.

<sup>(3)</sup> Up to 25% of the B.S.A. may be exercised at the earliest at the end of a period of 12 months beginning 12 June 2006. At the end of this period, the remainder may be exercised gradually at the rate of 1/12th per quarter at the end of each completed quarter during the 36 months following the initial period of 12 months. The B.S.A. are, in any event, exercisable at the latest during the eight days preceding the expiry of the five-year period following their issue date.

### *Business founder warrants*

Certain employees of the Company hold a total of 1,101,101 B.S.P.C.E., giving the right to acquire 1,101,101 shares in the Company at the date of this Information Document.

On 12 June 2006, the Board of Directors issued 2,400,000 business founder warrants to Mr Henri Seydoux, pursuant to the authority granted to it by a shareholders' resolution dated 4 May 2006. In addition, Mr Seydoux holds 2,518,200 B.S.P.C.E. pursuant to unexercised B.S.P.C.E., though he will exercise 2,495,950 B.S.P.C.E. on 30 June 2006. Such exercise would result in Mr Seydoux holding 2,422,250 unexercised B.S.P.C.E. See "Management Employees—Business founder warrants allotted to Mr Henri Seydoux".

On 12 June 2006, the Board of Directors issued the following number of B.S.P.C.E. to the following employees of the Company, pursuant to the authority granted to it by a shareholders' resolution dated 4 May 2006:

- 25,000 B.S.P.C.E. to Mr Nicolas Besnard;
- 75,000 B.S.P.C.E. to Mrs Elise Tchen;
- 25,000 B.S.P.C.E. to Mr Eric Riyahi;
- 100,000 B.S.P.C.E. to Mr Fabrice Hamaide; and
- 25,000 B.S.P.C.E. to Mr Guillaume Pinto.

### *Bonus shares*

The Company issued 51,000 bonus shares in favour of certain employees of the Company.

### *Stock options*

The Company has issued 107,000 stock options in favour of certain employees of foreign subsidiaries of the Company, of which 97,000 are exercisable at the date of this Information Document. In addition, on 12 June 2006, the Board of Directors allotted 25,000 stock options to Mr Edward Valdez, giving him the right to subscribe for 25,000 shares in the Company. At the date of this Information Document, there are therefore 122,000 stock options outstanding. For more information see "Management and Employees — Employee incentive schemes".

### *Exercise of securities giving access to the share capital of the Company*

No securities giving access to rights over the share capital of the Company were exercised during the financial year ended 31 December 2005 other than the exercise of 56,800 B.S.P.C.E. which was acknowledged by the Board of Directors on 26 April 2005.

No securities giving access to rights over the share capital of the Company were exercised between 1 January 2006 and the date of this Information Document other than the exercise of 2,501 B.S.P.C.E. by Guillaume Poujade, the exercise of 280 B.S.P.C.E. by Elise Tchen and the exercise of 3,930 B.S.P.C.E. by Mohamed Saighe. The exercise of 2,495,950 B.S.P.C.E. by Henri Seydoux, will take place on 30 June 2006.

The share ownership and voting rights in the Company at the date of this Information Document are referred to in "Principal and Selling Shareholders".

### *Potential increases in share capital*

At the extraordinary general meeting of 4 May 2006, the shareholders authorized the Board of Directors to increase the Company's share capital as follows:

<b>Authority conferred on the Board of Directors by resolution of the shareholders</b>	<b>Condition precedent</b>	<b>Maximum nominal amount</b>	<b>Term</b>
Issuance of ordinary shares or securities giving rights to acquire ordinary shares with preferential subscription rights in favor of the existing shareholders <sup>(1)</sup>	Company's shares to be listed on <i>Eurolist</i> by <i>Euronext</i> <sup>TM</sup>	€712,500	26 months
Issuance of ordinary shares or securities giving rights to acquire ordinary shares with no preferential subscription rights in favor of the existing shareholders <sup>(1)</sup>	—	€712,500	26 months
Issuance of ordinary shares or securities giving rights to ordinary shares, in the context of a takeover offer initiated by the Company involving the offering of the Company's shares, with the cancellation of preferential subscription rights as necessary <sup>(1)</sup>	Company's shares to be listed on <i>Eurolist</i> by <i>Euronext</i> <sup>TM</sup>	€712,500	26 months
Issuance of ordinary shares or securities giving rights to ordinary shares, to pay for contributions in kind received by the Company <sup>(1)</sup>	Company's shares to be listed on <i>Eurolist</i> by <i>Euronext</i> <sup>TM</sup>	10% of the share capital at 4 May 2006	26 months
Increase in share capital by way of capitalizing reserves, earnings or share premiums	Company's shares to be listed on <i>Eurolist</i> by <i>Euronext</i> <sup>TM</sup>	€100,000	26 months
Allotment of bonus shares to employees and executive officers	Company's shares to be listed on <i>Eurolist</i> by <i>Euronext</i> <sup>TM</sup>	2% of the share capital at 4 May 2006	38 months
Allotment of stock options to employees and executive officers	Company's shares to be listed on <i>Eurolist</i> by <i>Euronext</i> <sup>TM</sup>	6% of the share capital at 4 May 2006	38 months

<sup>(1)</sup> The maximum nominal amount of any increase in share capital pursuant to these authorities is subject to a global maximum nominal amount of €900,000

### **Reduction of share capital**

At their extraordinary general meeting of 4 May 2006, the shareholders authorized the Board of Directors, for a period of 18 months following the date of the meeting, to reduce the Company's share capital by cancelling all or any of the shares acquired by the Company in the context of a share buy-back program, subject to an overall limit of 10% of the Company's share capital in any 24-month period.

### **Preferential subscription rights**

According to the French commercial code, if the Company issues securities that may give access to its share capital or voting rights, current shareholders will have preferential subscription rights to these securities on a pro rata basis. These preferential rights entitle the individual or entity that holds them to subscribe to an issue of any securities that may increase the share capital of the Company by means of a cash payment or a set-off of cash debts. Preferential subscription rights are transferable during the subscription period relating to a particular offering. These rights may also be listed on *Eurolist* by *Euronext*<sup>TM</sup>.

Preferential subscription rights with respect to any particular offering may be waived by a vote of shareholders holding a two-thirds majority of the shares entitled to vote at an extraordinary general meeting. The Company's Board of Directors and its independent auditors are required by French law to

present reports that specifically address any proposal to waive preferential subscription rights. In the event of a waiver, the issue of securities must be completed within the period prescribed by law.

Shareholders also may notify the Company that they wish to waive their own preferential subscription rights with respect to any particular offering if they so choose.

The shareholders may decide at an extraordinary general meeting to waive the preferential subscription right but to give the existing shareholders a non-transferable priority right to subscribe to the new securities, during a limited period of time.

In the event of a capital increase without preferential subscription rights to existing shareholders, French law requires that the capital increase be made at a price equal to or exceeding the average market price of the shares in the three consecutive trading days preceding the determination of price, as the case may be with a maximum discount of 5%.

**Information on potential dilution of the Company's share capital**

Except as set forth under "Management — Employee incentive schemes", on the date of this Information Document, there are no securities issued by the Company that confer direct or indirect, immediate or future rights in the Company's share capital or voting rights.

## **LIMITATIONS AFFECTING SHAREHOLDERS**

### **Ownership of Shares by non-French persons**

French law currently does not limit the right of non-residents of France or non-French persons to own and vote shares. However, non-residents of France may have to comply with filing requirements with French authorities in connection with the acquisition of a controlling interest in the Company.

The entering into certain agreements must also be filed with French authorities if it leads to a de facto control. The acquisition of more than 10% of the share capital of a company for an amount in excess of €15,000,000 must also be filed with the “Banque de France”.

### **Exchange controls**

Under current French exchange control regulations, there are no limitations on the amount of payments that may be remitted by a French company to non-residents. Laws and regulations concerning foreign exchange controls do require, however, that all payments or transfers of funds made by a French resident to a non-resident be handled by an accredited intermediary. In France, all registered banks and substantially all credit establishments are accredited intermediaries.

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## **PRO-FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2005**

The Company acquired 56.274% of the Spanish company Inpro Tecnología S.L. at the end of March 2006 and is committed, under a put option agreement, to eventually acquire the remaining 43.726% from minority shareholders.

The purpose of the pro-forma consolidated financial information is solely to reflect the impacts that the acquisition and consolidation of Inpro Tecnología would have had on the Company's consolidated accounts, had the above acquisition been completed on 1 January 2004.

The periods covered by the pro-forma information are as follows:

- The twelve-month period ended 31 December 2004,
- The twelve-month period ended 31 December 2005.

The un-audited pro-forma consolidated financial information is presented in euros in a condensed format.

The pro-forma consolidated financial information has been prepared under the responsibility of the Company's Board of Directors.

The pro-forma consolidated financial information, presented in a condensed form and un-audited, is provided for illustrative purposes only and does not necessarily reflect the actual performance, operating profits or shareholders' equity of the consolidated entity, including Inpro Tecnología, over those periods. Nor does the pro-forma consolidated financial information, presented in a condensed form and un-audited, provide any indication as to the future operating profits or the future shareholders' equity of the new consolidated entity.

The pro-forma adjustments and purchase price allocations have been prepared on a preliminary basis given the information available at the time of preparation of the pro-forma consolidated financial information. No assurance can be made that the final purchase price allocation will not be different from that of the preliminary allocation.

### ***Key factors considered in preparing the pro-forma consolidated financial information relating to the acquisition***

The Company acquired 5,256 shares from shareholders of Inpro Tecnología S.L., representing 56.274% of the share capital of Inpro Tecnología.

The Company acquired Inpro Tecnología shares for €9 million.

The acquisition of these shares was financed by a €6 million loan from IXIS Corporate and Investment Bank, the remaining part being payable in one-third instalments over the three-year period following the date of acquisition by the use of the Company's available cash.

In addition, a shareholders' agreement signed at the end of March 2006 between the Company and minority shareholders holding 43.726% includes a put/call agreement between the two groups of shareholders.

The pro-forma consolidated financial information has been prepared on the basis of full consolidation of Inpro Tecnología, with an estimated total purchase price of €21.9 million.

### ***General principles and conventions used***

The pro-forma adjustments are based on information made available by Inpro Tecnología, as well as conventions that the Group considers to be reasonable and appropriate in the context of the acquisition.

For the purposes of the pro-forma consolidated financial information, the acquisition has been treated according to the requirements of IFRS 3 on the basis of the financial statements of 31 December 2005. In fact, due to delays, it has not been possible to conduct this process using the most recent set of accounts.

The Company's acquisition of Inpro Tecnología will be recognised under IFRS with, in particular, recognition at fair value of all acquired identifiable assets, liabilities and contingent liabilities according to IFRS 3. The consolidation of Inpro Tecnología will be reflected in the six-month period consolidated accounts ending 30 June 2006.

The pro-forma consolidated financial information, presented in a condensed form and un-audited, mainly sets out the effects:

- of the consolidation of Inpro Tecnología,
- of the Company's financing of this acquisition.

Cost savings and other potential synergies have not been taken into consideration in the pro-forma consolidated information.

Inpro Tecnología Grandes Cuenta S.L., a wholly-owned subsidiary of Inpro Tecnología, has not been considered when preparing the pro-forma consolidated information as this company is in the process of liquidation.

***Accounts used for preparing the pro-forma consolidated financial information***

The accounts used for preparing the pro-forma consolidated financial information, presented in a condensed form and un-audited, are:

- The consolidated balance sheet and income statement of the Company for the year ended 31 December 2005, prepared according to IFRS accounting principles,
- The consolidated balance sheets and income statements of Inpro Tecnología for the years ended 31 December 2004 and 2005, restated according to the Group's accounting principles.

The accounting principles and policies adopted for preparing the pro-forma consolidated financial information are those used to prepare the Company's consolidated accounts for the periods concerned.

By convention, all Inpro Tecnología's costs other than cost of sales have been posted to selling expenses as this company, by its very nature, is considered as a sales subsidiary for the Spanish market.

***Information concerning the accounting treatment of the acquisition of Inpro Tecnología according to the purchase accounting method***

Inpro Tecnología S.L.'s identifiable assets and liabilities as at 31 December 2005 presented in the table below take into consideration the restatements made so that Inpro Tecnología S.L.'s accounting principles comply with those used in the Company's consolidated accounts.

As stated previously, these identifiable assets and liabilities result from a preliminary analysis and the final allocation of the acquisition price could be different from the preliminary allocation.

Subsequent changes to the fair value of the debt will be recognised against goodwill.

	in thousands of euros
Fixed assets . . . . .	283
Inventories . . . . .	2,228
Trade receivables . . . . .	10,599
Other receivables . . . . .	471
Cash and cash equivalents . . . . .	1,888
<b>Total identifiable assets . . . . .</b>	<b>15,469</b>
Short-term financial debt . . . . .	2,157
Trade payables . . . . .	6,666
Current income tax liabilities . . . . .	1,441
Provisions . . . . .	36
Other liabilities . . . . .	934
<b>Total identifiable liabilities . . . . .</b>	<b>11,234</b>
<b>Fair value of assets and liabilities at 31/12/2005 . . . . .</b>	<b>4,235</b>
<b>Acquisition price . . . . .</b>	<b>21,875</b>
<b>Goodwill . . . . .</b>	<b>17,640</b>

Pursuant to IAS 32 concerning the accounting treatment of put options granted to minority shareholders of a consolidated company, the Company has consolidated Inpro Tecnología as a wholly-owned subsidiary. This has resulted in posting a liability in “other non-current liabilities” against minority interests and goodwill. This liability has been valued at the option exercise price, determined according to criteria defined contractually, and corresponds to the estimated fair value of the minorities’ interest in Inpro Tecnología. The estimated fair value of this liability takes into consideration:

- Assumptions about the timing of exercise of the option held the Management considers as the most probable,
- Estimates of business activity and profitability of Inpro Tecnología S.L. from the acquisition date to the exercise date of the put option,
- A 4% discount rate corresponding to the Group’s normative cost of borrowing.

On this basis, the put options granted to minority shareholders have been valued at €12 million at 31 December 2005. For the purposes of the pro-forma information, this debt has been recognized on 1 January 2004 and the accretion effects have been posted to financial expenses for each period.

**Information concerning the columns presented in the tables**

- 1 The Company’s consolidated balance sheets and income statement for the years ended 31 December 2004 and 2005.
- 2 Inpro Tecnología’s restated balance sheets and income statements for the years ended 31 December 2004 and 2005.
- 3 Accounting effects of the Company’s acquisition of Inpro Tecnología. The main restatements are as follows:
  - Recognition of goodwill relating to the acquisition of 100% of Inpro Tecnología’s shares.
  - Recognition of a non-current financial liability corresponding to the €6 million loan.
  - Decrease in “Cash and cash equivalents” at the end of 2004 and 2005 for the part payable in one-third installments (€3 million) over the 3 year period following the date of acquisition.

- Increase in “other non-current liabilities” corresponding to the liability arising from the valuation of the put option granted to minority shareholders relating to the remaining 43.736% of the shares.
- Increase in interest expenses in 2004 and 2005 relating to the loan contract and the decrease in net interest income arising from the drain on Parrot’s cash.
- Recognition of the accretion effects of the liability with regard to the put option granted to minority shareholders.

**Condensed pro-forma financial information – Balance sheet as at 31 December 2005**

ASSETS in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Total non-current assets</b> . . . . .	<b>5,551</b>	<b>283</b>	<b>0</b>	<b>17,640</b>	<b>23,473</b>
Goodwill . . . . .				17,640	17,640
Other fixed assets . . . . .	5,539	283			5,821
Deferred tax assets . . . . .	12	0			12
<b>Total current assets</b> . . . . .	<b>39,152</b>	<b>15,187</b>	<b>(4,057)</b>	<b>(2,230)</b>	<b>48,051</b>
Inventories . . . . .	11,557	2,228	(302)		13,483
Trade receivables . . . . .	17,169	10,599	(3,755)		24,013
Other receivables . . . . .	6,339	471			6,811
Other financial assets . . . . .	2,042				2,042
Cash and cash equivalents . .	2,045	1,888		(2,230)	1,703
<b>TOTAL ASSETS</b> . . . . .	<b>44,703</b>	<b>15,469</b>	<b>(4,057)</b>	<b>15,410</b>	<b>71,524</b>

LIABILITIES AND SHAREHOLDERS' EQUITY in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Shareholders' Equity</b> . . . . .	22,605	4,235		(5,489) <sup>(1)</sup>	21,351
<b>Total non-current liabilities</b> . . . .	<b>1,196</b>	<b>0</b>	<b>0</b>	<b>19,597</b>	<b>20,793</b>
Long-term financial debt . . .				6,480	6,480
Provision for pensions and post retirement benefits . .	137				137
Deferred tax liabilities . . . . .	790			51	841
Other provisions . . . . .	268				268
Other non-current liabilities .				13,066	13,066
<b>Total current liabilities</b> . . . . .	<b>20,902</b>	<b>11,234</b>	<b>(3,755)</b>	<b>1,000</b>	<b>29,380</b>
Short-term financial debt . . .	17	2,157			2,174
Trade payables . . . . .	15,351	6,666	(3,755)		18,262
Current income tax liabilities .	1,203	1,441			2,644
Provisions . . . . .	129	36			165
Other liabilities . . . . .	4,201	934		1,000	6,135
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .	<b>44,703</b>	<b>15,469</b>	<b>(3,755)</b>	<b>15,108</b>	<b>71,524</b>

<sup>(1)</sup> Corresponds to the elimination of Inpro’s shareholders’ equity at the end of 2005 and to the effect of interest expenses linked to the financing of the acquisition.

Condensed income statements for the 12-month period ended 31 December 2005

INCOME STATEMENT (in thousands of euros)	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Sales</b> . . . . .	<b>62,537</b>	<b>43,556</b>	<b>(25,228)</b>		<b>80,865</b>
Cost of sales . . . . .	(33,874)	(36,071)	25,097		(44,848)
<b>GROSS MARGIN</b> . . . . .	<b>28,663</b>	<b>7,486</b>	<b>(131)</b>		<b>36,017</b>
<i>Gross margin as % of sales</i> . . . . .	<i>46%</i>	<i>17%</i>			<i>45%</i>
Research and development costs . . . . .	(6,883)				(6,883)
<i>as % of sales</i> . . . . .	<i>(11%)</i>				<i>(9%)</i>
Selling expenses . . . . .	(9,034)	(2,649)	5		(11,678)
<i>as % of sales</i> . . . . .	<i>(14%)</i>				<i>(14%)</i>
General and administrative expenses . . . . .	(2,310)				(2,310)
<i>as % of sales</i> . . . . .	<i>(4%)</i>				<i>(3%)</i>
Production / Quality . . . . .	(3,010)				(3,010)
<i>as % of sales</i> . . . . .	<i>(5%)</i>				<i>(4%)</i>
<b>OPERATING PROFIT</b> . . . . .	<b>7,426</b>	<b>4,837</b>	<b>(126)</b>		<b>12,137</b>
<i>Operating profit as % of sales</i> . . . . .	<i>12%</i>	<i>11%</i>			<i>15%</i>
Net borrowing cost . . . . .	77	(87)		(240)	(250)
Other financial revenues and expenses . . . . .	(8)	(19)		(620)	(647)
Income tax expense . . . . .	(2,187)	(1,620)		305	(3,502)
<b>PROFIT FOR THE PERIOD</b> . . . . .	<b>5,308</b>	<b>3,111</b>	<b>(126)</b>	<b>(555)</b>	<b>7,738</b>
<i>Profit for the period as % of sales</i> . . . . .	<i>8%</i>	<i>7%</i>			<i>10%</i>

Items of 2005 cash flow

in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Restatements	Pro-forma information
Net depreciation and amortization . . . . .	2,461	31		2,492
Deferred income taxes . . . . .	1,551		(305)	1,246
<b>Total</b> . . . . .	<b>4,012</b>	<b>31</b>	<b>(305)</b>	<b>3,738</b>

2005 pro-forma sales by quarter

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	TOTAL 2005
<b>Pro-forma sales</b> . . . . .	13,524	17,505	20,360	29,476	80,865

Condensed pro-forma financial information – Balance sheet as at 31 December 2004

ASSETS in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Total non-current assets</b> . . . . .	<b>3,420</b>	<b>239</b>	<b>0</b>	<b>17,284</b>	<b>20,942</b>
Goodwill . . . . .				17,640	17,640
Other fixed assets . . . . .	2,657	239			2,896
Deferred tax assets . . . . .	763			(356)	407
<b>Total current assets</b> . . . . .	<b>12,492</b>	<b>4,225</b>	<b>(764)</b>	<b>(1,230)</b>	<b>14,723</b>
Inventories . . . . .	3,982	502	(175)		4,309
Trade receivables . . . . .	3,364	2,927	(588)		5,702
Other receivables . . . . .	3,227	56			3,283
Other financial assets . . . . .					0
Cash and cash equivalents . . . . .	1,919	740		(1,230)	1,429
<b>TOTAL ASSETS</b> . . . . .	<b>15,912</b>	<b>4,463</b>	<b>(764)</b>	<b>16,054</b>	<b>35,665</b>

LIABILITIES AND SHAREHOLDERS' EQUITY in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Shareholders' Equity</b> . . . . .	11,289	1,124		(4,807) <sup>(1)</sup>	7,605
<b>Total non-current liabilities</b> . . . . .	<b>341</b>	<b>0</b>	<b>0</b>	<b>19,686</b>	<b>20,027</b>
Long-term financial debt . . . . .				6,240	6,240
Provision for pensions and post retirement benefits . . . . .	76				76
Deferred tax liabilities . . . . .					0
Other provisions . . . . .	265				265
Other non-current liabilities . . . . .				13,446	13,446
<b>Total current liabilities</b> . . . . .	<b>4,282</b>	<b>3,339</b>	<b>(588)</b>	<b>1,000</b>	<b>8,033</b>
Short-term financial debt . . . . .	9	466			475
Trade payables . . . . .	2,449	1,673	(588)		3,534
Current tax liabilities . . . . .		506			506
Provisions . . . . .	73	36			109
Other liabilities . . . . .	1,751	659		1,000	3,410
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .	<b>15,912</b>	<b>4,463</b>	<b>(588)</b>	<b>15,879</b>	<b>35,665</b>

<sup>(1)</sup> Corresponds to the elimination of Inpro's shareholders' equity at the end of 2005 and to the effect interest expenses linked to the financing of the acquisition.

Items of 2004 cash flow

in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Restatements	Pro-forma information
Net depreciation and amortization . . . . .	1,201	199		1,400
Deferred income taxes . . . . .	1,854		(314)	1,540
<b>Total . . . . .</b>	<b>3,055</b>	<b>199</b>	<b>(314)</b>	<b>2,940</b>

Condensed income statement for the 12-month period ended 31 December 2004

INCOME STATEMENT (in thousands of euros)	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Sales . . . . .</b>	<b>29,160</b>	<b>13,891</b>	<b>(9,219)</b>		<b>33,831</b>
Cost of sales . . . . .	(15,810)	(10,605)	9,071		(17,344)
<b>GROSS MARGIN . . . . .</b>	<b>13,350</b>	<b>3,286</b>	<b>(148)</b>		<b>16,487</b>
<i>Gross margin as % of sales . . . .</i>	<i>46%</i>	<i>24%</i>			<i>49%</i>
Research and development costs . . . . .	(2,090)				(2,090)
<i>as % of sales . . . . .</i>	<i>(7%)</i>				<i>(6%)</i>
Selling expenses . . . . .	(3,055)	(1,754)			(4,809)
<i>as % of sales . . . . .</i>	<i>(10%)</i>				<i>(14%)</i>
General and administrative expenses . . . . .	(843)				(843)
<i>as % of sales . . . . .</i>	<i>(3%)</i>				<i>(2%)</i>
Production / Quality . . . . .	(2,132)				(2,132)
<i>as % of sales . . . . .</i>	<i>(7%)</i>				<i>(6%)</i>
<b>OPERATING PROFIT . . . . .</b>	<b>5,230</b>	<b>1,532</b>	<b>(148)</b>		<b>6,613</b>
<i>Operating profit as % of sales . .</i>	<i>18%</i>	<i>11%</i>			<i>20%</i>
Net borrowing cost . . . . .	(14)	(54)		(240)	(308)
Other financial revenues and expenses . . . . .	185	(6)		(479)	(300)
Income tax expense . . . . .	(1,571)	(512)		314	(1,769)
<b>PROFIT FOR THE PERIOD . .</b>	<b>3,830</b>	<b>959</b>	<b>(148)</b>	<b>(405)</b>	<b>4,236</b>
<i>Profit for the period as % of sales . . . . .</i>	<i>13%</i>	<i>7%</i>			<i>13%</i>



## **PRO-FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2005 AND 31 DECEMBER 2005 AND THE THREE-MONTH PERIOD ENDED 31 MARCH 2006**

The Company signed a contract on 29 March 2006 in relation to the acquisition of 56.274% of the Spanish company Inpro Tecnología S.L. with the condition precedent of obtaining the approval of the competition authorities, which was obtained on 7 April 2006. This date corresponds to the takeover date. Parrot S.A. is furthermore committed to eventually acquiring the remaining 43.736% from minority shareholders under a put option agreement.

The purpose of the pro-forma consolidated financial information is solely to reflect the impacts that the acquisition and consolidation of Inpro Tecnología S.L. would have had on the Company's consolidated accounts, had the above acquisition been completed on 1 January 2004.

The periods covered by the pro-forma information are as follows:

- the six-month period from 1 January 2005 to 30 June 2005;
- the six-month period from 1 July 2005 to 31 December 2005; and
- the three-month period from 1 January 2006 to 31 March 2006

The unaudited pro-forma consolidated financial information is presented in euros in a condensed format.

The pro-forma consolidated financial information has been prepared under the responsibility of the Company's Board of Directors.

The pro-forma consolidated financial information, presented in a condensed form and unaudited, is provided for illustrative purposes only and does not necessarily reflect the actual performance, operating profits or shareholders' equity of the consolidated entity, including Inpro Tecnología S.L., over those periods. Nor does the pro-forma consolidated financial information, presented in a condensed form and unaudited, provide any indication as to the future operating profits or the future shareholders' equity of the new consolidated entity.

The pro-forma adjustments and purchase price allocations have been prepared on a preliminary basis given the information available at the time of preparation of the pro-forma consolidated financial information. No assurance can be made that the final purchase price allocation will not be different from that of the preliminary allocation.

### ***1. Key factors considered in preparing the pro-forma consolidated financial information relating to the acquisition***

The Company acquired 5,256 shares from shareholders of Inpro Tecnología S.L., representing 56.274% of the share capital of Inpro Tecnología.

The Company acquired Inpro Tecnología shares for €9 million.

The acquisition of these shares was financed by a €6 million loan from IXIS Corporate and Investment Bank, the remaining part being payable in one-third instalments over the 3-year period following the date of acquisition by the use of the Company's available cash.

In addition, a shareholders' agreement signed at the end of March 2006 between the Company and minority shareholders holding 43.726% includes a put/call agreement between the two groups of shareholders.

The pro-forma consolidated financial information has been prepared on the basis of full consolidation of Inpro Tecnología, with an estimated total purchase price of €21.9 million.

## **2. General principles and conventions used**

The pro-forma adjustments are based on information made available by Inpro Tecnología, as well as conventions that the Group considers to be reasonable and appropriate in the context of the acquisition.

For the purposes of the pro-forma consolidated financial information, the acquisition has been treated according to the requirements of IFRS 3 on the basis of the financial statements established at the end of March 2006.

The Company's acquisition of Inpro Tecnología will be recognised under IFRS with, in particular, recognition at fair value of all acquired identifiable assets, liabilities and contingent liabilities according to IFRS 3. The consolidation of Inpro Tecnología will be reflected in the six-month period consolidated accounts ending 30 June 2006.

The pro-forma consolidated financial information, presented in a condensed form and un-audited, mainly sets out the effects:

- of the consolidation of Inpro Tecnología
- of the Company's financing of this acquisition.

Cost savings and other potential synergies have not been taken into consideration in the pro-forma consolidated information.

## **3. Accounts used for preparing the pro-forma consolidated financial information**

The accounts used for preparing the pro-forma consolidated financial information, presented in a condensed form and unaudited, are:

- The consolidated balance sheet and income statement of the Company, prepared according to IFRS accounting principles, for the year ended 31 December 2005, the six-month period from 1 January 2005 to 30 June 2005 and the three-month period from 1 January 2006 to 31 March 2006.
- The consolidated balance sheets and income statements of Inpro Tecnología, restated according to the Group's accounting principles, for the year ended 31 December 2005, the six-month period from 1 January 2005 to 30 June 2005 and the three-month period from 1 January 2006 to 31 March 2006

The accounting principles and policies adopted for preparing the pro-forma consolidated financial information are those used to prepare the Company's consolidated accounts for the periods concerned.

By convention, all Inpro Tecnología's costs other than cost of sales have been posted to selling expenses as this company, by its very nature, is considered as a sales subsidiary for the Spanish market.

## **4. Information concerning the accounting treatment of the acquisition of Inpro Tecnología according to the purchase accounting method**

Inpro Tecnología S.L.'s identifiable assets and liabilities as at 31 March 2006 presented in the table below take into consideration the restatements made so that Inpro Tecnología S.L.'s accounting principles comply with those used in the Company's consolidated accounts.

As stated previously, these identifiable assets and liabilities result from a preliminary analysis and the final allocation of the acquisition price could be different from the preliminary allocation.

Subsequent changes to the fair value of the debt will be recognised against goodwill.

	in €K
Fixed assets . . . . .	42
Inventories . . . . .	2,060
Trade receivables . . . . .	12,304
Other receivables . . . . .	861
Cash and cash equivalents . . . . .	1,456
<b>Total identifiable assets . . . . .</b>	<b>16,723</b>
Short-term financial debt . . . . .	1,664
Trade payables . . . . .	7,339
Current income tax liabilities . . . . .	1,775
Provisions . . . . .	36
Other liabilities . . . . .	1053
<b>Total identifiable liabilities . . . . .</b>	<b>11,867</b>
<b>Fair value of assets and liabilities at 31/03/2006 . . . . .</b>	<b>4,856</b>
<b>Acquisition price . . . . .</b>	<b>21,875</b>
	<hr/>
<b>Goodwill . . . . .</b>	<b>17,019</b>
	<hr/> <hr/>

Pursuant to IAS 32 concerning the accounting treatment of put options granted to minority shareholders of a consolidated company, the Company has consolidated Inpro Tecnología S.L. as a wholly-owned subsidiary. This has resulted in posting a liability in “other non-current liabilities” against minority interests and goodwill. This liability has been valued at the option exercise price, determined according to criteria defined contractually, and corresponds to the estimated fair value of the minorities’ interest in Inpro Tecnología. The estimated fair value of this liability takes into consideration:

- Assumptions about the timing of exercise of the option held the Management considers as the most probable,
- Estimates of business activity and profitability until the horizon considered
- A 4% discount rate corresponding to the Group’s normative cost of borrowing.

On this basis, the put options granted to minority shareholders have been valued at €12 million on 31 March 2006. For the purposes of the pro-forma information, this debt has been recognized on 1 January 2004 and the accretion effects have been posted to financial expenses for each period.

##### 5. Information concerning the columns presented in the tables

1 The Company’s consolidated balance sheets and income statement for the six-month period from 1 January 2005 to 30 June 2005, for the six-month period from 1 July 2005 to 31 December 2005 and for the three-month period from 1 January 2006 to 31 March 2006.

2 Inpro Tecnología’s restated balance sheets and income statements for the six-month period from 1 January 2005 to 30 June 2005, for the six-month period from 1 July 2005 to 31 December 2005 and for the three-month period from 1 January 2006 to 31 March 2006.

3 Accounting effects of the Company’s acquisition of Inpro Tecnología. The main restatements are as follows:

- Recognition of goodwill relating to the acquisition of 100% of Inpro Tecnología’s shares.
- Recognition of a non-current financial liability corresponding to the €6 million loan.
- Decrease in “Cash and cash equivalents” at the end of 2005 for the part payable in one-third instalments (€3 million) over the 3 year period following the date of acquisition.
- Increase in “other non-current liabilities” corresponding to the liability arising from the valuation of the put option granted to minority shareholders relating to the remaining 43.736% of the shares.

- Increase in interest expenses relating to the loan contract and the decrease in net interest income arising from the drain on Parrot's cash.
- Recognition of the accretion effects of the liability with regard to the to minority shareholders.

*Condensed pro-forma financial information — Balance sheet as at 30 June 2005*

ASSETS in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Total non-current assets</b> . . . . .	<b>4,705</b>	<b>280</b>	<b>0</b>	<b>17,019</b>	<b>22,005</b>
Goodwill . . . . .				17,019	17,019
Other fixed assets . . . . .	4,702	280			4,982
Deferred tax assets . . . . .	4	0			4
<b>Total current assets</b> . . . . .	<b>24,898</b>	<b>8,669</b>	<b>(1,768)</b>	<b>(1,230)</b>	<b>30,569</b>
Inventories . . . . .	4,371	1,159	(206)		5,324
Trade receivables . . . . .	7,518	6,345	(1,562)		12,301
Other receivables . . . . .	4,435	107			4,542
Other financial assets . . . . .	2,006				2,006
Cash and cash equivalents . . . . .	6,569	1,058		(1,230)	6,397
<b>TOTAL ASSETS</b> . . . . .	<b>29,604</b>	<b>8,949</b>	<b>(1,768)</b>	<b>15,789</b>	<b>52,574</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> in thousands of euros					
<b>Shareholders' Equity</b> . . . . .	19,696	2,551		(5,735)	16,512
<b>Total non-current liabilities</b> . . . . .	<b>645</b>	<b>0</b>	<b>0</b>	<b>20,318</b>	<b>20,963</b>
Long-term financial debt . . . . .				6,360	6,360
Provision for pensions and post retirement benefits . . . . .	99				99
Deferred tax liabilities . . . . .	281			202	483
Other provisions . . . . .	265				265
Other non-current liabilities . . . . .				13,756	13,756
<b>Total current liabilities</b> . . . . .	<b>9,263</b>	<b>6,398</b>	<b>(1,562)</b>	<b>1,000</b>	<b>15,099</b>
Short-term financial debt . . . . .	45	1,574			1,619
Trade payables . . . . .	6,210	2,989	(1,562)		7,637
Current income tax liabilities . . . . .	616	1,275			1,891
Provisions . . . . .	73	36			109
Other liabilities . . . . .	2,318	524		1,000	3,843
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .	<b>29,604</b>	<b>8,949</b>	<b>(1,562)</b>	<b>15,583</b>	<b>52,574</b>

Condensed income statements for the six-month period ended 30 June 2005

P&L of 1 <sup>st</sup> semester 2005	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Sales</b> . . . . .	<b>26,035</b>	<b>16,988</b>	<b>(11,994)</b>		<b>31,029</b>
Cost of sales . . . . .	(14,230)	(13,578)	11,963		(15,845)
<b>GROSS MARGIN</b> . . . . .	<b>11,805</b>	<b>3,410</b>	<b>(31)</b>		<b>15,184</b>
<i>Gross margin as % of sales</i> . . . . .	<i>45.3%</i>	<i>20.1%</i>			<i>48.5%</i>
Research and development costs . . . . .	(2,750)				(2,750)
<i>as % of sales</i> . . . . .	<i>10.6%</i>				<i>(8.5%)</i>
Selling expenses . . . . .	(3,177)	(1,186)			(4,363)
<i>as % of sales</i> . . . . .	<i>(12.2%)</i>	<i>(7.0%)</i>			<i>(14.4%)</i>
General and administrative expenses . . . . .	(912)				(912)
<i>as % of sales</i> . . . . .	<i>(3.5%)</i>				<i>(2.9%)</i>
Production / Quality . . . . .	(1,120)				(1,120)
<i>as % of sales</i> . . . . .	<i>(4.3%)</i>				<i>(3.7%)</i>
<b>OPERATING PROFIT</b> . . . . .	<b>3,846</b>	<b>2,224</b>	<b>(31)</b>		<b>6,039</b>
<i>Operating profit as % of sales</i> . . . . .	<i>14.8%</i>	<i>13.1%</i>			<i>19.5%</i>
Net borrowing cost . . . . .	28	(29)		(120)	(121)
Other financial revenues and expenses . . . . .	0			(310)	(310)
Income tax expense . . . . .	(1,299)	(768)		154	(1,913)
<b>PROFIT FOR THE PERIOD</b> . . . . .	<b>2,574</b>	<b>1,427</b>	<b>(31)</b>	<b>(276)</b>	<b>3,694</b>
<i>Profit for the period as % of sales</i> . . . . .	<i>9.9%</i>	<i>8.4%</i>			<i>11.9%</i>

Items of 1<sup>st</sup> semester cash flow

in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Restatements	Pro-forma information
Net depreciation and amortization . . . . .	748	3		751
Deferred income taxes . . . . .	1,043		(154)	889
<b>Total</b> . . . . .	<b>1,791</b>	<b>3</b>	<b>(154)</b>	<b>1,640</b>

Condensed income statement for the six-month period ended 31 December 2005

P&L of 2 <sup>nd</sup> semester 2005	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Sales</b> . . . . .	<b>36,502</b>	<b>26,568</b>	<b>(13,234)</b>		<b>49,836</b>
Cost of sales . . . . .	(19,644)	(22,493)	13,134		(29,003)
<b>GROSS MARGIN</b> . . . . .	<b>16,858</b>	<b>4,075</b>	<b>(100)</b>		<b>20,833</b>
<i>Gross margin as % of sales</i> . . . . .	<i>46.2%</i>	<i>15.3%</i>			<i>41.8%</i>
Research and development costs . . . . .	(4,133)				(4,133)
<i>as % of sales</i> . . . . .	<i>(11.3%)</i>				<i>(8.5%)</i>
Selling expenses . . . . .	(5,857)	(1,463)	5		(7,315)
<i>as % of sales</i> . . . . .	<i>(16.0%)</i>	<i>(5.5%)</i>			<i>(14.4%)</i>
General and administrative expenses . . . . .	(1,398)				(1,398)
<i>as % of sales</i> . . . . .	<i>(3.8%)</i>				<i>(2.9%)</i>
Production / Quality . . . . .	(1,890)				(1,890)
<i>as % of sales</i> . . . . .	<i>(5.2%)</i>				<i>(3.7%)</i>
<b>OPERATING PROFIT</b> . . . . .	<b>3,580</b>	<b>2,612</b>	<b>(95)</b>		<b>6,097</b>
<i>Operating profit as % of sales</i> . . . . .	<i>9.8%</i>	<i>9.8%</i>			<i>12.2%</i>
Net borrowing cost . . . . .	49	(58)	0	(120)	(129)
Other financial revenues and expenses . . . . .	(8)	(19)	0	(310)	(337)
Income tax expense . . . . .	(888)	(852)	0	151	(1,589)
<b>PROFIT FOR THE PERIOD</b> . . . . .	<b>2,734</b>	<b>1,683</b>	<b>(95)</b>	<b>(279)</b>	<b>4,043</b>
<i>Profit for the period as % of sales</i> . . . . .	<i>7.5%</i>	<i>6.3%</i>			<i>8.1%</i>

Condensed pro-forma financial information — Balance sheet as at 31 March 2006

ASSETS in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Total non-current assets</b> . . . . .	<b>5,925</b>	<b>42</b>	<b>0</b>	<b>17,019</b>	<b>22,986</b>
Goodwill . . . . .				17,019	17,019
Other fixed assets . . . . .	5,922	42			5,964
Deferred tax assets . . . . .	3	0			3
<b>Total current assets</b> . . . . .	<b>41,829</b>	<b>16,681</b>	<b>(5,038)</b>	<b>(2,230)</b>	<b>51,241</b>
Inventories . . . . .	11,341	2,060	(88)		13,313
Trade receivables . . . . .	17,858	12,304	(4,950)		25,212
Other receivables . . . . .	6,944	861			7,805
Other financial assets . . . . .					0
Cash and cash equivalents . . . . .	5,685	1,456		(2,230)	4,911
<b>TOTAL ASSETS</b> . . . . .	<b>47,754</b>	<b>16,723</b>	<b>(5,038)</b>	<b>14,789</b>	<b>74,227</b>

LIABILITIES AND SHAREHOLDERS' EQUITY in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Shareholders' Equity</b> . . . . .	<b>24,656</b>	<b>4,856</b>		<b>(6,111)</b>	<b>23,401</b>
<b>Total non-current liabilities</b> . . . . .	<b>1,112</b>	<b>0</b>	<b>0</b>	<b>19,812</b>	<b>20,924</b>
Long-term financial debt . . . . .				6,540	6,540
Provision for pensions and post retirement benefits . . . . .	142				142
Deferred tax liabilities . . . . .	747			51	798
Other provisions . . . . .	222				222
Other non-current liabilities . . . . .				13,221	13,221
<b>Total current liabilities</b> . . . . .	<b>21,986</b>	<b>11,867</b>	<b>(4,950)</b>	<b>1,000</b>	<b>29,902</b>
Short-term financial debt . . . . .	1,992	1,664			3,656
Trade payables . . . . .	11,801	7,339	(4,950)		14,190
Current income tax liabilities . . . . .	2,510	1,775			4,285
Provisions . . . . .	160	36			196
Other liabilities . . . . .	5,522	1,052		1,000	7,575
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .	<b>47,754</b>	<b>16,723</b>	<b>(4,950)</b>	<b>14,701</b>	<b>74,227</b>



*Condensed income statement for the three-month period ended 31 March 2006*

P&L 1 <sup>st</sup> quarter 2006	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Eliminations	Restatements	Pro-forma information
<b>Sales</b> . . . . .	<b>25,486</b>	<b>16,452</b>	<b>(8,722)</b>		<b>33,216</b>
Cost of sales . . . . .	(14,412)	(14,511)	8,936		(19,987)
<b>GROSS MARGIN</b> . . . . .	<b>11,074</b>	<b>1,941</b>	<b>214</b>		<b>13,229</b>
<i>Gross margin as % of sales</i> . . . . .	<i>43.5%</i>	<i>11.8%</i>			<i>39.8%</i>
Research and development costs . . . . .	(2,387)				(2,387)
<i>as % of sales</i> . . . . .	<i>(9.4%)</i>				<i>(7.1%)</i>
Selling expenses . . . . .	(3,536)	(965)			(4,501)
<i>as % of sales</i> . . . . .	<i>(13.9%)</i>				<i>(13.6%)</i>
General and administrative expenses . . . . .	(1,095)				(1,095)
<i>as % of sales</i> . . . . .	<i>(4.3%)</i>				<i>(3.3%)</i>
Production / Quality . . . . .	(1,181)				(1,181)
<i>as % of sales</i> . . . . .	<i>(4.6%)</i>				<i>(3.6%)</i>
<b>OPERATING PROFIT</b> . . . . .	<b>2,875</b>	<b>976</b>	<b>214</b>		<b>4,065</b>
<i>Operating profit as % of sales</i> . . . . .	<i>11.2%</i>	<i>5.9%</i>			<i>12.2%</i>
Net borrowing cost . . . . .	(27)	(21)		(60)	(108)
Other financial revenues and expenses . . . . .				(155)	(155)
Income tax expense . . . . .	(945)	(334)		0	(1,279)
<b>PROFIT FOR THE PERIOD</b> . . . . .	<b>1,904</b>	<b>621</b>	<b>214</b>	<b>(215)</b>	<b>2,523</b>
<i>Profit for the period as % of sales</i> . . . . .	<i>7.5%</i>	<i>3.8%</i>			<i>7.6%</i>

*Items of 1<sup>st</sup> quarter cash flow*

in thousands of euros	Parrot consolidated financial statements	Inpro Tecnología restated accounts	Restatements	Pro-forma information
Net depreciation and amortization . . . . .	785	1		786
Deferred income taxes . . . . .	(35)			(35)
<b>Total</b> . . . . .	<b>750</b>	<b>1</b>		<b>752</b>

## HISTORICAL CONSOLIDATED ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2005 (IFRS)

### Consolidated accounts for the year ended 31 December 2004 (under IFRS)

Note: All amounts stated in the consolidated financial statements are presented in thousands of euros.

#### Consolidated income statement for the year ended 31 December 2004

In thousands of euros	Note	2004
<b>Sales</b> .....	<b>4</b>	<b>29,160</b>
Cost of sales .....	5	(15,810)
<b>GROSS MARGIN</b> .....		<b>13,350</b>
<i>Gross margin as % of sales</i> .....		<i>46%</i>
Research and development costs .....	5	(2,090)
<i>as % of sales</i> .....		<i>(7%)</i>
Selling expenses .....	5	(3,055)
<i>as % of sales</i> .....		<i>(10%)</i>
General and administrative expenses .....	5	(843)
<i>as % of sales</i> .....		<i>(3%)</i>
Production / Quality .....	5	(2,132)
<i>as % of sales</i> .....		<i>(7%)</i>
<b>OPERATING PROFIT</b> .....		<b>5,230</b>
<i>Operating profit as % of sales</i> .....		<i>18%</i>
Income from cash and cash equivalent .....	6	11
Gross borrowing cost .....	6	(25)
Net borrowing cost .....	6	(14)
Other financial revenues and expenses .....	6	185
Income tax expense .....	7	(1,571)
<b>PROFIT FOR THE PERIOD – Group share</b> .....		<b>3,830</b>
<i>Profit for the period – Group share as % of sales</i> .....		<i>13%</i>

In thousands of euros	Note	2004
<b>Weighted average number of ordinary shares</b> .....		7,121,800
Basic earnings per share (in euros) .....	17	0.54
<b>Weighted average number of ordinary shares (diluted)</b> .....		7,389,617
Diluted earnings per share (in euros) .....	17	0.52

*Consolidated balance sheet at 31 December 2004*

ASSETS In thousands of euros	Note	2004
<b>Total non-current assets</b> . . . . .		<b>3,419</b>
Intangible assets . . . . .	8	1,961
Property, plant and equipment . . . . .	9	622
Financial assets . . . . .	10	73
Deferred tax assets . . . . .	11	763
<b>Total current assets</b> . . . . .		<b>12,493</b>
Inventories . . . . .	12	3,982
Trade receivables . . . . .	13	3,364
Other receivables . . . . .	14	3,227
Other current financial assets . . . . .	15	–
Cash and cash equivalents . . . . .	15	1,919
<b>TOTAL ASSETS</b> . . . . .		<b>15,912</b>

LIABILITIES AND EQUITY In thousands of euros	Note	2004
<b>Total Equity</b>		
Share capital . . . . .	16	1,086
Additional paid-in capital . . . . .	16	8,713
Retained earnings and reserves . . . . .		(2,340)
Profit for the period . . . . .		3,830
<b>Equity attributable to Parrot S.A. shareholders</b> . . . . .		<b>11,289</b>
<b>Minority interests</b> . . . . .		<b>–</b>
<b>Total non-current liabilities</b> . . . . .		<b>341</b>
Long-term financial debt . . . . .		–
Provision for pensions and post retirement benefits . . . . .	19	76
Deferred tax liabilities . . . . .	11	–
Other non-current liabilities . . . . .	20	265
<b>Total current liabilities</b> . . . . .		<b>4,281</b>
Short-term financial debt . . . . .		9
Current provisions . . . . .	21	73
Trade payables . . . . .	22	2,449
Current income tax liabilities . . . . .	22	–
Other payables . . . . .	22	1,750
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .		<b>15,912</b>

*Statement of recognised income and expenses for the year ended 31 December 2004*

In thousands of euros	2004
Foreign exchange differences . . . . .	6
Change in actuarial gains and losses relating to employee benefits . . . . .	–
<b>Net income recognised directly through equity</b> . . . . .	<b>6</b>
<b>Profit for the period – Group share</b> . . . . .	<b>3,830</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSES FOR THE PERIOD</b> . . . . .	<b>3,836</b>

Consolidated statement of cash flows for the year ended 31 December 2004

In thousands of euros	2004
<b>Cash flow from operating activities</b>	
Profit for the period . . . . .	3,830
Depreciation and amortization . . . . .	1,079
Gains / Losses on sale of assets . . . . .	2
Income tax expenses . . . . .	1,571
Cost of share-based payments . . . . .	122
Net borrowing cost . . . . .	13
<b>Cash flows from operations before net borrowing cost and income tax . . . . .</b>	<b>6,617</b>
Change in working capital . . . . .	(4,520)
<b>CASH FLOW FROM OPERATING ACTIVITIES . . . . .</b>	<b>2,098</b>
Taxes payable . . . . .	283
<b>NET CASH FROM OPERATING ACTIVITIES (A) . . . . .</b>	<b>2,380</b>
<b>Cash flow from investing activities</b>	
Interest received	
Acquisitions of intangible assets and property, plant and equipment . . . . .	(1,730)
Acquisitions of subsidiaries, net of cash acquired (Note 3) . . . . .	0
Acquisitions of financial assets . . . . .	(47)
Increase in other current financial assets	
Proceeds from sale of intangible assets and property, plant and equipment . . . . .	0
Proceeds from sale of subsidiaries, net of cash sold (Note 3)	
Proceeds from sale of other investments . . . . .	0
<b>NET CASH FROM INVESTING ACTIVITIES (B) . . . . .</b>	<b>(1,778)</b>
<b>Cash flow from financing activities</b>	
Increase in share capital . . . . .	2
Dividends paid . . . . .	0
Proceeds from borrowings . . . . .	0
Cost of net debt . . . . .	(13)
Repayment of borrowings . . . . .	0
Interests paid . . . . .	0
<b>NET CASH FROM FINANCING ACTIVITIES (C) . . . . .</b>	<b>(11)</b>
<b>NET CHANGE IN CASH (D = A+B+C) . . . . .</b>	<b>591</b>
Effect of exchange rates fluctuations on cash held . . . . .	0
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR . . . . .</b>	<b>1,319</b>
<b>CASH AND CASH EQUIVALENTS AT YEAR-END . . . . .</b>	<b>1,911</b>
Cash and cash equivalents at year-end . . . . .	1,911
Other current financial assets . . . . .	0
Cash and cash equivalents and Other current financial assets at year-end . . . . .	1,911

*Consolidated statement of changes in equity for the year ended 31 December 2004*

	Share capital	Additional paid-in capital	Legal reserve	Retained earnings	Consolidated reserves	Profit for the period	Others Translation adjustments	Equity – Group share	Minority interests
As of 31 December 2003 . . . . .	1,086	8,711		(6,778)	4,310			7,329	
Recognised income and expenses for the period . . . . .				968	(968)	3,830	6	3,837	
Increase in share capital of consolidating firm. . . . .		2						2	
Effect of share issues . . . . .					122			122	
As of 31 December 2004 . . . . .	1,086	8,713		(5,811)	3,464	3,830	6	11,289	

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1 – THE COMPANY**

The activities of “the Group”, meaning PARROT S.A., its subsidiaries and the Group’s share in associate companies or companies under joint control, are presented in the attached consolidated financial statements.

Its Head Office is in Paris.

The financial statements were closed by the Board of Directors on 18 April 2006. The financial statements are presented in euros and rounded to the nearest thousand.

### **NOTE 2 – BASIS OF PREPARATION**

The financial statements for 2004 are the Group’s first full set of accounts prepared in accordance with IFRS and may be used as a basis for comparison with the 2005 financial statements. The opening balance sheet was restated in accordance with IFRS 1 “First-time adoption of IFRS”. In this context, IFRS 2 “Share-based payment” which came into effect on 1 January 2005: the Group applied this standard only for stock options granted after 7 November 2002 which had not yet vested at 1 January 2005. These consolidated accounts, by their very nature, do not include comparative information relating to the financial year, nor any notes to the consolidated financial statements required under IFRS as adopted in the European Union.

Pursuant to European regulation N° 1606/2002 of 19 July 2002, the 2004 published consolidated financial statements were prepared in accordance with the international accounting standards issued by the IASB (International Accounting Standards Board). These international accounting standards are composed of IFRS (International Financial Reporting Standards) and IAS (International Accounting Standards), as well as their interpretation, as adopted by the European Union as of 31 December 2005 (published in the Official Journal of the European Union), with the exception of the amended IAS 19, which has been applied in advance.

Some standards and interpretations adopted by the IASB or the IFRIC (International Financial Reporting Interpretations Committee) as well as by the European Union as of 31 December 2005 are not applied in advance.

From 1 January 2004, the Group has applied IAS 32 “Financial instruments: disclosure and presentation” and IAS 39 “Financial instruments: recognition and measurement” as well as the amended IAS 19 “Employee benefits” concerning recognition of actuarial gains and losses.

Main accounting principles applied by the Group:

#### **A) Consolidation methods**

The financial statements of companies controlled directly or indirectly by Parrot S.A. are fully consolidated. Parrot S.A. is deemed to exercise control over an entity when it has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Control can be said to exist if Parrot holds more than half the voting rights of the company under control. The financial statements of the companies under control are included in the Group’s consolidated financial statements from the transfer date of effective control until the date when control ceases.

Full consolidation is the only method applied by the Group since Parrot holds more than half the voting rights of all companies included in the scope of consolidation (see Note 3).

The Group’s consolidated companies have prepared their accounts at 31 December 2004 in accordance with Group’s accounting rules and principles. Transactions between consolidated companies as well as inter-company profits are eliminated.

The Group does not have any special purpose entities.

## B) Use of estimates

The preparation of financial statements requires Management to make judgements, estimates and assumptions that may effect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates are based on economic data which are likely to vary over time and are subject to a degree of uncertainty.

These underlying estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these 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 current and future periods.

They mainly concern recognition of sales according to contract terms, recognition of deferred tax assets, asset impairment tests and current and non-current provisions.

## C) Foreign currency translation

### ■ Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### ■ Translation of financial statements of foreign companies

The Group's consolidated accounts are presented in euros.

The assets and liabilities of foreign operations are translated to euro at foreign exchange rates ruling at the balance sheet date with the exception of equity which is recorded at historical value. The revenues and expenses of foreign operations are translated to euro at the average exchange rate.

The exchange rates used to translate the financial statements of the Group's main subsidiaries into euros are as follows:

Rates at 31 December	2004	2005
US dollar . . . . .	0.73416	0.84767

Average exchange rates	2004	2005
US dollar . . . . .	0.80429	0.80336

## D) Income statement

Income and expenses are analyzed in the consolidated income statement by function reflecting the specific nature of the Group's business, as follows: cost of sales (expenses directly linked to products sold), research and development costs (including costs incurred during the period when not recognised as an asset on the balance sheet as well as amortisation of development costs when recorded as an asset on the balance sheet), selling expenses, general and administrative expenses and production and quality-control costs (supply-management and quality control department which mainly include the salaries of the employees of those departments).

Operating profit, main performance indicator of the Group's business activity, is calculated by deducting these four categories of costs, which constitute the Group's operating expenses as a whole, from sales.



In order to provide more comprehensive information, these operating expenses are analysed by nature in Note 5 “Nature of operating expenses” in the present appendix.

Net income is calculated by taking into account the following items:

- the net borrowing costs, which includes interest on financial debt based on the effective interest rates, less income from cash and cash equivalents,
- other financial revenues and expenses including mainly the impact of measuring financial instruments at fair value, and foreign exchange gains and losses,
- current and deferred tax expenses.

#### **E) Earnings per share**

The information below is calculated according to the following principles:

- basic earnings per share: the net income for the period (Group share) is divided by the weighted average number of ordinary shares outstanding during the period excluding treasury shares. The weighted average number of ordinary shares outstanding is an annual weighted average adjusted by the number of common shares bought-back or issued during the period and is calculated by reference to the date of issue of the shares during the financial year;
- diluted earnings per share: the net income for the period (Group share) as well as the weighted average number of shares outstanding, used to calculate basic earnings per share, are adjusted for the effects of all dilutive potential ordinary shares, corresponding to: stock options plans and share grants (Note 16: “equity”) and bonus shares.

#### **F) Sales**

Revenues arising from the sale of goods are recognised in the income statement when risks and rewards related to the ownership of the goods have been transferred to the purchaser.

Revenues arising from the rendering of services are recognised in the income statement based on the percentage of completion at the end of the period. The stage of completion is determined on the basis of costs incurred.

Revenue is not recognised when there is significant uncertainty as to the recovery of the corresponding sum due, to the costs incurred or to be incurred associated with the sale or the possible return of the goods in the event that the purchase is cancelled and when the Group retains managerial involvement in the assets.

#### **G) Operating lease payments**

Operating lease payments are recognised as an expense over the term of the lease on a straight-line basis.

Benefits received constitute an integral part of total net lease expenses and are recognised in the income statement according to the same rule.

#### **H) Net borrowing cost**

The net borrowing cost includes interest paid on borrowings – calculated by using the effective interest rate method – less interest received from cash equivalent and other financial assets.

Interest incomes are recognised in the income statement when acquired, by using the effective interest rate method.

Dividend incomes are recognised in the income statement as soon as the Group acquires the right to receive payments.

#### **I) Income tax expenses**

Income taxes (expense or income) include current income tax as well as deferred income tax. Income tax is recognised in the income statement unless it is associated with items which are recognised directly in equity; in which case it is recognised in equity.

Current income tax is (i) the estimated amount of income tax due on the taxable income for the period, calculated using the tax rates which have been enacted or virtually enacted at the end of the period and (ii) any adjustment to the amount of tax payable for previous periods.

Deferred income taxes: see Chapter N of the present note.

#### **J) Segment information**

The Group follows each business segment as an independent entity with its own specific economic context, risks and profitability, which are different from those of other segments.

From a managerial standpoint, the Group's business activities are analysed on two levels: by market and by the geographical location of its customers. Markets, rather than geographical regions, are regarded as standalone profit centres, and each has its own complete performance measurement. Primary segment information is based on the markets in which the Group operates. The geographical areas in which the Group generates its sales provide the secondary segment of information.

Operating costs incurred at the Group level for each market segment are allocated either directly or on a reasonable basis.

#### **K) Intangible assets**

- Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired at the date that control was obtained. Goodwill is not amortised.

Negative goodwill arising on an acquisition is recognised directly in profit and loss.

At the acquisition date, the cost of a business combination is attributed by recognizing the assets, liabilities, identifiable contingent liabilities of the acquired entity at fair value, with the exception of non-current assets held for sale, which are recognised at their fair value less cost to sale. Goodwill is valued at cost less accumulated impairment.

- Research and development costs

Research costs are expensed when incurred.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of general and administrative expenses. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. They are amortised over a period of 2 to 3 years.

- Other intangible assets

Other intangible assets include software and user rights acquired on an unrestricted ownership basis and are amortised over their useful life, either 3 years for software and between 1 and 4 years for user rights.

#### **L) Property, plant and equipment**

Tangible fixed assets are recorded as an asset on the balance sheet at their historical cost less accumulated depreciation and impairment. They are not subject to revaluation.

Subsequent costs (replacement costs and costs needed to bring the asset to working condition) are capitalised and depreciated over the estimated useful life of the asset. Costs associated with routine maintenance and repairs are charged to expenses when they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life by category of asset. It is calculated on the basis of the acquisition cost less residual value.

Assets are depreciated over their estimated useful lives as follows:

Fixtures and fittings . . . . .	3 to 10 years
Technical industrial facilities . . . . .	10 years
Machinery and industrial tools . . . . .	3 years
Office and computer equipment . . . . .	3 to 5 years
Transportation equipment . . . . .	3 years

The residual value and useful life of assets are reviewed at each financial year-end.

Gains or losses on disposal of assets result from the difference between proceeds and the carrying amount.

**M) Depreciation of intangible and tangible fixed assets**

The useful value of intangible and tangible fixed assets is tested, as soon as any indications of impairment are identified, at the time of the preparation of the accounts and at least once a year in respect of goodwill.

Impairment testing consists of determining the recoverable value of each entity generating its own cash flows (Cash Generating Units). These entities are subsidiaries or geographical regions in which the Group operates, whose continued activity generates cash inflows that are substantially independent of cash flows generated by other groups of assets. The recoverable value of each CGU is determined, in particular, by applying the method of discounted future cash flows, based on budgetary estimates of growth and profitability, which are deemed to be reasonable, using a 3-year time frame. Discount rates and long-term growth rates for a period of more than 3 years, common practice in the sector in which the Group operates, are applied to all valuations of entities generating their own cash flows. When the recoverable value of a CGU is less than its carrying amount, the corresponding impairment is initially posted to goodwill and the values of other assets in the units are then reduced on a pro-rata basis and recognised in operating income.

Impairment recognised on goodwill cannot be reversed.

**N) Deferred tax assets**

Deferred tax assets are stated in the income statement and in the balance sheet to account for timing differences between the carrying amount and the value for tax purposes of certain assets and liabilities.

Deferred tax assets are recognised using the balance sheet liability method using tax rate enacted or substantively enacted at the balance sheet date. The effect of any change in tax rates on deferred taxes previously stated in the income statement or in equity is recorded respectively in the income statement or in equity in the financial year in which these changes come into effect.

Deferred tax assets are recognised respectively in the income statement or in equity in the financial year, depending on whether the items to which they relate are themselves recognised in the income statement or equity.

A deferred tax asset is recognised 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.

Deferred tax assets and liabilities can be offset if, and only if subsidiary companies have the right to offset the tax losses of one against the taxable profits of another and provided that they relate to taxes levied by the same tax authority at the same time.

Deferred tax assets and liabilities are not discounted.

**O) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

**P) Trade receivables**

Trade receivables and other receivables are recognised at their fair value on initial recognition and subsequently at amortised cost less impairment.

**Q) Other current financial assets**

Financial instruments classified as investments are recognised on a fair value basis. Any change in value is recognised in the income statement.

Money markets funds which do not meet the definition of cash and cash equivalents are classified in other current financial assets.

**R) Cash and cash equivalents**

Cash and cash equivalents include cash on hand. They also include money markets funds which meet IAS 7 criteria.

Bank overdrafts repayable on demand, which form an integral part of the Group's cash management, are also included as a component of cash and cash equivalents, for the purposes of the cash flow statement.

**S) Net cash**

Net cash means for the Group: cash and cash equivalents, less bank overdrafts, plus other current financial assets.

**T) Share-based payment transactions**

Stock options may be granted to certain Group employees. They confer the right to subscribe Parrot shares during a period of four or five years at a fixed exercise price determined at the grant date.

The options are measured on the basis of the fair value of the benefit granted to the employee at grant date. Their cost is recognised in staff costs in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. When the income statement is presented by function, corresponding staff costs are presented according to the function of the employees.

The fair value of the option is determined according to the "Black and Scholes" model, whose variables include, in particular, the exercise price of the options, the term, the share price or reference price at grant date, implied share price volatility and the risk free interest rate. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Pursuant to the provisions of IFRS 1 "First-time adoption of international financial reporting standards", only plans granted after 7 November 2002 that were not yet vested at 1 January 2005 have been measured and recognised as employee expenses. Plans prior to 7 November 2002 and those granted after 7 November 2002 and vested before 1 January 2005 have not been restated.

**U) Employee benefits**

– Pension plans

The Group is mainly subject to defined contribution pension plans.

The Group's employees and companies make payments into defined contribution pension plans, administered by institutions authorised to manage such pension funds. The Group's obligations are limited to the payment of these contributions which are recognised in the income statement as incurred.

The Group is also subject to defined benefits plans, particularly for special retirement indemnity.

– Long-term benefits

The Group's net obligation in respect of long-term benefits other than pension plans is the amount of future benefits earned by employees in return for services rendered in the current and prior periods. The amount of the obligation is calculated by using the projected unit credit method. The discount rate is the

yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximately corresponding to the terms of the Group's obligations.

The Group has applied the amended IAS 19. Consequently, all actuarial differences are recognised through equity.

**V) Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation resulting from a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

– Warranties

A provision for warranties is recognised when the underline products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

**W) Trade payables**

All such payables are recorded at cost.

After their initial recognition, Parrot Group measures at amortised cost all financial liabilities other than those held for sale.

**NOTE 3 – SCOPE OF CONSOLIDATION**

The scope of Parrot Group consolidation includes two consolidated companies. The complete list and the related consolidation method are:

Company	Country	Control	Interest	Method
Parrot S.A. . . . . .	France	100%	100%	Fully consolidated
Parrot Inc. . . . . .	United States	100%	100%	Fully consolidated

Name	Address	Country	Interest Parrot S.A.	Method
<b>PARENT COMPANY</b>				
Parrot S.A. . . . . .	174, quai de Jemmapes 75010 Paris	France		
<b>CONSOLIDATED SUBSIDIARIES</b>				
Parrot Inc. . . . . .	257 Madison Avenue, Suite 500, New York, NY 10016	United States	100%	Fully consolidated

At the end of 2004, the perimeter comprised Parrot S.A. and Parrot Inc, wholly-owned.

■ Acquisitions

All entities mentioned within the scope are new companies created by Parrot S.A. and do not therefore constitute acquisitions.

■ Sales

No Group company was sold during the financial year.

**NOTE 4 – SEGMENT INFORMATION**

■ Information by segment and by market

Almost all sales are generated by Bluetooth hands-free car kits for which the market breakdown is as follows:

- Aftermarket, which mainly includes CK3000, CK3100 and CK3300 products,
- Plug-&-play market, which mainly includes DriveBlue products,

- OEM market, which is made up of CK4000 products.

At 31 December 2004, information by segment and by market is as follows:

2004 In thousands of euros	After- market	Plug-&-play	OEM	Unallocated	Total
<b>INCOME STATEMENT</b>					
Sales – products . . . . .	22,752	3,937	717		27,405
Cost of sales – products . . . . .	(11,703)	(2,601)	(144)		(14,448)
Gross margin – products . . . . .	11,049	1,336	572	0	12,957
Sales – others . . . . .				1,755	1,755
Operating income – others . . . . .				393	393
<b>TOTAL Gross margin . . . . .</b>	<b>11,049</b>	<b>1,336</b>	<b>572</b>	<b>393</b>	<b>13,350</b>
Other operating expenses . . . . .				(8,120)	(8,120)
Operating profit . . . . .				5,230	5,230
Net borrowing cost . . . . .				(14)	(14)
Other financial revenues and expenses . . . . .				185	185
Income tax expense . . . . .				(1,571)	(1,571)
<b>Profit for the period . . . . .</b>					<b>3,830</b>
<b>BALANCE SHEET</b>					
Assets by business segment . . . . .	766	61	161	640	1,629
Unallocated assets . . . . .				14,283	14,283
<b>TOTAL CONSOLIDATED ASSETS . .</b>	<b>766</b>	<b>61</b>	<b>161</b>	<b>14,923</b>	<b>15,912</b>
Liabilities by business segment Unallocated liabilities . . . . .				15,912	
<b>TOTAL CONSOLIDATED LIABILITIES . . . . .</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,912</b>	<b>15,912</b>
<b>OTHER BUSINESS SEGMENT INFORMATION</b>					
Development costs recognised as assets	489	0	78	596	1,164
Amortisation of capitalised development costs . . . . .	268	141	0	0	409

“Sales – others” is mainly composed of components sales to Tes and Jabil as well as received royalties.

### ■ Geographical segments

At 31 December 2004, information by geographical segments is analysed as follows:

in thousands of euros	France	Belgium Netherlands	Spain	Italy	UK	Germany	Rest of Europe	United States	Hong Kong	Rest of the world	Total
<b>INCOME STATEMENT</b>											
Non-Group sales (by region) . . . . .	4,775	1,720	8,970	2,244	3,492	4,198	1,466	804	0	1,490	<b>29,160</b>
<b>Other business segment information</b>											
Investments											
Property, plant and equipment . . . . .	425							28			<b>454</b>
Intangible assets . . . . .	1,277										<b>1,277</b>
Average number of employees . . . . .	74							1			<b>75</b>

#### NOTE 5 – OPERATING EXPENSES BY NATURE

Operating expenses by nature can be analysed as follows:

in thousands of euros	2004
Purchases of raw materials and consumables . . . . .	8,901
Sub-contracting costs . . . . .	6,960
Other external charges . . . . .	3,366
Staff costs . . . . .	3,792
Tax expenses . . . . .	282
Depreciation and amortisation . . . . .	679
Other operating income and expenses . . . . .	(51)
<b>Total operating costs . . . . .</b>	<b>23,930</b>

Staff costs are analysed in the following manner:

in thousands of euros	2004
Salaries and wages . . . . .	2,600
Social security costs (including defined contribution pension plans) . . . . .	1,070
Employee profit-sharing . . . . .	0
Cost of share based payments . . . . .	122
<b>Total staff costs . . . . .</b>	<b>3,792</b>

#### NOTE 6 – NET FINANCING INCOME

in thousands of euros	2004
Gross borrowing cost . . . . .	(25)
Income from cash and cash equivalents . . . . .	11
<b>Net borrowing cost . . . . .</b>	<b>(14)</b>
Foreign exchange gains . . . . .	256
Foreign exchange losses . . . . .	(85)
Others . . . . .	15
<b>Other financial revenues and expenses . . . . .</b>	<b>186</b>
<b>TOTAL . . . . .</b>	<b>172</b>

Interest expenses are mainly composed of bank charges.



## NOTE 7 – INCOME TAX EXPENSE

### ■ Income Tax Expense

The income tax expense is analysed as follows:

in thousands of euros	2004
Current income taxes . . . . .	(283)
Deferred income taxes . . . . .	1,853
	<hr/>
<b>TOTAL . . . . .</b>	<b>1,571</b>
	<hr/> <hr/>

Current tax income for 2004 can be explained by a research tax credit and by French corporation tax.

Deferred tax expense for 2004 mainly includes:

- use of tax loss carry-forwards previously recognised as an asset in the balance sheet for k€1,481 in France,
- recognition of €252,000 of deferred tax liabilities from development expenditures recognised as an asset, net of depreciation for the period,
- other timing differences representing a net expense of €120,000.

Reconciliation between theoretical and effective income tax expenses is as follows:

in thousands of euros	2004
Profit for the period . . . . .	3,830
Income tax expense . . . . .	1,571
	<hr/>
<b>PROFIT BEFORE TAX . . . . .</b>	<b>5,401</b>
	<hr/>
<b>Income tax using the domestic corporation tax rate (33.33% in y, 33.33% in y-1) . . . .</b>	<b>(1,800)</b>
	<hr/>
<b>Reconciliation:</b>	
Permanent differences . . . . .	(40)
Transactions at reduced rate . . . . .	0
Effect of tax rates in foreign countries . . . . .	11
Non-capitalised tax loss carry-forwards	
Research tax credit . . . . .	287
Additional contributions	
Corrections . . . . .	(25)
Minimum corporate income tax . . . . .	(4)
Non-capitalised timing difference	
	<hr/>
<b>ACTUAL INCOME TAXES . . . . .</b>	<b>(1,571)</b>
	<hr/> <hr/>

In 2004, the effective tax expense mainly resulted from:

- the recognition of a research tax credit of €287,000 in France.

**NOTE 8 – INTANGIBLE ASSETS**

At 31 December (in thousands of euros)	2004
<i>Cost</i>	
Development costs . . . . .	2,175
Patents and trade-marks . . . . .	484
Software . . . . .	446
Other intangible assets . . . . .	8
<b>Total</b> . . . . .	<b>3,113</b>
<i>Accumulated amortisation</i>	
Development costs . . . . .	(546)
Patents and trade-marks . . . . .	(184)
Software . . . . .	(422)
Other intangible assets	
<b>Total</b> . . . . .	<b>(1,152)</b>
<i>Carrying amounts</i>	
Development costs . . . . .	1,629
Patents and trade-marks . . . . .	300
Software . . . . .	24
Other intangible assets . . . . .	8
<b>Total</b> . . . . .	<b>1,961</b>

Only one company was formed in 2004: Parrot, Inc. No goodwill was recognised as an asset on the balance sheet.

Capitalised development costs recognised for the financial year correspond to the development of the Group's new product range. These costs are mainly made up of staff costs.

## NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

At 31 December (in thousands of euros)	2004
<b>Cost</b>	
Fixtures and fittings . . . . .	280
Machinery and industrial tools . . . . .	528
Office and computer equipment . . . . .	341
Other fixed assets . . . . .	142
<b>Total</b> . . . . .	<b>1,291</b>
<b>Accumulated amortisation</b>	
Fixtures and fittings . . . . .	(73)
Machinery and industrial tools . . . . .	(347)
Office and computer equipment . . . . .	(196)
Other fixed assets . . . . .	(53)
<b>Total</b> . . . . .	<b>(669)</b>
<b>Carrying amounts</b>	
Fixtures and fittings . . . . .	207
Machinery and industrial tools . . . . .	181
Office and computer equipment . . . . .	145
Other fixed assets . . . . .	90
<b>Total</b> . . . . .	<b>622</b>

Significant changes to tangible fixed assets concern France and can be explained by the Group's development.

No tangible fixed asset was pledged as a guarantee of financial liability.

## NOTE 10 – FINANCIAL ASSETS

Advances to subsidiaries, loans and other financial assets are analysed as follows:

At 31 December (in thousands of euros)	2004
Security deposits . . . . .	73
Other long-term financial assets	
<b>Total</b> . . . . .	<b>73</b>

Investments are not included under financial assets.

## NOTE 11 – DEFERRED TAX ASSETS

### ■ Change in deferred tax assets and liabilities

#### ● Deferred tax assets:

in thousands of euros	2004
At 1 January . . . . .	2,872
Income (expense) for the period . . . . .	(1,407)
Effect of foreign exchange differences . . . . .	(5)
<b>At 31 December</b> . . . . .	<b>1,461</b>

At 31 December 2004, deferred tax assets are related to tax loss carry-forwards of €1,387,000 and to temporary differences of €26,000.

● **Deferred tax liabilities:**

in thousands of euros	2004
At 1 January . . . . .	252
Expense (income) for the period . . . . .	446
<b>At 31 December . . . . .</b>	<b>698</b>

At 31 December 2004, deferred tax liabilities relate to temporary differences arising largely from recognition of development costs as an asset on the balance sheet.

The characteristics of deferred tax assets and liabilities are shown below:

At 31 December (in thousands of euros)	Assets 2004	Liabilities 2004	Net 2004
Intangible assets . . . . .			0
Property, plant and equipment . . . . .			0
Inventories . . . . .	0		0
Capitalisation of development costs . . . . .		543	(543)
Recognition of income on long-term contracts . . . . .		155	(155)
Others assets . . . . .	6		6
Provisions: . . . . .	40	0	40
<i>including employee benefits</i> . . . . .	25		
<i>including other social security provisions</i> . . . . .	15		
<i>including other provisions</i> . . . . .			
Other liabilities . . . . .			0
Tax loss carry-forwards . . . . .	1,367		1,367
Parrot Inc deferred taxes . . . . .	48		48
<b>NET DEFERRED TAX ASSETS (LIABILITIES) . . . . .</b>	<b>1,461</b>	<b>698</b>	<b>763</b>
<b>Deferred tax assets on balance sheet . . . . .</b>	Offset - >		<b>763</b>
<b>Deferred tax assets liabilities on balance sheet . . . . .</b>	Offset - >		
<b>NET BALANCE . . . . .</b>			

**NOTE 12 – INVENTORIES**

At 31 December (in thousands of euros)	2004
Raw materials and consumables . . . . .	3,682
Finished goods . . . . .	300
<b>Total . . . . .</b>	<b>3,982</b>

### NOTE 13 – TRADE RECEIVABLES

The breakdown of trade receivables is as follows:

At 31 December (in thousands of euros)	2004
Trade receivables . . . . .	3,364
Allowance for bad debt . . . . .	—
<b>TOTAL . . . . .</b>	<b>3,364</b>

Trade receivables are non interest-bearing and are generally payable in 30 to 90 days.

### NOTE 14 – OTHER RECEIVABLES

At 31 December (in thousands of euros)	2004
VAT prepayments . . . . .	1,991
Income tax prepayments . . . . .	1,179
Prepaid expenses . . . . .	23
Other current assets . . . . .	34
<b>TOTAL . . . . .</b>	<b>3,227</b>

At 31 December 2004, VAT receivables corresponded to VAT deductible from purchases, mainly in France. Tax receivables are related to the research tax credit receivable.

### NOTE 15 – OTHER CURRENT FINANCIAL ASSETS

At 31 December (in thousands of euros)	2004
Short-term investments . . . . .	1,266
Bank balances . . . . .	653
<b>Cash and cash equivalents . . . . .</b>	<b>1,919</b>
Bank overdrafts . . . . .	(9)
<b>Cash and cash equivalents in the statement of cash flows . . . . .</b>	<b>1,911</b>
Other current financial assets . . . . .	—
<b>TOTAL NET CASH . . . . .</b>	<b>1,911</b>

The concept of net cash used by the Group corresponds to cash that is immediately available for use as defined by IAS 7 and in the cash flow statement (see Note 1 “Rules and accounting principles”), to which is added the other current financial assets held by the Group in the context of its cash management.

## NOTE 16 – EQUITY

### 16.1 Share capital and share premium

At 31 December 2004, share capital was composed of 7,121,800 fully paid ordinary shares representing €1,086,000 and share premium amounted to €8,713,174. The number of ordinary shares was as follows:

At 31 December (in thousands of euros)	2004
Number of shares . . . . .	7,121,800
Nominal value (rounded) in euros . . . . .	0.1525
<b>TOTAL (€'000) . . . . .</b>	<b>1,086</b>

### 16.2 Cumulative translation adjustments

Foreign exchange had a €6,000 impact in 2004, corresponding mainly to a foreign exchange for the contribution from the United States as well as the impact of rate differentials on income from the United States.

### 16.3 Share-based payment transactions

#### Characteristics of the plans:

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 22 June 1999, approved a plan on 25 August 1999 granting 1,010 business founder warrants (B.S.P.C.E) at a price of €91.47, subsequently split by 100 by approval of the EGM of 24 June 2003, i.e. 101,000 equivalent B.S.P.C.E after the stock-split. Of this total, 50,000 warrants expired before 2004. The remaining 51,000 warrants expired on 25 August 2004.

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 22 June 1999, approved a plan on 21 April 2000 granting 1,068 B.S.P.C.E at a price of €164.64, subsequently split by 100 by approval of the EGM of 24 June 2003, i.e. 106,800 equivalent B.S.P.C.E after the stock-split. Of this total, 50,000 warrants expired before 2004.

The general meeting of shareholders of Parrot approved on 24 June 2003 a plan granting 493,300 B.S.P.C.E at a price of €1.76. Of this total, 13,000 warrants expired before the end of 2004.

The same general meeting approved a plan granting 35,600 equity warrants (B.S.A.) at a price of €1.76.

The general meeting of shareholders of Parrot approved on 6 July 2004 a plan granting 200,000 B.S.P.C.E at a price of €1.76, 174,300 of which were allotted on the same day. Since then, 108,300 warrants expired in 2004.

The same general meeting approved a plan granting 71,200 B.S.A. at a price of €1.76.

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 6 July 2004, approved a plan on 18 November 2004 granting 25,500 B.S.P.C.E at a price of €1.76. Since then, 1,500 warrants expired before 2004.

The general meeting of shareholders of Parrot approved on 7 December 2004 a plan granting 2,447,000 B.S.P.C.E with 836,000 exercisable at a price of €3.59 and 1,611,000, allotted immediately by the general meeting, at a price of €7.19. The same general meeting approved another plan of 167,131 B.S.P.C.E exercisable at a price of €3.59.

### Changes to the stock ownership plans during the period:

	2004
Number of options at 1 January . . . . .	626,700
Options granted during period . . . . .	2,718,000
Options exercised during period . . . . .	
Options expired during period . . . . .	(163,800)
<b>Number of options at 31 December . . . . .</b>	<b>3,180,900</b>

### Fair value of the stock ownership plans:

Parrot established a fair value for goods and services received during the period based on the fair value of equity instruments.

The opening value of the share is taken at grant date.

Volatility is calculated:

- Either in terms of the average historical volatility of securities included in the IT CAC index (except for the June 2003 plan for which 30-day average historical volatility is preferred since it offers the advantage of not being skewed by the extreme market movements which occurred in the first few months of 2003 in light of the geopolitical situation).
- Or in terms of Parrot's sales based on historical data over a long period.

The interest rate curve is calculated at each grant date using euro-swap risk-less rates with a corresponding maturity (5 years) (source Bloomberg).

### B.S.P.C.E and B.S.A. exercise terms:

All the B.S.P.C.E and B.S.A. plans, with the exception of the plan of 7 December 2004 for 2,447,000 B.S.P.C.E, have the following characteristics (on condition that the beneficiary is still an employee of the firm):

- The beneficiary may subscribe for 25% of the warrants at the end of the first year following allotment.
- The beneficiary may then subscribe for 6.25% of the warrants at the end of each quarter during the following three year period.

Concerning the plan of 7 December 2004 for 2,447,000 B.S.P.C.E, exercise rights are immediate.

The following assumptions have been used to determine fair value:

Date and type of plan	Reference price	Exercise price	Expected volatility	Maturity	Riskless rate
<b>Employees</b>					
EGM 24/06/03: B.S.P.C.E . . . . .	€1.76	€1.76	55% sales	5.00	2.79%
EGM 06/07/04: B.S.P.C.E . . . . .	€1.76	€1.76	48% sales	5.00	3.57%
Board 18/11/04: B.S.P.C.E . . . . .	€1.76	€1.76	48% sales	5.00	3.10%
EGM 07/12/04: B.S.P.C.E . . . . .	€3.59	€3.59	48% sales	5.00	2.85%
<b>Others</b>					
EGM 26/06/03: B.S.A. . . . . .	€1.76	€1.76	55% sales	5.00	2.79%
EGM 06/07/04: B.S.A. . . . . .	€1.76	€1.76	48% sales	5.00	3.57%

### Impact on the financial statements

On the basis of the variables used to calculate fair value according to the "Black & Scholes" model, the expense recognised in relation to the allotment of warrants, options and bonus shares amount to k€122 for the 2004 financial year.



## NOTE 17 – EARNINGS PER SHARE

- Basic earnings per share

Basic earnings per share is obtained by dividing Group profit by the weighted average number of ordinary shares during the year, less own shares, as the case may be. The weighted average number of common shares is an annual average calculated on the basis of the issue date or the date of repurchase of the shares during the financial year.

At 31 December	2004
Profit for the period – Group share ( <i>in euros</i> ) . . . . .	3,830,483
Weighted average number of ordinary shares . . . . .	7,121,800
<b>Basic earnings per share (<i>in euros</i>) . . . . .</b>	<b>0.54</b>

- Diluted earnings per share

The diluted earnings per share figure takes account of potentially dilutive instruments at the end of the financial year.

Concerning 2004, the exercise price of the equity instruments allotted by the Board of Directors on 18 November 2004 (€3.59) was chosen as the basis for calculating diluted earnings per share.

At 31 December	2004
Profit for the period – Group share used for determining diluted earnings per share ( <i>in euros</i> ) . . . . .	3,830,483
Weighted average number of ordinary shares (diluted) used . . . . .	7,389,617
<b>Diluted earnings per share (<i>in euros</i>) . . . . .</b>	<b>0.52</b>

## NOTE 18 – MINORITY INTERESTS

At 31 December 2004, there were no minority interests. Parrot Inc is a wholly-owned subsidiary (see Note 3 “Scope of consolidation”).

## NOTE 19 – PROVISIONS FOR PENSIONS AND POST RETIREMENT BENEFITS

### 19.1 Introduction

The number of personnel employed by the Group’s foreign subsidiaries is negligible as a proportion of the total workforce (about 1%).

Employee benefits are therefore made up mainly of pension liabilities concerning Parrot.

The Group is also subject to rules governing defined benefit pension plans, particularly for special termination benefits.

### 19.2 Financial information

Provisions for retirement benefits are the only constituent of additional employee benefits. The expense relating to these additional benefits is included in “General and administrative expenses” in the income statement. The interest expense associated with the discounting of these obligations has a direct impact on equity.

At 31/12/2004, this provision amounted to €76,000.

At 31 December	2004
<b>Principal actuarial assumptions</b>	
Discount rate . . . . .	5.00%
Turn-over rate . . . . .	weak
Future salary increases (average) . . . . .	6% degressive
<b>Balance sheet provisions (in thousands of euros)</b>	
Actuarial value of unfunded obligations . . . . .	<u>76</u>
<b>Net periodic benefit expense for the period (in thousands of euros)</b>	
Current service cost . . . . .	17
Interest cost . . . . .	
Expected return on planned assets . . . . .	
Actuarial gains / losses recognised during the period . . . . .	0
Past service cost recognised . . . . .	
Curtailments and others . . . . .	
<b>NET RECOGNISED EXPENSE FOR THE PERIOD . . . . .</b>	<u><u>17</u></u>

**NOTE 20 – OTHER NON-CURRENT LIABILITIES**

The change in other non-current provisions during the financial year was as follows:

At 31 December (in thousands of euros)	2004
Provisions for litigation with employees . . . . .	97
Provisions for litigation with suppliers . . . . .	<u>167</u>
<b>Total . . . . .</b>	<u><u>265</u></u>

**NOTE 21 – CURRENT PROVISIONS**

The change in current provisions during the financial year was as follows:

At 31 December (in thousands of euros)	2004
Warranty provisions . . . . .	66
Provisions for taxes . . . . .	<u>8</u>
<b>Total current provisions . . . . .</b>	<u><u>73</u></u>

For the 2004 financial year, no other provision was recorded such as provisions for restructuring, commercial or environmental risks.

**NOTE 22 – TRADE PAYABLES, CURRENT INCOME TAX LIABILITIES AND OTHER PAYABLES**

At 31 December (in thousands of euros)	2004
<b>Trade payables</b> . . . . .	<b>2,449</b>
<b>Income taxes</b> . . . . .	<b>0</b>
Advances and prepayments to suppliers . . . . .	310
Tax and social security liabilities . . . . .	1,256
Dividends payable . . . . .	0
Other liabilities . . . . .	185
<b>Other current liabilities</b> . . . . .	<b>1,751</b>

**NOTE 23 – DERIVATIVE FINANCIAL INSTRUMENTS**

The Parrot Group did not use derivative financial instruments during the 2004 financial year to manage its exposure to interest rate, exchange rate fluctuations and raw material prices.

**NOTE 24 – SUBSEQUENT EVENTS**

Not applicable

## Consolidated accounts for the year ended 31 December 2005

Note: All amounts stated in the consolidated financial statements are presented in thousands of euros.

### Consolidated income statements for the years ended 31 December 2004 and 2005

In thousands of euros	Note	2004	2005
<b>Sales</b> . . . . .	<b>4</b>	<b>29,160</b>	<b>62,537</b>
Cost of sales . . . . .	<b>5</b>	<b>(15,810)</b>	<b>(33,874)</b>
<b>GROSS MARGIN</b> . . . . .		<b>13,350</b>	<b>28,663</b>
<i>Gross margin as % of sales</i> . . . . .		<b>46%</b>	<b>46%</b>
Research and development costs . . . . .	<b>5</b>	(2,090)	(6,883)
<i>as % of sales</i> . . . . .		(7%)	(11%)
Selling expenses . . . . .	<b>5</b>	(3,055)	(9,034)
<i>as % of sales</i> . . . . .		(10%)	(14%)
General and administrative expenses . . . . .	<b>5</b>	(843)	(2,310)
<i>as % of sales</i> . . . . .		(3%)	(4%)
Production / Quality . . . . .	<b>5</b>	(2,132)	(3,010)
<i>as % of sales</i> . . . . .		(7%)	(5%)
<b>OPERATING PROFIT</b> . . . . .		<b>5,230</b>	<b>7,426</b>
<i>Operating profit as % of sales</i> . . . . .		<b>18%</b>	<b>12%</b>
Income from cash and cash equivalent . . . . .	<b>6</b>	11	115
Gross borrowing cost . . . . .	<b>6</b>	(25)	(38)
Net borrowing cost . . . . .	<b>6</b>	(14)	77
Other financial revenues and expenses . . . . .	<b>6</b>	185	(8)
Income tax expense . . . . .	<b>7</b>	(1,571)	(2,187)
<b>PROFIT FOR THE PERIOD – Group share</b> . . . . .		<b>3,830</b>	<b>5,308</b>
<i>Profit for the period – Group share as % of sales</i> . . . . .		<b>13%</b>	<b>8%</b>

In thousands of euros	Note	2004	2005
<b>Weighted average number of ordinary shares</b> . . . . .		7,121,800	8,703,871
Basic earnings per share (in euros) . . . . .	<b>17</b>	0.54	0.61
<b>Weighted average number of ordinary shares (diluted)</b> . . . . .		7,389,617	9,907,270
Diluted earnings per share (in euros) . . . . .	<b>17</b>	0.52	0.54

Consolidated balance sheets at 31 December 2004 and 2005

ASSETS In thousands of euros	Note	2004	2005
<b>Total non-current assets</b> . . . . .		<b>3,419</b>	<b>5,551</b>
Intangible assets . . . . .	8	1,961	3,483
Property, plant and equipment . . . . .	9	622	1,932
Financial assets . . . . .	10	73	123
Deferred tax assets . . . . .	11	763	12
<b>Total current assets</b> . . . . .		<b>12,493</b>	<b>39,153</b>
Inventories . . . . .	12	3,982	11,557
Trade receivables . . . . .	13	3,364	17,169
Other receivables . . . . .	14	3,227	6,340
Other current financial assets . . . . .	15	–	2,042
Cash and cash equivalents . . . . .	15	1,919	2,045
<b>TOTAL ASSETS</b> . . . . .		<b>15,912</b>	<b>44,703</b>

LIABILITIES AND EQUITY In thousands of euros	Note	2004	2005
<b>Total Equity</b>			
Share capital . . . . .	16	1,086	1,349
Additional paid-in capital . . . . .	16	8,713	14,304
Retained earnings and reserves . . . . .		(2,340)	1,643
Profit for the period . . . . .		3,830	5,308
<b>Equity attributable to Parrot S.A. shareholders</b> . . . . .		<b>11,289</b>	<b>22,605</b>
<b>Minority interests</b> . . . . .		<b>–</b>	<b>–</b>
<b>Total non-current liabilities</b> . . . . .		<b>341</b>	<b>1,196</b>
Long-term financial debt . . . . .		–	–
Provisions for pensions and post retirement benefits . . . . .	19	76	137
Deferred tax liabilities . . . . .	11	–	790
Other non-current liabilities . . . . .	20	265	268
<b>Total current liabilities</b> . . . . .		<b>4,281</b>	<b>20,902</b>
Short-term financial debt . . . . .		9	17
Current provisions . . . . .	21	73	129
Trade payables . . . . .	22	2,449	15,351
Current income tax liabilities . . . . .	22	–	1,203
Other payables . . . . .	22	1,750	4,201
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .		<b>15,912</b>	<b>44,703</b>

Statement of recognised income and expenses for the years ended 31 December 2004 and 2005

In thousands of euros	2004	2005
Foreign exchange differences . . . . .	6	(61)
Change in actuarial gains and losses relating to employee benefits . . . . .		(15)
<b>Net income recognised directly through equity</b> . . . . .	<b>6</b>	<b>(76)</b>
<b>Profit for the period – Group share</b> . . . . .	<b>3,830</b>	<b>5,308</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSES FOR THE PERIOD</b> . . . . .	<b>3,836</b>	<b>5,232</b>

Consolidated statements of cash flow for the years ended 31 December 2004 and 2005

In thousands of euros	2004	2005
<b>Cash flow from operating activities</b>		
Profit for the periods . . . . .	3,830	5,308
Depreciation and amortization . . . . .	1,079	2,230
Gains / Losses on sale of assets . . . . .	2	0
Income tax expense . . . . .	1,571	2,187
Cost of share-based payments . . . . .	122	231
Net borrowing cost . . . . .	13	(77)
<b>Cash flow from operations before net borrowing cost and income tax . .</b>	<b>6,617</b>	<b>9,880</b>
Change in working capital . . . . .	(4,520)	(8,036)
<b>CASH FLOW FROM OPERATING ACTIVITIES . . . . .</b>	<b>2,098</b>	<b>1,844</b>
Taxes payable . . . . .	283	(636)
<b>NET CASH FROM OPERATING ACTIVITIES (A) . . . . .</b>	<b>2,380</b>	<b>1,208</b>
<b>Cash flow from investing activities</b>		
Interest received		
Acquisitions of intangible assets and property, plant and equipment . .	(1,730)	(4,954)
Acquisitions of subsidiaries, net of cash acquired (Note 3) . . . . .	0	0
Acquisitions of financial assets . . . . .	(47)	(42)
Increase in other current financial assets . . . . .		(2,042)
Proceeds from sale of intangible assets and property, plant and equipment . . . . .	0	0
Proceeds from sale of subsidiaries, net of cash sold (Note 3)		
Proceeds from sale of other investments . . . . .	0	2
<b>NET CASH FROM INVESTING ACTIVITIES (B) . . . . .</b>	<b>(1,778)</b>	<b>(7,036)</b>
<b>Cash flow from financing activities</b>		
Increase in share capital . . . . .	2	5,862
Dividends paid . . . . .	0	0
Proceeds from borrowings . . . . .	0	0
Cost of net debt . . . . .	(13)	77
Repayment of borrowings . . . . .	0	0
Interest paid . . . . .	0	0
<b>NET CASH FROM FINANCING ACTIVITIES (C) . . . . .</b>	<b>(11)</b>	<b>5,939</b>
<b>NET CHANGE IN CASH (D = A+B+C) . . . . .</b>	<b>591</b>	<b>111</b>
Effect of exchange rates fluctuations on cash held . . . . .	0	6
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR . . . . .</b>	<b>1,319</b>	<b>1,911</b>
<b>CASH AND CASH EQUIVALENTS AT YEAR-END . . . . .</b>	<b>1,911</b>	<b>2,027</b>
Cash and cash equivalents at year-end . . . . .	1,911	2,027
Other current financial assets . . . . .	0	2,042
Cash and cash equivalents and Other current financial assets at year-end . . . . .	1,911	4,069

*Consolidated statement of changes in equity for the years ended 31 December 2004 and 2005*

	Share capital	Additional paid-in capital	Legal reserve	Retained earnings	Consolidated reserves	Profit for the period	Others Translation adjustments	Equity – Group share	Minority interests
<b>As of 31 December 2003 . . . . .</b>	<b>1,086</b>	<b>8,711</b>		<b>(6,778)</b>	<b>4,310</b>			<b>7,329</b>	
Recognised income and expenses for the period . . . . .				968	(968)	3,830	6	3,837	
Increase in share capital of consolidating firm . . . . .		2						2	
Effect of share issues . . . . .					122			122	
<b>As of 31 December 2004 . . . . .</b>	<b>1,086</b>	<b>8,713</b>		<b>(5,811)</b>	<b>3,464</b>	<b>3,830</b>	<b>6</b>	<b>11,289</b>	
Previous year profit for the period allocation . . . . .			8	4,527	(714)	(3,830)		(10)	
Recognised income and expenses for the period . . . . .						5,308	(76)	5,232	
Increase in share capital of consolidating firm . . . . .	263	5,599						5,862	
Effect of measuring . . . . .		(8)			8				
Effect of share issues . . . . .					231			231	
<b>As of 31 December 2005 . . . . .</b>	<b>1,349</b>	<b>14,304</b>	<b>8</b>	<b>(1,284)</b>	<b>2,989</b>	<b>5,308</b>	<b>(70)</b>	<b>22,605</b>	



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1 – THE COMPANY**

The activities of “the Group”, meaning PARROT S.A., its subsidiaries and the Group’s share in associated companies or companies under joint control, are presented in the attached consolidated financial statements. Parrot S.A. is a French company which intends to make a public offering in 2006.

Its Head Office is in Paris.

The financial statements have been closed by the Board of Directors on 18 December 2005.

The financial statements are presented in euros rounded to the nearest thousand.

### **NOTE 2 – BASIS OF PREPARATION**

Pursuant to European regulation N° 1606/2002 of 19 July 2002, the 2005 published consolidated financial statements were prepared in accordance with the international accounting standards issued by the IASB (International Accounting Standards Board). These international accounting standards are composed of IFRS (International Financial Reporting Standards) and IAS (International Accounting Standards), as well as their interpretation, as adopted by the European Union as of 31 December 2005 (published in the Official Journal of the European Union), with the exception of the amended IAS 19, which has been adopted in advance.

The 2005 consolidated financial statements are the first set of accounts to have been prepared in complete accordance with IFRS. They include, for comparative purposes, the 2004 income statement as well as the balance sheet, for which the opening balance sheet was established pursuant to IFRS 1 “First-time adoption of IFRS”. As regards IFRS 2 “Share-based payment” which came into effect on 1 January 2005, the Group applied this standard only to items of shareholders’ equity issued after 7 November 2002 but not yet vested on 1 January 2005.

Some standards and interpretations adopted by the IASB or the IFRIC (International Financial Reporting Interpretations Committee) as well as by the European Union as of 31 December 2005 are not applied in advance.

From 1 January 2004, the Group has applied IAS 32 “Financial instruments: disclosure and presentation” and IAS 39 “Financial instruments: recognition and measurement” as well as the amended IAS 19 “Employee benefits” concerning recognition of actuarial gains and losses.

Main accounting principles applied by the Group:

#### **A) Consolidation methods**

The financial statements of companies controlled directly or indirectly by Parrot S.A. are fully-consolidated. Parrot S.A. is deemed to exercise control over an entity when it has the power, directly or indirectly, to direct the financial and operating strategy of an entity so as to obtain benefits from its activities.

Control can be said to exist if Parrot S.A. holds more than half the voting rights of the company under control. The financial statements of the companies under control are included in the Group’s consolidated financial statements from the transfer date of effective control until the date when control ceases.

Full-consolidation is the only method applied by the Group since Parrot holds more than half the voting rights of all companies included in the scope of consolidation (see Note 3).

The Group’s consolidated companies have prepared their accounts at 31 December 2004 and 31 December 2005 according with Group’s accounting rules and principles. Transactions between consolidated companies as well as inter-company profits are eliminated.

The Group does not have any special purpose entities.

#### **B) Use of estimates**

The preparation of financial statements requires Management to make judgements, estimates and assumptions that may effect the application of policies and reported amount of assets and liabilities,

income and expenses. These estimates are based on economic data which are likely to vary over time and are subject to a degree of uncertainty.

These underlying estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the 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 current and future periods.

They mainly concern recognition of sales according to contract terms, recognition of deferred tax assets, asset impairment tests and current and non-current provisions.

### C) Foreign currency translation

#### ■ Transactions in foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### ■ Translation of financial statements of foreign companies

The Group's consolidated accounts are presented in euros.

The assets and liabilities of foreign operations are translated to euro at foreign exchange rates ruling at the balance sheet date with the exception of equity which is recorded at historical value. The revenues and expenses of foreign operations are translated to euro at the average exchange rate.

The exchange rates used to translate the financial statements of the Group's main subsidiaries into euros are as follows:

Rates at 31 December	2004	2005
US dollar . . . . .	0.73416	0.84767
HK dollar . . . . .	0.09445	0.10932
UK sterling . . . . .	1.41834	1.45921

Average exchange rates	2004	2005
US dollar . . . . .	0.80429	0.80336
HK dollar . . . . .	NA	0.10328
UK sterling . . . . .	NA	1.46218

### D) Income statement

Income and expenses are analyzed in the consolidated income statement by function, reflecting the specific nature of the Group's business, as follows: cost of sales (expenses associated directly linked to products sold), research and development costs (including costs incurred during the period when not recognised as an asset on the balance sheet as well as amortisation of development costs when recorded as an asset on the balance sheet), selling expenses, general and administrative expenses and production and quality-control costs (supply-management and quality control department which mainly include the salaries of the employees of those departments).

Operating profit, principal performance indicator of the Group's business activity, is calculated by deducting these four categories of costs, which constitute the Group's operating expenses as a whole, from sales.

In order to provide more comprehensive information, these operating expenses are analysed by nature in Note 5 “Nature of operating expenses” in the present appendix.

Profit is calculated by taking into account the following items:

- net borrowing cost, which includes interest on financial debt based on the effective interest rates, less income from cash and cash equivalents,
- other financial revenue and expenses including mainly the impact of measuring financial instruments at fair value, instruments to their fair value and foreign exchange gain and losses,
- current and deferred tax expenses.

#### **E) Earnings per share**

The information below is calculated according to the following principles:

- basic earnings per share: the profit for the period (Group share) is divided by the weighted average number of ordinary shares outstanding during the period after deducting treasury shares. The weighted average number of ordinary shares outstanding is an annual weighted average adjusted by the number of common shares bought-back or issued during the period and is calculated by reference to the date of issue of the shares during the financial year;
- diluted earnings per share: the profit for the period (Group share) as well as the weighted average number of shares outstanding, used to calculate basic earnings per share, are adjusted for the effects of all dilutive potential ordinary shares, corresponding to: stock options plans and share plans (Note 16.3: “share base payment transactions”) and bonus shares.

#### **F) Sales**

Revenues arising from the sale of goods are recognised in the income statement when risks and rewards related to the ownership of the goods have been transferred to the purchaser.

Revenues arising from the rendering of services are recognised in the income statement based on the stage of completion at the end of the period. The stage of completion is determined on the basis of costs incurred.

Revenue is not recognised when there is significant uncertainty as to the recovery of the corresponding sum due, to the costs incurred or to be incurred associated with the sale or the possible return of the goods in the event that the purchase is cancelled and when the Group retains managerial involvement in the assets.

#### **G) Operating lease payments**

Operating lease payments are recognised as an expense over the term of the lease on a straight-line basis.

Benefits received constitute an integral part of total net lease expenses and are recognised in the income statement according to the same rule.

#### **H) Net borrowing cost**

The net borrowing cost includes interest paid on borrowings – calculated by using the effective interest rate method – less interest received from cash equivalent and other financial assets.

Interest incomes are recognised in the income statement when acquired, by using the effective interest rate method.

Dividend incomes are recognised in the income statement as soon as the Group acquires the right to receive payments.

#### **I) Income tax expenses**

Income taxes (expense or income) include current income tax as well as deferred income tax. Income tax is recognised in the income statement unless it is associated with items which are recognised directly in shareholders’ equity; in which case it is recognised in equity.

Current income tax is (i) the estimated amount of income tax due on the taxable income for the period, calculated using the tax rates which have been enacted or virtually enacted at the end of the period and (ii) any adjustment to the amount of tax payable for previous periods.

Deferred income taxes: see Chapter N of the present note.

#### **J) Segment information**

The Group follows each business segment as an independent entity with its own specific economic context, risks and profitability, which are different from those of other segments.

From a managerial standpoint, the Group's business activities are analysed on two levels: by market and by the geographical location of its customers. Markets, rather than geographical regions, are regarded as standalone profit centres, and each has its own complete performance measurement. Primary segment information is based on the markets in which the Group operates. The geographical areas in which the Group generates its sales provide the secondary segment of information.

Operating costs incurred at the Group level for each market segment are allocated either directly or on a reasonable basis.

#### **K) Intangible assets**

- Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired at the date that control was obtained. Goodwill is not amortised.

Negative goodwill arising on an acquisition is recognised directly in profit and loss.

At the acquisition date, the cost of a business combination is attributed by recognizing the assets, liabilities, identifiable contingent liabilities of the acquired entity at fair value, with the exception of non-current assets held for sale, which are recognised at their fair value less cost to sale. Goodwill is valued at cost less accumulated impairment.

- Research and development costs

Research costs are expensed when incurred.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of general and administrative expenses. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. They are amortised over a period of two to three years.

- Other intangible assets

Other intangible assets include software and user rights acquired on an unrestricted ownership basis and are amortised over their useful life, either 3 years for software and between 1 and 4 years for user rights.

#### **L) Property, plant and equipment**

Tangible fixed assets are recorded as an asset on the balance sheet at their historical cost less accumulated depreciation and impairment. They are not subject to revaluation.

Subsequent costs (replacement costs and costs needed to bring the asset to working condition) are capitalised and depreciated over the estimated useful life of the asset. Costs associated with routine maintenance and repairs are charged to expenses when they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life by category of asset. It is calculated on the basis of the acquisition cost less residual value.

Assets are depreciated over their estimated useful lives as follows:

Fixtures and fittings . . . . .	3 to 10 years
Technical industrial facilities . . . . .	10 years
Machinery and industrial tools . . . . .	3 years
Office and computer equipment . . . . .	3 to 5 years
Transportation equipment . . . . .	3 years

The residual value and useful life of assets are reviewed at each financial year-end.

Gains or losses on disposal of assets result from the difference between proceeds and the carrying amount.

**M) Depreciation of intangible and tangible fixed assets**

The useful value of intangible and tangible fixed assets is tested, as soon as any indications of impairment are identified, at the time of the preparation of the accounts and at least once a year in respect of goodwill.

Impairment testing consists of determining the recoverable value of each entity generating its own cash flows (Cash Generating Units). These entities are subsidiaries or geographical regions in which the Group operates, whose continued activity generates cash inflows that are substantially independent of cash flows generated by other groups of assets. The recoverable value of each CGU is determined, in particular, by applying the method of discounted future cash flows, based on budgetary estimates of growth and profitability, which are deemed to be reasonable, using a 3 year time-frame. Discount rates and long-term growth rates for a period of more than 3 years, common practice in the sector in which the Group operates, are applied to all valuations of entities generating their own cash flows. When the recoverable value of a CGU is less than its carrying amount, the corresponding impairment is initially posted to goodwill and the values of other assets in the units are then reduced on a pro-rata basis and recognised in operating income.

Impairment recognised on goodwill cannot be reversed.

**N) Deferred tax assets**

Deferred tax assets are stated in the income statement and in the balance sheet to account for timing differences between the carrying amount and the value for tax purposes of certain assets and liabilities.

Deferred tax assets are recognised using the balance sheet liability method using tax rate enacted or substantially enacted at the balance sheet date. The effect of any change in tax rates on deferred taxes previously stated in the income statement or in equity is recorded respectively in the income statement or in equity in the financial year in which these changes come into effect.

Deferred tax assets are recognised respectively in the income statement or in equity in the financial year, depending on whether the items to which they relate are themselves recognised in the income statement or equity.

A deferred tax asset is recognised 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.

Deferred tax assets and liabilities can be offset if, and only if, subsidiary companies have the right to offset the tax losses of one against the taxable profits of another and provided that they relate to taxes levied by the same tax authority at the same time.

Deferred tax assets and liabilities are not discounted.

**O) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

**P) Trade receivables**

Trade receivables and other receivables are recognised at their fair value on initial recognition and subsequently at amortised cost less impairment.

**Q) Other current financial assets**

Financial instruments classified as investments are recognised on a fair value basis. Any change in value is recognised in the income statement.

Money markets funds which do not meet the definition of cash and cash equivalents are classified in other current financial assets.

**R) Cash and cash equivalents**

Cash and cash equivalents include cash on hand. They also include money market funds which meet IAS 7 criteria.

Bank overdrafts repayable on demand, which form an integral part of the Group's cash management, are also included as a component of cash and cash equivalents, for the purposes of the cash flow statement.

**S) Net cash**

Net cash means for the Group cash and cash equivalents, less bank overdrafts, plus other current financial assets.

**T) Share-based payment transactions**

Stock options may be granted to certain Group employees. They confer the right to subscribe to Parrot shares during a period of four or five years at a fixed exercise price determined at the grant date.

The options are measured on the basis of the fair value of the benefit granted to the employee at grant date. Their cost is recognised in staff costs in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. When the income statement be presented by function, corresponding staff costs are presented according to the function of the employees.

The fair value of the option is determined according to the "Black & Scholes" model, whose variables include, in particular, the exercise price of the options, the term, the share price or reference price at grant date, implied share price volatility and the risk free interest rate. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Pursuant to the provisions of IFRS 1 "First-time adoption of international financial reporting standards", only plans granted after 7 November 2002 that were not yet vested at 1 January 2005 have been measured and posted to operating expenses. Plans prior to 7 November 2002 and those granted after 7 November 2002 and vested before 1 January 2005 have not been restated.

**U) Employee benefits**

– Pension plans

The Group is mainly subject to defined contribution pension plans.

The Group's employees and companies make payments into defined contribution pension plans, administered by institutions authorised to manage such pension funds. The Group's obligations are limited to the payment of these contributions which are recognised in the income statement as incurred.

The Group is also subject to defined benefit plans, particularly for special retirement indemnity.

– Long-term benefits

The Group's net obligation in respect of long-term benefits other than pension plans is the amount of future benefits earned by employees in return for services rendered in the current and prior periods. The amount of the obligation is calculated by using the projected unit credit method. The discount rate is the

yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations.

The Group has applied the amended IAS 19. Consequently, all actuarial differences are recognised through equity.

#### V) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation resulting from a past event and it is probable that an outflow of resources representing economic benefits will be required to settle the obligation.

#### – Warranties

A provision for warranties is recognised when the underline products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

#### W) Trade payables

All such payables are recorded at cost.

After their initial recognition, Parrot Group measures at amortised cost all financial liabilities other than those held for the sale.

### NOTE 3 – SCOPE OF CONSOLIDATION

The scope of Parrot Group consolidation includes six consolidated companies. The complete list and the related consolidation method are:

Name	Address	Country	Interest Parrot S.A.	Method
<b>PARENT COMPANY</b>				
<b>PARROT S.A.</b>	174, Quai de Jemmapes 75010 Paris	France		
<b>CONSOLIDATED SUBSIDIARIES</b>				
<b>PARROT Inc.</b>	257 Madison Avenue, Suite 500, New York, NY 10016	United States	100%	Fully consolidated
<b>Parrot Italia Srl.</b>	Via Falcone 7 20123 Milan	Italy	100%	Fully consolidated
<b>PARROT GmbH.</b>	Englmannstrasse 2 81673 Munich	Germany	100%	Fully consolidated
<b>Parrot UK Ltd</b>	89, Cornwall street, Birmingham B3 3BY	United Kingdom	100%	Fully consolidated
<b>Parrot Asia Pacific Ltd.</b>	Unit 1006, 10/F, Carnarvon Plaza 20 Carnarvon Road, T.S.F. Kowloon, Hong Kong	Hong Kong	100%	Fully consolidated

At the end of 2004, the perimeter comprised Parrot S.A. and Parrot Inc, wholly owned.

The Italian subsidiary was formed in January 2005.

The German, British and Hong Kong subsidiaries were formed in April, June and July 2005 and began marketing Parrot products in the third quarter of 2005.

#### ■ Acquisitions

All entities mentioned within the scope are new companies created by Parrot S.A. and do not therefore constitute acquisitions.



■ Sales

No Group company was sold during the financial year.

**NOTE 4 – SEGMENT INFORMATION**

■ **Information by segment and by market**

Almost all sales are generated by Bluetooth hands-free car kits for which the market breakdown is as follows:

- Aftermarket which mainly includes CK3000, CK3100 and CK3300 products,
- Plug-&-play market which mainly includes DriveBlue and Easydrive products,
- OEM market which is made up of CK4000 and CK5000 products.

At 31 December 2005, information by segment and by market is analysed as follows:

2005 In thousands of euros	After- market	Plug-&-play	OEM	Unallocated	Total
<b>INCOME STATEMENT</b>					
Sales – products . . . . .	55,276	3,805	1,482		60,563
Cost of sales – products . . . . .	(28,845)	(3,489)	(880)		(33,214)
Gross margin – products . . . . .	26,430	317	602	0	27,349
Sales – others . . . . .				1,974	1,974
Operating profit – others . . . . .				1,314	1,314
<b>TOTAL Gross margin . . . . .</b>	<b>26,430</b>	<b>317</b>	<b>602</b>	<b>1,314</b>	<b>28,663</b>
Other operating expenses . . . . .				(21,237)	(21,237)
Operating profit . . . . .				7,426	7,426
Net borrowing cost . . . . .				77	77
Other financial revenues and expenses . . . . .				(8)	(8)
Income tax expense . . . . .				(2,187)	(2,187)
<b>Profit for the period . . . . .</b>					<b>5,308</b>
<b>BALANCE SHEET</b>					
Assets by business segment . . . . .	1,640	0	231	1,251	3,123
Unallocated assets . . . . .				41,580	41,580
<b>TOTAL CONSOLIDATED ASSETS . . . . .</b>	<b>1,640</b>	<b>0</b>	<b>231</b>	<b>42,831</b>	<b>44,703</b>
Liabilities by business segment . . . . .					
Unallocated liabilities . . . . .				44,703	
<b>TOTAL CONSOLIDATED LIABILITIES . . . . .</b>				<b>44,703</b>	<b>44,703</b>
<b>OTHER BUSINESS SEGMENT INFORMATION</b>					
Development costs recognised as assets . . . . .	1,374	0	70	611	2,055
Amortisation of development costs capitalised . . . . .	500	61	0	0	561

“Sales – others” is mainly composed of components sales to Tes and Jabil as well as received royalties.

At 31 December 2004, information by segment and by market is analysed as follows:

2004 In thousands of euros	After- market	Plug-&- play	OEM	Un-allocated	Total
<b>INCOME STATEMENT</b>					
Sales – products . . . . .	22,752	3,937	717		27,405
Cost of sales – products . . . . .	(11,703)	(2,601)	(144)		(14,448)
Gross margin – products . . . . .	11,049	1,336	572	0	12,957
Sales – others . . . . .				1,755	1,755
Operating profit – others . . . . .				393	393
<b>TOTAL Gross margin . . . . .</b>	<b>11,049</b>	<b>1,336</b>	<b>572</b>	<b>393</b>	<b>13,350</b>
Other operating expenses . . . . .				(8,120)	(8,120)
Operating profit . . . . .				5,230	5,230
Net borrowing cost . . . . .				(14)	(14)
Other financial revenues and expenses . . . . .				185	185
Income tax expense . . . . .				(1,571)	(1,571)
<b>Profit for the period . . . . .</b>					<b>3,830</b>
<b>BALANCE SHEET</b>					
Assets by business segment . . . . .	766	61	161	640	1,629
Unallocated assets . . . . .				14,283	14,283
<b>TOTAL CONSOLIDATED ASSETS . . . . .</b>	<b>766</b>	<b>61</b>	<b>161</b>	<b>14,923</b>	<b>15,912</b>
Liabilities by business segment . . . . .					
Unallocated liabilities . . . . .				15,912	
<b>TOTAL CONSOLIDATED LIABILITIES . . . . .</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,912</b>	<b>15,912</b>
<b>OTHER BUSINESS SEGMENT INFORMATION</b>					
Development costs recognised as assets . . . . .	489	0	78	596	1,164
Amortisation of capitalised development costs . . . . .	268	141	0	0	409

## ■ Geographical segment

At 31 December 2005, information by geographical segment is analysed as follows:

in thousands of euros	France	Belgium Netherlands	Spain	Italy	UK	Germany	Rest of Europe	United States	Hong Kong	Rest of the world	Total
<b>INCOME STATEMENT</b>											
Non-Group sales (by region/customers) . . . . .	7,658	4,664	25,020	3,428	5,572	5,231	3,909	3,093	634	3,328	62,537
<b>OTHER BUSINESS SEGMENT INFORMATION</b>											
Investments:											
Property, plant and equipment . . . . .	1,752			5	14	1		53	8		1,833
Intangible assets . . . . .	3,121			1		0					3,122
Average number of employees . . . . .	149			2	3	2		5	2		163

At 31 December 2004, information by geographical segment is analysed as follows:

in thousands of euros	France	Belgium Netherlands	Spain	Italy	UK	Germany	Rest of Europe	United States	Hong Kong	Rest of the world	Total
<b>INCOME STATEMENT</b>											
Non-Group sales (by region) . . . . .	4,775	1,720	8,970	2,244	3,492	4,198	1,466	804	0	1,490	<b>29,160</b>
<b>OTHER BUSINESS SEGMENT INFORMATION</b>											
Investments:											
<i>Property, plant and equipment</i> . . . . .	425							28			<b>454</b>
<i>Intangible assets</i> . . . . .	1,277										<b>1,277</b>
Average number of employees . . . . .	74							1			<b>75</b>

**NOTE 5 – OPERATING EXPENSES BY NATURE**

Operating expenses by nature can be analysed as follows:

in thousands of euros	2004	2005
Purchases of raw materials and consumables . . . . .	8,901	7,226
Sub-contracting costs . . . . .	6,960	25,846
Other external charges . . . . .	3,366	10,008
Staff costs . . . . .	3,792	9,028
Tax expenses . . . . .	282	579
Depreciation and amortization . . . . .	679	2,558
Other operating income and expenses . . . . .	(51)	(135)
<b>Total operating costs</b> . . . . .	<b>23,930</b>	<b>55,110</b>

Staff costs are analysed in the following manner:

in thousands of euros	2004	2005
Salaries and wages . . . . .	2,600	6,159
Social security costs (including defined contribution pension plans) . . . . .	1,070	2,263
Employee profit-sharing . . . . .	0	376
Cost of share based payments . . . . .	122	231
<b>Total staff costs</b> . . . . .	<b>3,792</b>	<b>9,028</b>

**NOTE 6 – NET FINANCING INCOME**

in thousands of euros	2004	2005
Gross borrowing cost . . . . .	(25)	(38)
Income from cash and cash equivalents . . . . .	11	115
<b>Net borrowing cost</b> . . . . .	<b>(14)</b>	<b>77</b>
Foreign exchange gains . . . . .	256	186
Foreign exchange losses . . . . .	(85)	(216)
Others . . . . .	15	22
<b>Other financial revenues and expenses</b> . . . . .	<b>186</b>	<b>(8)</b>
<b>TOTAL</b> . . . . .	<b>172</b>	<b>69</b>

Interest expenses are mainly made up of bank charges.

## NOTE 7 – INCOME TAX EXPENSE

### ■ Income Tax Expense

The income tax expense is analysed as follows:

in thousands of euros	2004	2005
Current income taxes . . . . .	(283)	636
Deferred income taxes . . . . .	1,853	1,551
<b>TOTAL</b> . . . . .	<b>1,571</b>	<b>2,187</b>

Current tax expense for 2005 can be explained by corporation tax in France k€404, Germany k€85, Italy k€74 and the UK k€73.

Deferred tax expense for 2005 mainly includes:

- use of tax loss carry-forwards previously recognised as an asset in the balance sheet for €1,387,000, mainly in France,
- recognition of k€490 of deferred tax liabilities from development expenditures recognised as an asset, net of depreciation for the period,
- other temporary differences representing a net expense of k€326.

The reconciliation of effective tax rate is as follows:

in thousands of euros	2004	2005
Profit for the period . . . . .	3,830	5,308
Income tax expense . . . . .	1,571	2,187
<b>PROFIT BEFORE TAX</b> . . . . .	<b>5,401</b>	<b>7,495</b>
<b>Income tax using the domestic corporation tax rate (33.33% in y, 33.33% in y-1)</b> . . . . .	<b>(1,800)</b>	<b>(2,498)</b>
<b>Reconciliation:</b>		
Permanent differences . . . . .	(40)	(70)
Transactions at reduced rate . . . . .	0	0
Effect of tax rates in foreign countries . . . . .	11	(38)
Non-capitalised tax loss carry-forwards . . . . .		(428)
Research tax credit . . . . .	287	871
Additional contributions . . . . .		(39)
Corrections . . . . .	(25)	20
Minimum corporate income tax . . . . .	(4)	
Non-capitalised timing difference . . . . .		(4)
<b>ACTUAL INCOME TAXES</b> . . . . .	<b>(1,571)</b>	<b>(2,187)</b>

In 2005, the effective tax expense mainly resulted from:

- recognition of a research tax credit of k€871 in France,
- non-recognition of deferred tax assets of k€428, mainly relating to the Parrot Inc. subsidiary.

## NOTE 8 – INTANGIBLE ASSETS

At 31 December (in thousands of euros)	2004	Increase	Decrease	2005
<b>Cost</b>				
Development costs . . . . .	2,175	2,055		4,229
Patents and trade-marks . . . . .	484	1,014		1,498
Software . . . . .	446	52		499
Other intangible assets . . . . .	8	1		9
<b>Total . . . . .</b>	<b>3,113</b>	<b>3,122</b>		<b>6,235</b>
<b>Accumulated amortisation</b>				
Development costs . . . . .	(546)	(561)		(1,107)
Patents and trade-marks <sup>(1)</sup> . . . . .	(184)	(980)		(1,164)
Software . . . . .	(422)	(58)		(480)
Other intangible assets . . . . .		(0)		(0)
<b>Total . . . . .</b>	<b>(1,152)</b>	<b>(1,600)</b>		<b>(2,751)</b>
<b>Carrying amounts</b>				
Development costs . . . . .	1,629	1,493		3,123
Patents and trade-marks . . . . .	300	34		334
Software . . . . .	24	(6)		18
Other intangible assets . . . . .	8	1		9
<b>Total . . . . .</b>	<b>1,961</b>	<b>1,522</b>		<b>3,484</b>

<sup>(1)</sup> In 2005, an expense of k€143 was recorded in respect of the depreciation of patents and trademarks.

Goodwill was not recognised as an asset on the balance sheet as no company within the scope of consolidation was acquired.

Development costs recognised as an asset on the balance sheet during the financial year correspond to the development of the Group's new product range. These costs are mainly composed of personnel costs.

An increase of k€1,014 for patents and trade-marks correspond to user rights acquired from Ericsson concerning Bluetooth technology. One of the licences acquired during the first quarter of 2005 was amortised by 100% k€575 since use of this technology has been abandoned since it will not generate any future economic benefit.

## NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

At 31 December (in thousands of euros)	2004	Increase	Decrease	2005
<b>Cost</b>				
Fixtures and fittings . . . . .	280			280
Machinery and industrial tools . . . . .	528	1,042	(265)	1,305
Office and computer equipment . . . . .	341			341
Other fixed assets . . . . .	142	791	(206)	727
<b>Total . . . . .</b>	<b>1,291</b>	<b>1,833</b>	<b>(471)</b>	<b>2,653</b>
<b>Accumulated amortisation</b>				
Fixtures and fittings . . . . .	(73)			(73)
Machinery and industrial tools . . . . .	(347)	(255)	265	(337)
Office and computer equipment . . . . .	(196)			(196)
Other fixed assets . . . . .	(53)	(272)	210	(114)
<b>Total . . . . .</b>	<b>(669)</b>	<b>(527)</b>	<b>475</b>	<b>(721)</b>
<b>Carrying amounts</b>				
Fixtures and fittings . . . . .	207			207
Machinery and industrial tools . . . . .	181	787		968
Office and computer equipment . . . . .	145			145
Other fixed assets . . . . .	90	519	(4)	613
<b>Total . . . . .</b>	<b>622</b>	<b>1,306</b>	<b>(4)</b>	<b>1,932</b>

Significant changes to tangible fixed assets concern France and can be explained by the Group's expansion.

No tangible fixed asset has been pledged as guarantee of financial liability.

## NOTE 10 – FINANCIAL ASSETS

Advances to subsidiaries, loans and other financial assets are analysed as follows:

At 31 December (in thousands of euros)	2004	Increase	Decrease	2005
Security deposits . . . . .	73	35		109
Other long-term financial assets . . . . .		15		15
<b>Total . . . . .</b>	<b>73</b>	<b>50</b>		<b>123</b>

Investments in associates are not included in financial assets.

## NOTE 11 – DEFERRED TAX ASSETS

### ■ Change in deferred tax assets and liabilities

#### ● Deferred tax assets:

in thousands of euros	2004	2005
At 1 January . . . . .	2,872	1,461
Income (expense) for the period . . . . .	(1,407)	(1,203)
Effect of foreign exchange differences . . . . .	(5)	5
<b>At 31 December . . . . .</b>	<b>1,461</b>	<b>262</b>

At 31 December 2004, deferred tax assets relate to tax loss carry-forwards of €1,387,000 and to temporary differences of €26,000. These tax loss carry-forwards were used entirely in 2005 since Parrot S.A. was profitable.

● **Deferred tax liabilities:**

in thousands of euros	2004	2005
At 1 January . . . . .	252	698
Expense (income) for the period . . . . .	446	343
<b>At 31 December . . . . .</b>	<b>698</b>	<b>1,041</b>

At 31 December 2004, deferred tax liabilities related to temporary differences arising largely from recognition of development costs as an asset on the balance sheet. The expense in 2005 was largely attributable to new development costs, net of amortisation of these expenditures.

At 31 December 2005, net deferred taxes amounted to €778,000 with €790,000 coming from Parrot S.A. and €12,000 of deferred tax assets for Parrot srl.

Details of deferred tax assets and liabilities are shown below:

At 31 December (in thousands of euros)	Assets		Liabilities		Net	
	2004	2005	2004	2005	2004	2005
Intangible assets . . . . .		3			0	3
Property, plant and equipment . . . . .					0	0
Inventories . . . . .	0	15			0	15
Capitalisation of development costs . . . . .			543	1,041	(543)	(1,041)
Recognition of income on long-term contracts . . . . .			155		(155)	0
Others assets . . . . .	6	48			6	48
Provisions: . . . . .	40	195	0	0	40	195
<i>including employee benefits . . . . .</i>	25	46				
<i>including other social security provisions . . . . .</i>	15	150				
<i>including other provisions . . . . .</i>						
Other liabilities . . . . .					0	0
Tax loss carry-forwards . . . . .	1,367	0			1,367	0
Parrot Inc deferred taxes . . . . .	48				48	0
<b>NET DEFERRED TAX ASSETS (LIABILITIES) . . . . .</b>	<b>1,461</b>	<b>262</b>	<b>698</b>	<b>1,041</b>	<b>763</b>	<b>(779)</b>
<b>Deferred tax assets on balance sheet . . . . .</b>		Offset - >			<b>763</b>	<b>12</b>
<b>Deferred tax assets liabilities on balance sheet . . . . .</b>		Offset - >				<b>(790)</b>
<b>NET BALANCE</b>						

**NOTE 12 – INVENTORIES**

At 31 December (in thousands of euros)	2004	change	2005
Raw materials and consumables . . . . .	3,682	4,780	8,462
Finished goods . . . . .	300	2,795	3,095
<b>Total . . . . .</b>	<b>3,982</b>	<b>7,575</b>	<b>11,557</b>

The growth of the Group and the creation of new overseas subsidiaries resulted in a change in inventories of €7,575,000.



### NOTE 13 – TRADE RECEIVABLES

The breakdown of receivables is as follows:

At 31 December (in thousands of euros)	2004	2005
Trade receivables . . . . .	3,364	17,703
Allowance for bad debts . . . . .		(534)
<b>TOTAL</b> . . . . .	<b>3,364</b>	<b>17,169</b>

Trade receivables are non interest-bearing and are generally payable in 30 to 90 days.

### NOTE 14 – OTHER RECEIVABLES

At 31 December (in thousands of euros)	2004	2005
VAT prepayments . . . . .	1,991	3,977
Income tax prepayments . . . . .	1,179	2,031
Prepaid expenses . . . . .	23	277
Other current assets . . . . .	34	54
<b>TOTAL</b> . . . . .	<b>3,227</b>	<b>6,339</b>

At 31 December 2005, VAT receivables corresponded to VAT deductible from purchases, mainly in France. Tax receivables are related to the research tax credit receivable.

### NOTE 15 – OTHER CURRENT FINANCIAL ASSETS

At 31 December (in thousands of euros)	2004	Change	Fair value	Translation adjustments	2005
Short-term investments . . . . .	1,266	(960)	11		317
Bank balances . . . . .	653	1,069		6	1,728
<b>Cash and cash equivalents</b> . . . . .	<b>1,919</b>	<b>108</b>	<b>11</b>	<b>6</b>	<b>2,045</b>
Bank overdrafts . . . . .	(9)	(9)			(17)
<b>Cash and cash equivalents in the statement of cash flows</b> . . . . .	<b>1,911</b>	<b>99</b>	<b>11</b>	<b>6</b>	<b>2,027</b>
Other current financial assets . . . . .		2,000	42		2,042
<b>TOTAL NET CASH</b> . . . . .	<b>1,911</b>	<b>2,099</b>	<b>53</b>	<b>6</b>	<b>4,069</b>

The concept of net cash used by the Group corresponds to cash that is immediately available for use as defined under IAS 7 and in the cash flow statement (see Note 1 “Rules and accounting principles”), increased by the other current financial assets held by the Group in the context of its cash management.

“Other current financial assets” correspond to money market funds whose performance is indexed on that of the CAC 40 and for which the underlying capital is guaranteed at maturity.

## NOTE 16 – EQUITY

### 16.1 Share capital and share premium

At 31 December 2004, share capital was composed of 7,121,800 fully paid ordinary shares with a value of €1,086,000 and share premium amounted to €8,713,174. The number of ordinary shares was as follows:

At 31 December (in thousands of euros)	2004	Issues	2005
Number of shares . . . . .	7,121,800	1,728,110	8,849,910
Nominal value (rounded) in euros . . . . .	0.1525	0.1525	0.1525
<b>TOTAL (€'000) . . . . .</b>	<b>1,086</b>	<b>263</b>	<b>1,349</b>

There were two capital increases in 2005:

- by approval of the Board of Directors on 11 January 2005, the first issue was for 1,671,310 new shares at a price of €3.59, either to be paid up in cash at a premium of €3.4376 per share or by capitalizing short-term debt, in full, at the time of subscription;
- by approval of the Board of Directors on 26 April 2005, the second concerned the exercise of rights by six holders of securities (giving access to equity bearing the characteristics of B.S.P.C.E.) to subscribe for 56,800 new shares with a nominal value of €8,656; each subscriber subscribed in cash; 56,800 new shares were thus subscribed and paid up in accordance with the issue terms, with a subsequent capital increase of €8,656. The premium amounted to €84,859.

Expenses associated with these capital increases were posted to share premium.

### 16.2 Cumulative translation adjustments

Cumulative translation adjustments had an impact of –€72 thousand, compared to a positive €6,000 impact in 2004, corresponding largely to a translation adjustment for the contribution from the United States as well as the impact from rate differentials on income from the United States (€63,000) and Hong Kong (€8,000).

### 16.3 Share-based payment transactions

#### Characteristics of the plans:

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 22 June 1999, approved a plan on 25 August 1999 granting 1,010 business founder warrants (B.S.P.C.E.) at a price of €91.47, subsequently split by 100 by approval of the EGM of 24 June 2003 i.e. 101,000 equivalent B.S.P.C.E. after the stock-split. The 101,000 warrants expired before the end of 2004, therefore resulting in the closure of the plan.

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 22 June 1999, approved a plan on 21 April 2000 granting 1,068 B.S.P.C.E. at a price of €164.64, subsequently split by 100 by approval of the EGM of 24 June 2003 i.e. 106,800 equivalent B.S.P.C.E. after the stock-split. Of this total, 50,000 warrants expired before 2004 and 56,800 warrants were exercised in April 2005. The plan was thus closed on 31 December 2005.

The general meeting of shareholders of Parrot approved on 6 July 2004 a plan granting 200,000 B.S.P.C.E. at a price of €1.76, 174,300 of which were allotted on the same day. Since then, 108,300 warrants expired in 2004 and 9,000 in 2005.

The same general meeting approved a plan granting 71,200 equity warrants (B.S.A.) at a price of €1.76.

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 6 July 2004, approved a plan on 18 November 2004 granting 25,500 B.S.P.C.E. at a price of €1.76. Since then, 7,500 warrants expired in 2005.

The general meeting of shareholders of Parrot approved on 7 December 2004 a plan granting 2,447,000 B.S.P.C.E. with 836,000 exercisable at a price of €3.59 and 1,611,000, allotted immediately by the general

meeting, at a price of €7.19. The same general meeting approved another plan of 167,131 B.S.P.C.E. exercisable at a price of €3.59.

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 7 December 2004, approved a plan on 18 October 2005 granting 167,000 B.S.P.C.E. at a price of €3.59, 3,000 of which expired in 2005.

The general meeting of shareholders of Parrot approved on 14 December 2005 a plan granting 123,300 B.S.P.C.E. at a price of €8.12, of which 121,000 were immediately allotted by the general meeting.

The same general meeting approved on 14 December 2005 a plan granting 175,000 stock options (SO) at a price of €8.12, 80,000 of which were allotted on the same day by the Board of Directors.

The same general meeting approved a plan granting 51,000 bonus shares, allotted on the same day by the Board of Directors.

#### Changes to the stock ownership plans during the period:

	2004	2005
Number of options at 1 January . . . . .	626,700	3,180,900
Options granted during period . . . . .	2,718,000	419,000
Options exercised during period . . . . .		(56,800)
Options expired during period . . . . .	(163,800)	(19,500)
<b>Number of options at 31 December . . . . .</b>	<b>3,180,900</b>	<b>3,523,600</b>

#### Fair value of stock options and assumptions:

Parrot established a fair value for goods and services received during the period based on the fair value of equity instruments.

The share's opening value is taken at grant date.

Volatility is calculated:

- Either in terms of the average historical volatility of securities included in the IT CAC index (except for the June 2003 plan for which 30-day average historical volatility has been preferred in that it offers the advantage of not being skewed by the extreme market movements which occurred in the first few months of 2003 in light of the geopolitical situation) or
- In terms of Parrot's sales based on historical data over a long period.

The interest rate curve is calculated at each grant date using euro-swap risk-less rates with a corresponding maturity (5 years) (source Bloomberg).

#### Warrants exercise terms:

All the B.S.P.C.E and B.S.A. plans, with the exception of the plan of 7 December 2004 for 2,447,000 B.S.P.C.E, have the following characteristics (on condition that the beneficiary is still an employee of the firm):

- The beneficiary may subscribe for 25% of the warrants at the end of the first year following allotment.
- The beneficiary may then subscribe for 6.25% of the warrants at the end of each quarter during the following three year period.

Concerning the plan of 7 December 2004 for 2,447,000 B.S.P.C.E., exercise rights are immediate.

The free shares are allotted on a definitive basis only at the end of a two-year period and on the condition that the beneficiary is still a Parrot Group employee.

The following assumptions have been used to determine fair value:

Date and type of plan	Reference price	Exercise price	Expected volatility	Maturity	Riskless rate
<b>Employees</b>					
EGM 24/06/03: B.S.P.C.E . . . . .	€1.76	€1.76	55% sales	5.00	2.79%
EGM 06/07/04: B.S.P.C.E . . . . .	€1.76	€1.76	48% sales	5.00	3.57%
Board 18/11/04: B.S.P.C.E . . . . .	€1.76	€1.76	48% sales	5.00	3.10%
EGM 07/12/04: B.S.P.C.E . . . . .	€3.59	€3.59	48% sales	5.00	2.85%
EGM 14/12/05: B.S.P.C.E (exercise 06/2007) . . . . .	€8.12	€8.12	27% IT CAC	1.50	2.90%
EGM 14/12/05: B.S.P.C.E (exercise 12/2008) . . . . .	€8.12	€8.12	27% IT CAC	2.50	3.02%
EGM 14/12/05: B.S.P.C.E (exercise 12/2009) . . . . .	€8.12	€8.12	27% IT CAC	4.00	3.13%
EGM 14/12/05: Stock Options (exercise 12/2007) . . . . .	€8.12	€8.12	27% IT CAC	5.00	3.20%
EGM 14/12/05: Bonus shares . . . . .	€8.12				
<b>Others</b>					
EGM 26/06/03: B.S.A. . . . .	€1.76	€1.76	55% sales	5.00	2.79%
EGM 06/07/04: B.S.A. . . . .	€1.76	€1.76	48% sales	5.00	3.57%

### Impact on the financial statements

On the basis of the variables used to calculate fair value according to the “Black & Scholes” model, the expense recognised in relation to the allotment of warrants, options and stock dividend amounted to €231,000 for the 2005 financial year.

### 16.4 Dividends

No dividend distribution is anticipated for the 2005 financial year.

### NOTE 17 – EARNINGS PER SHARE

- Basic earnings per share

Basic earnings per share is obtained by dividing Group profit by the weighted average number of ordinary shares during the year, less own shares, as the case may be. The weighted average number of common shares is an annual average calculated on the basis of the issue date or the date of the repurchase of the shares during the financial year.

At 31 December	2004	2005
Profit for the period – Group share (in euros) . . . . .	3,830,483	5,308,437
Weighted average number of ordinary shares . . . . .	7,121,800	8,703,871
<b>Basic earnings per share (in euros) . . . . .</b>	<b>0.54</b>	<b>0.61</b>

- Diluted earnings per share

The diluted earnings per share figure takes account of the potentially dilutive instruments at the end of the financial year.

Concerning 2005, the exercise price of the equity instruments allotted by the Board of Directors on 14 December 2005 (€8.12) was chosen as the basis for calculating diluted earnings per share.

Concerning 2004, the exercise price of the equity instruments allotted by the Board of Directors on 18 November 2004 (€3.59) was chosen as the basis for calculating diluted earnings per share.

At 31 December	2004	2005
Profit for the period – Group share used for determining diluted earnings per share (in euros) . . . . .	3,830,483	5,308,437
Weighted average number of ordinary shares (diluted) used . . . . .	7,389,617	9,907,270
<b>Diluted earnings per share (in euros) . . . . .</b>	<b>0.52</b>	<b>0.54</b>

## NOTE 18 – MINORITY INTERESTS

At 31 December 2005, there were no minority interests since all subsidiaries were wholly-owned by Parrot (see Note 3 “Scope of consolidation”).

## NOTE 19 – PROVISIONS FOR PENSION AND POST RETIREMENT BENEFITS

### 19.1 Introduction

The number of personnel employed by the Group’s foreign subsidiaries is negligible as a proportion of the total workforce (about 8%).

Employee benefits are therefore made up principally of pension liabilities concerning Parrot.

The Group is also subject to rules governing defined benefit pension plans, particularly for special termination benefits.

### 19.2 Financial information

Provisions for retirement benefits are the only constituent of additional employee benefits. The expense relating to these additional benefits is included in “General and administrative expenses” in the income statement. The interest expense associated with the discounting of these obligations has a direct impact on equity.

At 31 December 2005, this provision amounted to €137,000, including €15,000 of projected benefit obligations.

At 31 December	2004	2005
<b>Principal actuarial assumptions</b>		
Discount rate . . . . .	5.00%	4.5%
Turn-over rate . . . . .	weak	weak
Future salary increases (average) . . . . .	6% degressive	6% degressive
<b>Balance sheet provisions (in thousands of euros)</b>		
Actuarial value of unfunded obligations . . . . .	<b>76</b>	<b>137</b>
<b>Net periodic benefit expense for the period (in thousands of euros)</b>		
Current service cost . . . . .	17	46
Interest cost . . . . .		
Expected return on planned assets . . . . .		
Actuarial gains/losses recognised during the period . . . . .	0	
Past service cost recognised . . . . .		
Curtailments and others . . . . .		
<b>NET RECOGNISED EXPENSE FOR THE PERIOD . . . . .</b>	<b>17</b>	<b>46</b>

## NOTE 20 – OTHER NON-CURRENT LIABILITIES

The change in other non-current provisions during the financial year was as follows:

At 31 December (in thousands of euros)	2004	Additions	Reversals used	2005
Provisions for litigation with employees . . . . .	97	46	(43)	101
Provisions for litigation with suppliers . . . . .	167			167
<b>Total . . . . .</b>	<b>265</b>	<b>46</b>	<b>(43)</b>	<b>268</b>

#### NOTE 21 – CURRENT PROVISIONS

The change in current provisions during the financial year was as follows:

At 31 December (in thousands of euros)	2004	Additions	Reversals used	2005
Warranty provisions . . . . .	66	122	66	122
Provisions for taxes . . . . .	8			8
<b>Total current provisions . . . . .</b>	<b>73</b>	<b>122</b>	<b>66</b>	<b>129</b>

For the 2005 financial year, no other provision was recorded such as provisions for restructuring, commercial or environmental risks.

#### NOTE 22 – TRADE PAYABLES, CURRENT INCOME TAX LIABILITIES AND OTHER PAYABLES

At 31 December (in thousands of euros)	2004	2005
<b>Trade payables . . . . .</b>	<b>2,449</b>	<b>15,351</b>
<b>Income taxes . . . . .</b>	<b>0</b>	<b>1,203</b>
Advances and prepayments to suppliers . . . . .	310	517
Tax and social security liability . . . . .	1,256	3,381
Dividends payable . . . . .	0	0
Other liabilities . . . . .	185	304
<b>Other current liabilities . . . . .</b>	<b>1,751</b>	<b>4,201</b>

#### NOTE 23 – DERIVATIVE FINANCIAL INSTRUMENTS

The Parrot Group did not use derivative financial instruments during the 2005 financial year to manage its exposure to interest rate exchange rate fluctuations and raw material prices.

#### NOTE 24 – DIRECTORS' REMUNERATION

The remuneration of the Chief Executive Officer and senior executives (some of whom were recruited during the year) was as follows:

In thousands of euros	2005
Fixed remuneration . . . . .	540
Variable remuneration . . . . .	425
<b>Other forms of remuneration . . . . .</b>	<b>58</b>
<b>Total . . . . .</b>	<b>1,023</b>

## NOTE 25 – COMMITMENTS GIVEN TO AND RECEIVED FROM THIRD PARTIES

### ■ Commitments given

The table below shows the future minimum payments needed to be made at the end of each year in respect of irrevocable lease contracts:

Year	Amount in thousands of euros
2006 .....	353
2007 .....	292
2008 .....	276
2009 .....	262
2010 and beyond .....	943
<b>Total</b> .....	<b>2,126</b>

### ■ Commitments received

No commitments have been received by the Group at the end of the financial year.

## NOTE 26 – SUBSEQUENT EVENTS

Parrot Group acquired a majority holding in the Spanish company Inpro Tecnologia, sole distributor of Parrot's products in Spain.



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**Parrot S.A.**

Registered office: 174-178, quai de Jemmapes – 75010 Paris

Share capital: €1,349,363.96

**Audit report on the consolidated financial statements (under IFRS)**

For the year ended 31 December 2004

To the shareholders,

Following the request made to us in relation to the filing of the *document de base* by Parrot with the *Autorité des Marchés Financiers*, and in our capacity as statutory auditors of Parrot S.A., we have performed an audit of the consolidated financial statements for the year ended 31 December 2004, presented in accordance with the basis of preparation described in the notes to the consolidated financial statements.

These financial statements have been prepared under the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion expressed hereafter.

In our opinion, the consolidated financial statements for the 2004 financial year have been prepared, in all material aspects, in accordance with the basis of preparation as described in the notes to the consolidated financial statements, which explain how IFRS 1 and other international accounting standards adopted in the European Union have been applied.

We bring to your attention the following matter in the notes:

Regarding the preparation of the 2004 financial statements according to IFRS, as adopted by the European Union as part of the preparation of the consolidated financial statements for the year ended 31 December 2005, the consolidated financial statements for the year ended 31 December 2004 do not include comparative information relating to 2003, nor all the notes to the financial statements requested under IFRS, as adopted by the European Union, which would be necessary to give, with regard to these standards, a true and fair view of the assets and liabilities, financial position and results of Parrot S.A. and its subsidiaries.

Paris, La Défense, 18 April 2006

Paris, 18 April 2006

Statutory auditors

KPMG Audit  
*Department of KPMG S.A.*

BDO Marque et Gendrot S.A.

Jean Pierre Valensi  
*Partner*

François Kimmel  
*Partner*

Patrick Viguié  
*Partner*

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**Parrot S.A.**

Registered office: 174-178, quai de Jemmapes – 75010 Paris

Share capital: €1,349,363.96

**Audit report on the consolidated financial statements**

For the year ended 31 December 2005

To the shareholders,

In compliance with the assignment entrusted to us by your Annual Shareholders' Meetings, we have audited the accompanying consolidated financial statements of Parrot for the year ended 31 December 2005.

The consolidated financial statements have been prepared under the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. These statements have been prepared for the first time in accordance with IFRS as adopted by the European Union. They include for purposes the amounts and disclosures relating to 2004 restated according to the same principles.

**I. Opinion on the consolidated financial statements**

We conducted our audit in accordance with professional standards applicable in France; these standards require that we plan and perform our audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion expressed hereafter.

We certify that the consolidated financial statements for the period, with regard to IFRS as adopted in the European Union, give a true and fair view of the assets and liabilities, financial position and results of Parrot and its subsidiaries.

**II. Justification of our assessments**

In accordance with the requirements of the article L.823-9 of the French *Code de commerce* relating to the justification of our assessment, we bring to your attention the following matters:

As part of our assessment of your company's accounting principles, we examined the conditions in which development costs are recognised as assets as well as the depreciation policy of these assets and for verifying their recoverable value and we are satisfied that Note 2 K) – Intangible assets and Note 8 of the appendix provide appropriate information.

The assessments were made as part of our audit of the consolidated financial statements and have therefore contributed to the formation of our opinion expressed in the first part of this report.

### III. Specific verifications

In addition, in accordance with professional standards applicable in France, we have also verified the information given in the Group's management report. We have nothing to report regarding its fair presentation and its conformity with the consolidated financial statements.

Paris, La Défense, 18 April 2006

Paris, 18 April 2006

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KPMG Audit  
*Department of KPMG S.A.*

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**Parrot S.A.**

Registered office: 174-178, quai de Jemmapes – 75010 Paris

Share capital: €1,349,363.96

**Statutory auditors' special report on contractual agreements with certain related parties**

For the year ended 31 December 2005

To the shareholders,

In our capacity as statutory auditors of your company, we hereby present to you our report on regulated agreements.

**Agreements entered into during the year**

In accordance with article L. 225-40 of the Commercial Code, we have been advised of the agreements given in advance by your Board of Directors.

We are not required to ascertain whether any other agreements exist but to inform you, on the basis of information provided to us, of the terms and conditions of the agreements of which we was notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article 92 of the Decree of 23 March 1967, to evaluate the benefits arising from these agreements prior to their approval.

With Parrot GmbH:

Current account agreement:

- Person concerned:  
Henri Seydoux
- Purpose of the agreement:

Parrot S.A. and Parrot GmbH agree to make cash advances depending on their needs and financial position. They may pay costs for each other.

- Terms and conditions of the agreement:  
These sums are recorded in the current account and carry interest at either 3% or at the highest tax-deductible rate in France for short-term advances if this rate is lower than 3%.

Parrot S.A. agreed to advances for the amount of €33,000 at 31/12/2005.

Interest income recognized for the year ended 31/12/2005: €513

Supply agreement:

- Purpose of the agreement:  
Parrot GmbH must ensure the marketing of products in Germany which are supplied by Parrot S.A.
- Terms and conditions of the agreement:  
Parrot S.A. sells its products at fixed prices in 2005 on the basis of foreseeable changes to retail prices and these fixed prices may be revised depending on fluctuations in the prices of supplies.

Parrot S.A.'s sales to Parrot GmbH amounted to €1,884,320 exclusive of tax in 2005.

With Parrot UK Ltd:

Current account agreement:

- Persons concerned:  
Henri Seydoux  
Edward Planchon
- Purpose of the agreement:  
Parrot S.A. and Parrot UK Ltd agree to make cash advances depending on their needs and financial position. They may pay costs for each other.
- Terms and conditions of the agreement:  
These sums are recorded in the current account and carry interest at either 3% or at the highest tax-deductible rate in France for short-term advances if this rate is lower than 3%.  
  
Parrot S.A. agreed to advances for the amount of €72,773 at 31/12/2005.  
  
Interest income recognized for the year ended 31/12/2005: €910

Supply agreement:

- Purpose of the agreement:  
Parrot UK Ltd must ensure the marketing of products in the United Kingdom which are supplied by Parrot S.A.
- Terms and conditions of the agreement:  
Parrot S.A. sells its products at fixed prices in 2005 on the basis of foreseeable changes to retail prices and these fixed prices may be revised depending on fluctuations in the prices of supplies.  
  
Parrot S.A.'s sales to Parrot UK Ltd amounted to €2,575,325 exclusive of tax in 2005.

**Agreements approved by the Annual General Meeting of 28 February 2006:**

With Parrot SRL:

Current account agreement:

- Person concerned:  
Henri Seydoux
- Purpose of the agreement:  
Parrot S.A. and Parrot SRL agree to make cash advances depending on their needs and financial position. They may pay costs for each other.
- Terms and conditions of the agreement:  
These sums are recorded in the current account and carry interest at either 3% or at the highest tax-deductible rate in France for short-term advances if this rate is lower than 3%.  
  
Parrot S.A. agreed to advances for the amount of €58,661 at 31/12/2005.  
  
Interest income recognized for the year ended 31/12/2005: €1,320

Supply agreement:

- Purpose of the agreement:  
Parrot SRL must ensure the marketing of products in Italy which are supplied by Parrot S.A.
- Terms and conditions of the agreement:  
Parrot S.A. sells its products at fixed prices in 2005 on the basis of foreseeable changes to retail prices and these fixed prices may be revised depending on fluctuations in the prices of supplies.

Parrot S.A.'s sales to Parrot SRL amounted to €1,642,836 exclusive of tax in 2005.

With Parrot Asia Pacific Ltd:

Current account agreement:

- Person concerned:  
Henri Seydoux
- Purpose of the agreement:  
Parrot S.A. and Parrot Asia Pacific Ltd agree to make cash advances depending on their needs and financial position. They may pay costs for each other.
- Terms and conditions of the agreement:  
These sums are recorded in the current account and carry interest at either 3% or at the highest tax-deductible rate in France for short-term advances if this rate is lower than 3%.  
Parrot S.A. agreed to advances for the amount of €154,646 at 31/12/2005.  
Interest income recognized for the year ended 31/12/2005: €0

Supply agreement:

- Purpose of the agreement:  
Parrot Asia Pacific Ltd must ensure the marketing of products in Italy which are supplied by Parrot S.A.
- Terms and conditions of the agreement:  
Parrot S.A. sells its products at fixed prices in 2005 on the basis of foreseeable changes to retail prices and these fixed prices may be revised depending on fluctuations in the prices of supplies.  
Parrot S.A.'s sales to Parrot Asia Pacific Ltd amounted to €522,462 exclusive of tax in 2005.

**Agreements approved during previous years and remaining in force during the year**

In addition, pursuant to the decree of 23 March 1967, we have been informed that the following agreements, approved during previous years, have remained in force during the last financial year.

With Parrot Inc:

Current account agreement:

- Purpose of the agreement:  
Parrot S.A. and Parrot Inc agree to make cash advances depending on their needs and financial position. They may pay costs for each other.
- Terms and conditions of the agreement:  
These sums are recorded in the current account and carry interest at either 3% or at the highest tax-deductible rate in France for short-term advances if this rate is lower than 3%.  
Parrot S.A. agreed to advances for the amount of €258,635 at 31/12/2005.  
Interest income recognized for the year ended 31/12/2005: €4,218

Supply agreement:

- Purpose of the agreement:  
Parrot Inc must ensure the marketing of products in Italy which are supplied by Parrot S.A.

- Terms and conditions of the agreement:  
Parrot S.A. sells its products at fixed prices in 2005 on the basis of foreseeable changes to retail prices and these fixed prices may be revised depending on fluctuations in the prices of supplies.

Parrot S.A.'s sales to Parrot Inc amounted to €1,142,959 exclusive of tax in 2005.

#### **Unauthorised agreement entered into during the year**

We also present you our report concerning agreements referred to in article L225-42 of the Commercial Code.

Pursuant to article L823-12 of this Code, we inform you that the following agreement did not receive prior authorisation from the Board of Directors.

Our responsibility, based on the information that we have been given, is to inform you of the main terms and conditions of this agreement, as well as the circumstances by which the authorisation procedure has not been followed, without commenting on its relevance or substance. Under the provisions of article 92 of the decree of 23 March 1967, it is the responsibility of shareholders to determine whether the agreement is appropriate and should be approved.

- Person concerned:  
Edward Planchon
- Purpose of the agreement:  
Services provided by Mr. Edward Planchon for Parrot Inc. and conducted through EKP Consult
- Terms and conditions of the agreement:  
In 2005, Parrot Inc invoiced for services for the sum of \$96,000.  
In 2005, Parrot Inc reimbursed expenses for the sum of \$37,042.

This agreement did not receive prior authorisation due to a simple oversight.

We have conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

Paris, La Défense, 18 April 2006

Paris, 18 April 2006

Statutory auditors

KPMG Audit  
*Department of KPMG S.A.*

BDO Marque et Gendrot S.A.

Jean Pierre Valensi  
*Partner*

François Kimmel  
*Partner*

Patrick Viguié  
*Partner*



## INTERIM CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005

Note: All amounts stated in the consolidated financial statements are presented in thousands of euros.

### 1. Intermediate income statements as at 30 June 2005

In thousands of euros	Note n°	30/06/2005
<b>Sales</b> .....	<b>4</b>	<b>26,035</b>
Cost of sales .....	4	(14,230)
<b>GROSS MARGIN</b> .....		<b>11,805</b>
<i>Gross margin as % of sales</i> .....		<i>45.3%</i>
Research and development costs .....	<b>6</b>	(2,750)
<i>as % of sales</i> .....		<i>(10.6%)</i>
Selling expenses .....		(3,177)
<i>as % of sales</i> .....		<i>(12.2%)</i>
General and administrative expenses .....		(912)
<i>as % of sales</i> .....		<i>(3.5%)</i>
Production / Quality .....		(1,120)
<i>as % of sales</i> .....		<i>(4.3%)</i>
<b>OPERATING PROFIT</b> .....		<b>3,846</b>
<i>Operating profit as % of sales</i> .....		<i>14.8%</i>
Income from cash and cash equivalent .....		51
Gross borrowing cost .....		(8)
Net borrowing cost .....		43
Other financial revenues and expenses .....		(16)
Income tax expense .....		(1,300)
<b>PROFIT FOR THE PERIOD – Group share</b> .....		<b>2,574</b>
<i>Profit for the period – Group share as % of sales</i> .....		<i>9.9%</i>

In thousands of euros	Note n°	30/06/2005
<b>Average weighted number of ordinary shares</b> .....	<b>10</b>	<b>8,533,491</b>
Ordinary net result per share (in euros) .....		0.30
<b>Average weighted number of ordinary shares</b> .....	<b>10</b>	<b>8,901,254</b>
Diluted ordinary net result per share (in euros) .....		0.29

2. Consolidated balance sheet at 31 December 2004 and 30 June 2005

ASSETS In thousands of euros	Note	31/12/2004	30/06/2005
<b>Total non-current assets</b> . . . . .		<b>3,419</b>	<b>4,705</b>
Intangible assets . . . . .	6	1,961	3,161
Property, plant and equipment . . . . .	7	622	1,416
Financial assets . . . . .		73	125
Deferred tax assets . . . . .		763	4
<b>Total current assets</b> . . . . .		<b>12,493</b>	<b>24,898</b>
Inventories . . . . .		3,982	4,371
Trade receivables . . . . .		3,364	7,518
Other receivables . . . . .		3,227	4,435
Other current financial assets . . . . .		—	2,006
Cash and cash equivalents . . . . .	8	1,919	6,569
<b>TOTAL ASSETS</b> . . . . .		<b>15,912</b>	<b>29,604</b>

EQUITY AND LIABILITIES In thousands of euros	Note	31/12/2004	30/06/2005
<b>Total Equity</b>			
Share capital . . . . .	9.1	1,086	1,349
Additional paid-in capital . . . . .		8,713	14,193
Retained earnings and reserves . . . . .		(2,340)	1,580
Profit for the period . . . . .		3,830	2,574
<b>Equity attributable to Parrot S.A. shareholders</b> . . . . .		<b>11,290</b>	<b>19,696</b>
<b>Minority interests</b> . . . . .		<b>—</b>	<b>—</b>
<b>Total non-current liabilities</b> . . . . .		<b>341</b>	<b>645</b>
Long-term financial debt . . . . .		—	—
Provision for pensions and post retirement benefits . . . . .		76	99
Deferred tax liabilities . . . . .		—	281
Other non-current liabilities . . . . .		265	265
<b>Total current liabilities</b> . . . . .		<b>4,281</b>	<b>9,263</b>
Short-term financial debt . . . . .		9	45
Current provisions . . . . .		73	73
Trade payables . . . . .		2,449	6,210
Current income tax liabilities . . . . .		—	616
Other payables . . . . .		1,750	2,318
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .		<b>15,912</b>	<b>29,604</b>

3. Statement of recognised income and expenses for 30 June 2005

In thousands of euros	30/06/2005
Foreign exchange differences . . . . .	(20)
Change in actuarial gains and losses relating to employee benefits . . . . .	—
<b>Net income recognised directly through equity</b> . . . . .	<b>(20)</b>
<b>Profit for the period – Group share</b> . . . . .	<b>2,574</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSES FOR THE PERIOD</b> . . . . .	<b>2,554</b>

4. Consolidated statements of cash flow for 30 June 2005

In thousands of euros	30/06/2005
<b>Cash flow from operating activities</b>	
Profit for the period . . . . .	2,574
Depreciation and amortization . . . . .	639
Gains / Losses on sale of assets . . . . .	0
Income tax expenses . . . . .	1,300
Cost of share-based payments . . . . .	109
Net borrowing cost . . . . .	(43)
<b>Cash flows from operations before net borrowing cost and income tax . . . . .</b>	<b>4,579</b>
Change in working capital . . . . .	(831)
<b>CASH FLOW FROM OPERATING ACTIVITIES . . . . .</b>	<b>3,748</b>
Taxes payable . . . . .	(257)
<b>NET CASH FROM OPERATING ACTIVITIES (A) . . . . .</b>	<b>3,491</b>
<b>Cash flow from investing activities</b>	
Interest received . . . . .	0
Acquisitions of intangible assets and property, plant and equipment . . . . .	(2,606)
Acquisitions of subsidiaries, net of cash acquired (Note 3) . . . . .	0
Acquisitions of financial assets . . . . .	(49)
Increase in other current financial assets . . . . .	(2,006)
Proceeds from sale of intangible assets and property, plant and equipment . . . . .	0
Proceeds from sale of subsidiaries, net of cash sold (Note 3) . . . . .	0
Proceeds from sale of other investments . . . . .	0
<b>NET CASH FROM INVESTING ACTIVITIES (B) . . . . .</b>	<b>(4,662)</b>
<b>Cash flow from financing activities</b>	
Increase in share capital . . . . .	5,744
Dividends paid . . . . .	0
Proceeds from borrowings . . . . .	0
Cost of net debt . . . . .	43
Repayment of borrowings . . . . .	0
Interests paid . . . . .	0
<b>NET CASH FROM FINANCING ACTIVITIES (C) . . . . .</b>	<b>5,787</b>
<b>NET CHANGE IN CASH (D = A+B+C) . . . . .</b>	<b>4,616</b>
Effect of exchange rates fluctuations on cash held . . . . .	5
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR . . . . .</b>	<b>1,911</b>
<b>CASH AND CASH EQUIVALENTS AT YEAR-END . . . . .</b>	<b>6,532</b>
Cash and cash equivalents at year-end . . . . .	6,532
Other current financial assets . . . . .	2,006
<b>Cash and cash equivalents and Other current financial assets at year-end . . . . .</b>	<b>8,538</b>

5. Consolidated statement of changes in equity for 30 June 2005

	Share capital	Additional paid-in capital	Legal reserve	Retained earnings	Consolidated reserves	Profit for the period	Others		Total equity	Equity group-share	Minority interests
							Translation adjustments				
<b>Situation at the end December 2003</b>	<b>1,086</b>	<b>8,711</b>		<b>(6,778)</b>	<b>4,310</b>				<b>7,329</b>	<b>7,329</b>	
Recognised income and expenses for the period				968	(968)	3,830	6		3,837	3,837	
Variations in share capital of consolidating firm		2							2	2	
Effect of share issues					122				122	122	
<b>Situation as of end of December 2004</b>	<b>1,086</b>	<b>8,713</b>		<b>(5,811)</b>	<b>3,464</b>	<b>3,830</b>	<b>6</b>		<b>11,289</b>	<b>11,289</b>	
Previous year profit for the period allocation				4,659	(828)	(3,830)					
Recognised income and expenses for the period						2,574	(20)		2,554	2,554	
Variations in share capital of consolidating firm	263	5,480							5,743	5,743	
Effect of measuring											
Effect of share issues					109				109	109	
<b>Situation as at end June 2005</b>	<b>1,349</b>	<b>14,193</b>		<b>(1,152)</b>	<b>2,746</b>	<b>2,574</b>	<b>(14)</b>		<b>19,696</b>	<b>19,696</b>	

## NOTES

### NOTE 1 – THE COMPANY

The activities of “the Group”(meaning PARROT S.A. and its subsidiaries) and the Group’s share in associate companies or companies under joint control are presented in the attached consolidated financial statements. Parrot S.A. is a French company which is planning to make a public offering of securities during the 2006 financial year.

Its Head Office is in Paris.

The financial statements are presented in euros and rounded to the nearest thousand.

### NOTE 2 – BASIS OF PREPARATION

The accounts for the first six months from 1 January 2005 to 30 June 2005 were made in the context of the filing of a *note d’opération* with the AMF in the context of the listing of Parrot S.A. securities.

In this context they were established in order to:

- compile the pro-forma information over the same period,
- compare the accounts with the six monthly information that will be published for the first half of 2006 without presuming modifications that could be made because of later accounting method changes.

The method of recognition and of assessment used at 30 June 2005 are those provided for by the IFRS as adopted by the European Union and applied to the consolidated accounts at 31/12/2005, using the following principals:

- IAS 19, as amended had been applied.
- IFRS 2 “Share-based payment” becomes effective from 1 January 2005: the Group has applied IFRS2 to the only stock options granted after 7 November 2002 which had not yet vested at 1 January 2005.
- The Group has applied IAS 32 “Financial instruments: disclosure and presentation” and IAS 39 “Financial instruments: recognition and measurement”.

In this context the accounts of the six months ending 30 June 2005 do not have comparative data in relations to the 2004 financial year for the profit and loss account, the table of cash flow and the table of changes in equity.

Main accounting principles applied by the Group:

#### A) Consolidation methods

The financial statements of companies controlled directly or indirectly by Parrot S.A. are fully consolidated. Parrot S.A. is deemed to exercise control over an entity when it has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Control can be said to exist if Parrot holds more than half the voting rights of the company under control. The financial statements of the companies under control are included in the Group’s consolidated financial statements from the transfer date of effective control until the date when control ceases.

Full consolidation is the only method applied by the Group since Parrot holds more than half the voting rights of all companies included in the scope of consolidation (see Note 3).

The Group’s consolidated companies have prepared their accounts at 30 June 2005 in accordance with Group’s accounting rules and principles. Transactions between consolidated companies as well as inter-company profits are eliminated.

The Group does not have any special purpose entities.

**B) Use of estimates**

The preparation of financial statements requires Management to make judgements, estimates and assumptions that may effect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates are based on economic data which is likely to vary over time and is subject to a degree of uncertainty.

These underlying estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these 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 current and future periods.

They mainly concern recognition of sales according to contract terms, recognition of deferred tax assets, asset impairment tests and current and non-current provisions.

**C) Foreign currency translation**

■ **Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euros at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

■ **Translation of financial statements of foreign companies**

The Group's consolidated accounts are presented in euros.

The assets and liabilities of foreign operations are translated to euros at foreign exchange rates ruling at the balance sheet date with the exception of equity which is recorded at historical value. The revenues and expenses of foreign operations are translated to euros at the average exchange rate. The foreign exchange differences resulting from conversions are accounted for in a reserve as a distinct component of equity.

The exchange rates of the main currencies used to the Group over the first six months of 2005 are as follows:

Closing exchange rate	2004	30/06/2005
US dollar . . . . .	0.73416	0.82699

Average exchange rates	2004	30/06/2005
US dollar . . . . .	0.80429	0.77789

**D) Income statement**

In order to best represent the accounts of the Group, income and expenses are analyzed in the consolidated income statement by function reflecting the specific nature of the Group's business, as follows: cost of sales (expenses directly linked to products sold), research and development costs (including costs incurred during the period when not recognised as an asset on the balance sheet as well as amortisation of development costs when recorded as an asset on the balance sheet), selling expenses, general and administrative expenses and production and quality-control costs (supply-management and quality control department which mainly include the salaries of the employees of those departments).

Operating profit, main performance indicator of the Group's business activity, is calculated by deducting these four categories of costs, which constitute the Group's operating expenses as a whole, from sales.

In order to provide more comprehensive information, these operating expenses are analysed by nature in Note 5 "Nature of operating expenses" in the present appendix.

Profit is calculated by taking into account the following items:

- the net borrowing costs, which includes interest on financial debt based on the effective interest rates, less income from cash and cash equivalents,
- other financial revenues and expenses including mainly the impact of measuring financial instruments at fair value, and foreign exchange gains and losses,
- current and deferred tax expenses.

#### **E) Earnings per share**

The information below is calculated according to the following principles:

- basic earnings per share: the net income for the period (Group share) is divided by the weighted average number of ordinary shares outstanding during the period excluding treasury shares. The weighted average number of ordinary shares outstanding is an annual weighted average adjusted by the number of common shares bought-back or issued during the period and is calculated by reference to the date of issue of the shares during the financial year;
- diluted earnings per share: the net income for the period (Group share) as well as the weighted average number of shares outstanding, used to calculate basic earnings per share, are adjusted for the effects of all dilutive potential ordinary shares, corresponding to: stock options plans and share grants (Note 9.3, Share-based payment transactions) and bonus shares.

#### **F) Sales**

Revenues arising from the sale of goods are recognised in the income statement when risks and rewards related to the ownership of the goods have been transferred to the purchaser.

Revenues arising from the rendering of services are recognised in the income statement based on the percentage of completion at the end of the period. The stage of completion is determined on the basis of costs incurred.

Revenue is not recognised when there is significant uncertainty as to the recovery of the corresponding sum due, to the costs incurred or to be incurred associated with the sale or the possible return of the goods in the event that the purchase is cancelled and when the Group retains managerial involvement in the assets.

#### **G) Operating lease payments**

Operating lease payments are recognised as an expense over the term of the lease on a straight-line basis.

Benefits received constitute an integral part of total net lease expenses and are recognised in the income statement according to the same rule.

#### **H) Net borrowing cost**

The net borrowing cost includes interest paid on borrowings—calculated by using the effective interest rate method—less interest received from cash equivalent and other financial assets.

Interest incomes are recognised in the income statement when acquired, by using the effective interest rate method.

Dividend incomes are recognised in the income statement as soon as the Group acquires the right to receive payments.



#### **I) Segment information**

The Group follows each business segment as an independent entity with its own specific economic context, risks and profitability, which are different from those of other segments.

From a managerial standpoint, the Group's business activities are analysed on two levels: by market and by the geographical location of its customers. Markets, rather than geographical regions, are regarded as standalone profit centres, and each has its own complete performance measurement. Primary segment information is based on the markets in which the Group operates. The geographical areas in which the Group generates its sales provide the secondary segment of information.

Operating costs incurred at the Group level for each market segment are allocated either directly or on a reasonable basis.

#### **J) Intangible assets**

##### – Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired at the date that control was obtained. Goodwill is not amortised.

Negative goodwill arising on an acquisition is recognised directly in profit and loss.

At the acquisition date, the cost of a business combination is attributed by recognizing the assets, liabilities, identifiable contingent liabilities of the acquired entity at fair value, with the exception of non-current assets held for sale, which are recognised at their fair value less cost to sale. Goodwill is valued at cost less accumulated impairment.

##### – Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of general and administrative expenses. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. They are amortised over a period of 2 to 3 years.

##### – Other intangible assets

Other intangible assets include software and user rights acquired on an unrestricted ownership basis and are amortised over their useful life, either 3 years for software and between 1 and 4 years for user rights.

#### **K) Property, plant and equipment**

Tangible fixed assets are recorded as an asset on the balance sheet at their historical cost less accumulated depreciation and impairment. They are not subject to revaluation.

Subsequent costs (replacement costs and costs needed to bring the asset to working condition) are capitalised and depreciated over the estimated useful life of the asset. Costs associated with routine maintenance and repairs are charged to expenses when they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life by category of asset. It is calculated on the basis of the acquisition cost less residual value.

Assets are depreciated over their estimated useful lives as follows:

Fixtures and fittings . . . . .	3 to 10 years
Technical industrial facilities . . . . .	10 years
Machinery and industrial tools . . . . .	3 years
Office and computer equipment . . . . .	3 to 5 years
Transportation equipment . . . . .	3 years

The residual value and useful life of assets are reviewed at each financial year-end.

Gains or losses on disposal of assets result from the difference between proceeds and the carrying amount.

**L) Depreciation of intangible and tangible fixed assets**

The useful value of intangible and tangible fixed assets is tested, as soon as any indications of impairment are identified, at the time of the preparation of the accounts and at least once a year in respect of goodwill.

Impairment testing consists of determining the recoverable value of each entity generating its own cash flows (Cash Generating Units). These entities are subsidiaries or geographical regions in which the Group operates, whose continued activity generates cash inflows that are substantially independent of cash flows generated by other groups of assets. The recoverable value of each CGU is determined, in particular, by applying the method of discounted future cash flows, based on budgetary estimates of growth and profitability, which are deemed to be reasonable, using a 3-year time frame. Discount rates and long-term growth rates for a period of more than 3 years, common practice in the sector in which the Group operates, are applied to all valuations of entities generating their own cash flows. When the recoverable value of a CGU is less than its carrying amount, the corresponding impairment is initially posted to goodwill and the values of other assets in the units are then reduced on a pro-rata basis and recognised in operating income.

Impairment recognised on goodwill cannot be reversed.

**M) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

**N) Trade receivables**

Trade receivables and receivables are recognised at their fair value on initial recognition and subsequently at amortised cost less impairment.

**O) Other current financial assets**

Financial instruments classified as investments are held for transaction reasons and are consequently recognised on a fair value basis. Any change in the fair value is recognised in the income statement.

Money markets funds who not meet the definition of cash and cash equivalents are classified in other current financial assets.

**P) Cash and cash equivalents**

Cash and cash equivalents include cash on hand. They also include money markets funds which meet IAS 7 criteria.

Bank overdrafts repayable on demand, which form an integral part of the Group's cash management, are also included as a component of cash and cash equivalents, for the purposes of the cash flow statement.

**Q) Net cash**

Net cash means for the Group: cash and cash equivalents, less bank overdrafts, plus other current financial assets.

## **R) Share-based payment transactions**

Stock options may be granted to certain Group employees. They confer the right to subscribe Parrot shares during a period of four or five years at a fixed exercise price determined at the grant date.

The options are measured on the basis of the fair value of the benefit granted to the employee at grant date. Their cost is recognised in staff costs in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. When the income statement is presented by function, corresponding staff costs are presented according to the function of the employees.

The fair value of the option is determined according to the “Black and Scholes” model, whose variables include, in particular, the exercise price of the options, the term, the share price or reference price at grant date, implied share price volatility and the risk free interest rate. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Pursuant to the provisions of IFRS 1 “First-time adoption of international financial reporting standards”, only plans granted after 7 November 2002 that were not yet vested at 1 January 2005 have been measured and recognised as employee expenses. Plans prior to 7 November 2002 and those granted after 7 November 2002 and vested before 1 January 2005 have not been restated.

## **S) Employee benefits**

### – Pension Plan

The Group is mainly subject to defined contribution pension plans.

The Group’s employees and companies make payments into defined contribution pension plans, administered by institutions authorised to manage such pension funds. The Group’s obligations are limited to the payment of these contributions which are recognised in the income statement as incurred.

The Group is also subject to defined benefits plans, particularly for special retirement indemnity.

### – Long-term benefits

The Group’s net obligation in respect of long-term benefits other than pension plans is the amount of future benefits earned by employees in return for services rendered in the current and prior periods. The amount of the obligation is calculated by using the projected unit credit method. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximately corresponding to the terms of the Group’s obligations.

The Group has applied the amended IAS 19. Consequently, all actuarial differences are recognised through equity.

## **T) Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation resulting from a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. These provisions are updated if the impact is significant.

### – Warranties

A provision for warranties is recognised when the underline products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

### – Litigation

A provision for litigation is recognised when proceedings are brought against the company by a third party (employee, supplier, etc.) when the Group considers it likely that an outflow of economic benefits will take place and that the risk can be predicted in a reliable manner. The estimates of these provisions are made on a case-by-case basis according to the elements of each file and according to the Group’s external expert advice.

## **U) Trade payables**

All such payables are recorded at cost.

After their initial recognition, Parrot Group measures at amortised cost all financial liabilities other than those held for sale.

### NOTE 3 – SCOPE OF CONSOLIDATION

The scope of Parrot Group consolidation includes three consolidated companies. The complete list and the related consolidation method are:

Name	Address	Country	Interest % Parrot S.A.	Method
<b>PARENT COMPANY</b>				
<b>Parrot S.A.</b>	174, quai de Jemmapes 75010 Paris	France		
<b>CONSOLIDATED SUBSIDIARIES</b>				
<b>Parrot Inc.</b>	257 Madison Avenue, Suite 500, New York, NY 10016	United States	100%	Fully consolidated
<b>Parrot Italia Srl.</b>	Via Falcone 7 20123 Milan	Italy	100%	Fully consolidated

#### ■ Acquisitions

The Italian subsidiary was created during January 2005.

All entities mentioned within the scope are new companies created by Parrot S.A. and do not therefore constitute acquisitions.

#### ■ Sales

No Group company was sold during the financial year.

### NOTE 4 – SEGMENT INFORMATION

#### ■ Information by segment and by market

Almost all sales are generated by Bluetooth hands-free car kits for which the market breakdown is as follows:

- Aftermarket, which mainly includes CK3000, CK3100, CK3300 and CK 3500 products,
- Plug-&-play market, which mainly includes Driveblue products,
- OEM market, which is made up of CK4000 products.

At 30 June 2005, information by segment and by market is as follows:

2005 first six months In thousands of euros	After- market	Plug-&-play	OEM	Un-allocated	Total
<b>INCOME STATEMENT</b>					
Sales – products . . . . .	23,467	1,768	328		25,563
Cost of sales – products . . . . .	(11,730)	(1,941)	(204)		(13,875)
Gross margin – products . . . . .	11,737	(173)	124	0	11,688
Sales – others . . . . .				473	473
Operating income – others . . . . .				117	117
<b>TOTAL Gross margin . . . . .</b>	<b>11,737</b>	<b>(173)</b>	<b>124</b>	<b>117</b>	<b>11,805</b>
Other operating expenses . . . . .				(7,959)	(7,959)
Operating profit . . . . .				3,846	3,846
Net borrowing cost . . . . .				43	43
Other financial revenues and expenses . . . . .				(16)	(16)
Income tax expense . . . . .				(1,300)	(1,300)
<b>Profit for the period . . . . .</b>					<b>2,574</b>

“Sales – others” is mainly composed of components sales to Tes and Jabil as well as received royalties.

The information by segment and by market mentioned above constitutes the most precise level of detail available by the company at the time the quarterly accounts were ended.

#### NOTE 5 – OPERATING EXPENSES BY NATURE

Operating expenses by nature can be analysed as follows:

in thousands of euros	First six months 2005
Purchases of raw materials and consumables . . . . .	5,228
Sub-contracting costs . . . . .	8,905
Other external charges . . . . .	3,688
Staff costs . . . . .	3,521
Tax expenses . . . . .	282
Depreciation and amortisation . . . . .	639
Other operating income and expenses . . . . .	(225)
<b>Total operating costs . . . . .</b>	<b>22,038</b>

Staff costs are analysed in the following manner:

in thousands of euros	First six months 2005
Salaries and wages . . . . .	2,354
Social security costs (including defined contribution pension plans) . . . . .	885
Employee profit-sharing . . . . .	173
Cost of share based payments . . . . .	109
<b>Total staff costs . . . . .</b>	<b>3,521</b>

## NOTE 6 – INTANGIBLE ASSETS

(in thousands of euros)	31/12/2004	Increase	Fall	30/06/2005
<i>Cost</i>				
Development costs . . . . .	2,175	914		3,088
Patents and trade-marks . . . . .	484	700		1,184
Software . . . . .	446	51		498
Other intangible assets . . . . .	8			8
<b>Total . . . . .</b>	<b>3,113</b>	<b>1,665</b>		<b>4,778</b>
<i>Accumulated amortisation</i>				
Development costs . . . . .	(546)	(241)		(787)
Patents and trade-marks . . . . .	(184)	(160)		(344)
Software . . . . .	(422)	(64)		(486)
Other intangible assets				
<b>Total . . . . .</b>	<b>(1,152)</b>	<b>(465)</b>		<b>(1,617)</b>
<i>Carrying amounts</i>				
<i>Development costs</i> . . . . .	1,629	672		2,301
Patents and trade-marks . . . . .	300	540		841
Software . . . . .	24	(13)		12
Other intangible assets . . . . .	8			8
<b>Total . . . . .</b>	<b>1,961</b>	<b>1,200</b>		<b>3,161</b>

No goodwill was recognised as an asset on the balance sheet.

Development costs recognised as assets during the period correspond to the development of the Group's new product range. These costs are mainly made up of staff costs.

## NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of euros)	31/12/2004	Increase	Fall	30/06/2005
<i>Cost</i>				
Equipment and tools . . . . .	528	476		1,004
Other tangible assets . . . . .	763	469		1,232
<b>Total . . . . .</b>	<b>1,291</b>	<b>945</b>		<b>2,236</b>
<i>Accumulated amortisation</i>				
Equipment and tools . . . . .	(347)	(76)		(423)
Other tangible assets . . . . .	(322)	(76)		(397)
<b>Total . . . . .</b>	<b>(669)</b>	<b>(151)</b>		<b>(820)</b>
<i>Carrying amounts</i>				
Equipment and tools . . . . .	181	400		581
Other tangible assets . . . . .	441	394		835
<b>Total . . . . .</b>	<b>622</b>	<b>794</b>		<b>1,416</b>

Significant changes to tangible fixed assets concern France and can be explained by the Group's development.

No tangible fixed asset was pledged as guarantee of financial liability.

## NOTE 8 – NET CASH

At 30 June (in thousands of euros)	2004	Perimeter movements	Change	Fair value adjustment	Translation adjustments	30/06/2005
Short-term investments . . . . .	1,266		3,643	35		4,945
Bank balances . . . . .	653	10	956		5	1,624
<b>Cash and cash equivalents . . . . .</b>	<b>1,919</b>		<b>4,599</b>	<b>35</b>	<b>5</b>	<b>6,569</b>
Bank overdrafts . . . . .	(9)	(10)	(18)			(37)
<b>Cash and cash equivalents in the statement of cash flows . . . . .</b>	<b>1,911</b>	<b>0</b>	<b>4,581</b>	<b>6</b>	<b>5</b>	<b>6,532</b>
Other current financial assets . . . . .			2,000	6		2,006
<b>TOTAL NET CASH . . . . .</b>	<b>1,911</b>	<b>0</b>	<b>6,581</b>	<b>41</b>	<b>5</b>	<b>8,538</b>

The concept of net cash used by the Group corresponds to cash that is immediately available for use as defined under IAS 7 and in the cash flow statement (see Note 1 “Rules and accounting principles”), increased by the other current financial assets held by the Group in the context of its cash management.

“Other current financial assets” correspond to money market funds whose performance is indexed on that of the CAC 40 and for which the underlying capital is guaranteed at maturity.

## NOTE 9 – EQUITY

### 9.1 Share capital and share premium

At 31 December 2004, share capital was composed of 7,121,800 fully paid ordinary shares with a value of €1,086,000 and share premium amounted to €8,713,174. The number of ordinary shares was as follows:

(in thousands of euros)	31/12/2004	Issues	30/06/2005
Number of shares . . . . .	7,121,800	1,728,110	8,849,910
Nominal value (rounded) in euros . . . . .	0,1525	0,1525	0,1525
<b>TOTAL (K€) . . . . .</b>	<b>1,086</b>	<b>263</b>	<b>1,349</b>

There were two capital increases during the first quarter of 2005:

- by approval of the Board of Directors on 11 January 2005, the first issue was for 1,671,310 new shares at a price of €3.59, either to be paid up in cash at a premium of €3.4376 per share or by capitalizing short-term debt, in full, at the time of subscription;
- by approval of the Board of Directors on 26 April 2005, the second concerned the exercise of rights by six holders of securities (giving access to equity bearing the characteristics of B.S.P.C.E) to subscribe for 56,800 new shares with a nominal value of €8,656; each subscriber subscribed in cash; 56,800 new shares were thus subscribed and paid up in accordance with the issue terms, with a subsequent capital increase of €8,656. The premium amounted to €84,859.

Expenses associated with these capital increases were posted to share premium.

### 9.2 Cumulative translation adjustments

The cumulative translation adjustments relate to the American subsidiary of the Group.

### 9.3 Share-based payment transactions

#### Characteristics of the plans:

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 22 June 1999, approved a plan on 21 April 2000 granting 1,068 B.S.P.C.E at a price of €164.64, subsequently split by 100 by approval of the EGM of 24 June 2003 i.e. 106,800 equivalent B.S.P.C.E after the stock-split. Of this total, 50,000 warrants expired before 2004 and 56,800 warrants were exercised in April 2005. The plan was thus closed on 30 June 2005.

The general meeting of shareholders of Parrot approved on 6 July 2004 a plan granting 200,000 B.S.P.C.E at a price of €1.76, 174,300 of which were allotted on the same day to the Board of Directors. Since then, 109,800 warrants expired in the end of June 2005.

The same general meeting approved a plan granting 71,200 equity warrants (B.S.A.) at a price of €1.76.

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 6 July 2004, approved a plan on 18 November 2004 granting 25,500 B.S.P.C.E at a price of €1.76. Since then, 4,500 warrants expired in the first quarter of 2005.

The general meeting of shareholders of Parrot approved on 7 December 2004 a plan granting 2,447,000 B.S.P.C.E with 836,000 exercisable at a price of €3.59 and 1,611,000, allotted immediately by the general meeting, at a price of €7.19. The same general meeting approved another plan of 167,131 B.S.P.C.E exercisable at a price of €3.59.

#### Changes to the stock ownership plans during the period:

	First six months of 2005	Year ended 31/12/2004
Number of options at 1 January . . . . .	3,180,900	626,700
Options granted during period . . . . .		2,718,000
Options exercised during period . . . . .	(56,800)	
Options expired during period . . . . .	(6,000)	(163,800)
<b>Number of options at 31 December . . . . .</b>	<b>3,118,100</b>	<b>3,180,900</b>

#### Fair value of stock options and assumptions:

Parrot established a fair value for goods and services received during the period based on the fair value of equity instruments.

The share's opening value is taken at grant date.

Volatility is calculated:

- Either in terms of the average historical volatility of securities included in the IT CAC index (except for the June 2003 plan for which 30-day average historical volatility has been preferred in that it offers the advantage of not being skewed by the extreme market movements which occurred in the first few months of 2003 in light of the geopolitical situation) or
- In terms of Parrot's sales based on historical data over a long period.

The interest rate curve is calculated at each grant date using euro-swap risk-less rates with a corresponding maturity (5 years) (source Bloomberg).

The event of no dividend distribution is taken into account.



### Warrants exercise terms:

All the B.S.P.C.E and B.S.A. plans, with the exception of the plan of 7 December 2004 for 2,447,000 B.S.P.C.E, have the following characteristics (on condition that the beneficiary is still an employee of the firm):

- The beneficiary may subscribe for 25% of the warrants at the end of the first year following allotment.
- The beneficiary may then subscribe for 6.25% of the warrants at the end of each quarter during the following three year period.

Concerning the plan of 7 December 2004 for 2,447,000 B.S.P.C.E, exercise rights are immediate.

Concerning the bonus shares, they are allotted on a definitive basis only at the end of a two year period and on the condition that the beneficiary is still a Parrot Group employee.

The following assumptions have been used to determine fair value:

Date and type of plan	Reference price	Exercise price	Expected volatility	Maturity	Riskless rate
<b>Employees</b>					
EGM 24/06/03: B.S.P.C.E . . . .	€1.76	€1.76	55% sales	5.00	2.79%
EGM 06/07/04: B.S.P.C.E . . . .	€1.76	€1.76	48% sales	5.00	3.57%
Board 18/11/04: B.S.P.C.E . . . .	€1.76	€1.76	48% sales	5.00	3.10%
EGM 07/12/04: B.S.P.C.E . . . .	€3.59	€3.59	48% sales	5.00	2.85%
<b>Non employees</b>					
EGM 26/06/03: B.S.A. . . . . .	€1.76	€1.76	55% sales	5.00	2.79%
EGM 06/07/04: B.S.A. . . . . .	€1.76	€1.76	48% sales	5.00	3.57%

### Impact on the financial statements

On the basis of the variables used to calculate fair value according to the “Black & Scholes” model, the expense recognised in relation to the allotment of warrants, options and stock dividend amounted to €109 in respect of the first quarter for the 2005 financial year.

### 9.4 Dividends

No dividend distribution is anticipated for the first six months of 2005.

### NOTE 10 – EARNINGS PER SHARE

- Basic earnings per share

Basic earnings per share is obtained by dividing Group profit by the weighted average number of ordinary shares during the year, less own shares, as the case may be. The weighted average number of common shares is an annual average calculated on the basis of the issue date or the date of the repurchase of the shares during the financial year.

	30/06/2005
Profit for the period – Group share (in euros) . . . . .	2,574,318
Weighted average number of ordinary shares . . . . .	8,533,491
<b>Basic earnings per share (in euros) . . . . .</b>	<b>0.30</b>

- Diluted earnings per share

The diluted earnings per share figure takes account of the potentially dilutive instruments at the end of the financial year.

Concerning the first six months of 2005, the exercise price of the equity instruments allotted by the Board of Directors at the beginning of 2005 (€3.59) was chosen as the basis for calculating diluted earnings per share.

	30/06/2005
Profit for the period – Group share used for determining diluted earnings per share (in euros) . . . . .	2,574,318
Weighted average number of ordinary shares (diluted) used . . . . .	8,901,254
<b>Diluted earnings per share (in euros) . . . . .</b>	<b>0.29</b>

**NOTE 11 – MINORITY INTERESTS**

At 30 June 2005, there were no minority interests since all subsidiaries were wholly-owned by Parrot (see Note 3 “Scope of consolidation”).

**NOTE 12 – DIRECTORS’ REMUNERATION**

The remuneration of the Chief Executive officer and other senior officers is as follows:

In K€	First six months 2005
Fixed remuneration . . . . .	224
Variable remuneration . . . . .	185
Other forms of remuneration . . . . .	26
<b>TOTAL . . . . .</b>	<b>435</b>

**NOTE 13 – SUBSEQUENT EVENTS**

None.

*This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The report should be read in conjunction with, and is construed in accordance with, French law and professional standards and doctrine applicable in France.*

**Parrot S.A.**

Registered office: 174-178, quai de Jemmapes—75010 Paris

Share capital: €1,349,765.11

**Report from the statutory auditors on the interim consolidated financial statements for the six-month period ended 30 June 2005**

To the members of the Board of Directors,

Following the request made to us in relation to the filing of the offering circular by Parrot with the *Autorité des Marchés Financiers*, and in our capacity as statutory auditors of Parrot S.A., we have reviewed the interim consolidated financial statements for the six-month period ended 30 June 2005 presented in accordance with the basis of preparation described in the notes to the consolidated financial statements.

These financial statements have been prepared under the responsibility of the Board of Directors. Our responsibility is to express a conclusion on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. These standards require that we plan and perform the review to obtain moderate assurance as to whether the interim consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements have not been prepared, in all material aspects, in accordance with the basis of preparation described in the paragraph 2 of the notes to the financial statements.

Without qualifying our conclusion we draw attention to the paragraph 2 of the notes to the financial statements, which specifies that these interim consolidated financial statements for the period ended 30 June 2005 do not include comparative information relating to 30 June 2004.

Paris La Défense, 12 June 2006

Paris, 12 June 2006

The statutory auditors

KPMG Audit  
*Department of KPMG S.A.*

BDO Marque et Gendrot S.A.

Jean Pierre Valensi  
*Partner*

François Kimmel  
*Partner*

Patrick Viguié  
*Partner*

## INTERMEDIATE FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2006

Note: All amounts stated in the consolidated financial statements are presented in thousands of euros.

### 1. Intermediate income statements as at 31 March 2006

In thousands of euros	Note	31/03/2006
<b>Sales</b> .....	4	<b>25,486</b>
Cost of sales .....	4	(14,412)
<b>GROSS MARGIN</b> .....		<b>11,074</b>
<i>Gross margin as % of sales</i> .....		<i>43,5%</i>
Research and development costs .....		(2,387)
<i>as % of sales</i> .....		<i>(9,4%)</i>
Selling expenses .....		(3,536)
<i>as % of sales</i> .....		<i>(13,9%)</i>
General and administrative expenses .....		(1,095)
<i>as % of sales</i> .....		<i>(4,3%)</i>
Production / Quality .....		(1,181)
<i>as % of sales</i> .....		<i>(4,6%)</i>
<b>OPERATING PROFIT</b> .....		<b>2,875</b>
<i>Operating profit as % of sales</i> .....		<i>11,3%</i>
Income from cash and cash equivalent .....		16
Gross borrowing cost .....		(43)
Net borrowing cost .....		(27)
Other financial revenues and expenses .....		(945)
Income tax expense .....		(945)
<b>PROFIT FOR THE PERIOD – Group share</b> .....		<b>1,904</b>
<i>Profit for the period – Group share as % of sales</i> .....		<i>7,5%</i>

In thousands of euros	Note	31/03/2006
<b>Average weighted number of ordinary shares</b> .....	<b>10</b>	<b>8 849 910</b>
Ordinary net result per share (in euros) .....		0,22
<b>Average weighted number of ordinary shares</b> .....	<b>10</b>	<b>11 007 391</b>
Diluted ordinary net result per share (in euros) .....		0,17

2. Consolidated balance sheet at 31 December 2005 and 31 March 2006

ASSETS In thousands of euros	Note	31/12/2005	31/03/2006
<b>Total non-current assets</b> . . . . .	6	<b>5,551</b>	<b>5,925</b>
Intangible assets . . . . .	7	3,483	3,665
Property, plant and equipment . . . . .		1,932	2,136
Financial assets . . . . .		123	121
Deferred tax assets . . . . .		12	3
<b>Total current assets</b> . . . . .		<b>39,153</b>	<b>41,829</b>
Inventories . . . . .		11,557	11,341
Trade receivables . . . . .		17,169	17,858
Other receivables . . . . .		6,340	6,944
Other current financial assets . . . . .		2,042	—
Cash and cash equivalents . . . . .	8	2,045	5,685
<b>TOTAL ASSETS</b> . . . . .		<b>44,703</b>	<b>47,754</b>

EQUITY AND LIABILITIES In thousands of euros	Note	2005	31/03/2006
<b>Total Equity</b>			
Share capital . . . . .	9.1	1,349	1,349
Additional paid-in capital . . . . .		14,304	14,304
Retained earnings and reserves . . . . .		1,643	7,098
Profit for the period . . . . .		5,308	1,904
<b>Equity attributable to Parrot S.A. shareholders</b> . . . . .		<b>22,605</b>	<b>24,656</b>
<b>Minority interests</b> . . . . .		<b>—</b>	<b>—</b>
<b>Total non-current liabilities</b> . . . . .		<b>1,196</b>	<b>1,112</b>
Long-term financial debt . . . . .		—	—
Provision for pensions and post retirement benefits . . . . .		137	142
Deferred tax liabilities . . . . .		790	747
Other non-current liabilities . . . . .		268	222
<b>Total current liabilities</b> . . . . .		<b>20,902</b>	<b>21,986</b>
Short-term financial debt . . . . .		17	1,992
Current provisions . . . . .		129	160
Trade payables . . . . .		15,351	11,801
Current income tax liabilities . . . . .		1,203	2,510
Other payables . . . . .		4,201	5,523
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .		<b>44,703</b>	<b>47,754</b>

3. Statement of recognised income and expenses for 31 March 2006

In thousands of euros	31/03/2006
Foreign exchange differences . . . . .	31
Change in actuarial gains and losses relating to employee benefits . . . . .	—
<b>Net income recognised directly through equity</b> . . . . .	<b>31</b>
<b>Profit for the period – Group share</b> . . . . .	<b>1,904</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSES FOR THE PERIOD</b> . . . . .	<b>1,935</b>

4. Consolidated statements of cash flow for 31 March 2006

In thousands of euros	31/03/2006
<b>Cash flow from operating activities</b>	
Profit for the period . . . . .	1,904
Depreciation and amortization . . . . .	669
Gains / Losses on sale of assets . . . . .	
Income tax expenses . . . . .	945
Cost of share-based payments . . . . .	116
Net borrowing cost . . . . .	27
<b>Cash flows from operations before net borrowing cost and income tax . . . . .</b>	<b>3,663</b>
Change in working capital . . . . .	(896)
<b>CASH FLOW FROM OPERATING ACTIVITIES . . . . .</b>	<b>2,767</b>
<b>NET CASH FROM OPERATING ACTIVITIES (A) . . . . .</b>	<b>2,767</b>
<b>Cash flow from investing activities</b>	
Interest received . . . . .	
Acquisitions of intangible assets and property, plant and equipment . . . . .	(1,067)
Acquisitions of subsidiaries, net of cash acquired (Note 3) . . . . .	
Acquisitions of financial assets . . . . .	
Increase in other current financial assets . . . . .	
Proceeds from sale of intangible assets and property, plant and equipment . . . . .	
Proceeds from sale of subsidiaries, net of cash sold (Note 3) . . . . .	
<b>NET CASH FROM INVESTING ACTIVITIES (B) . . . . .</b>	<b>(1,067)</b>
<b>Cash flow from financing activities</b>	
Increase in share capital . . . . .	
Dividends paid . . . . .	
Proceeds from borrowings . . . . .	1,495
Cost of net debt . . . . .	(27)
Repayment of borrowings . . . . .	
Interests paid . . . . .	
<b>NET CASH FROM FINANCING ACTIVITIES (C) . . . . .</b>	<b>1,468</b>
<b>NET CHANGE IN CASH (D = A+B+C) . . . . .</b>	<b>3,168</b>
Effect of exchange rates fluctuations on cash held . . . . .	(7)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR . . . . .</b>	<b>2,027</b>
<b>CASH AND CASH EQUIVALENTS AT YEAR-END . . . . .</b>	<b>5,188</b>
Cash and cash equivalents at year-end . . . . .	5,188
Other current financial assets . . . . .	
Cash and cash equivalents and Other current financial assets at year-end . . . . .	5,188

5. Consolidated statement of changes in equity for the financial year 2005 and for the first quarter of 2006

	Share capital	Additional paid-in capital	Legal reserve	Retained earnings	Consolidated reserves	Profit for the period	Others		Total equity	Equity group-share	Minority interests
							Others	Translation adjustments			
<b>Situation at the end</b>											
December 2004 . . . . .	1,086	8,713		(5,811)	3,464	3,830	6		11,289	11,289	
Previous year's profit for the period allocation . . .			8	4,527	(714)	(3,830)			(10)	(10)	
Recognised income and expenses for the period . .						5,308	(76)		5,232	5,232	
Variations in share capital of consolidating firm. . . . .	263	5,599							5,862	5,862	
Incidents in the revaluation . . . . .		(8)			8						
Effect of share based payments . . . . .					231				231	231	
<b>Situation as of end of</b>											
December 2005 . . . . .	1,349	14,304	8	(1,284)	2,989	5,308	(70)		22,605	22,605	
Previous year profit for the period allocation . . .			135	6,734	(1,561)	(5,308)					
Recognised income and expenses for the period . .						1,904	31		1,935	1,935	
Effect of share based payments . . . . .					116				116	116	
<b>Situation as at end March</b>											
2006 . . . . .	1,349	14,304	143	5,450	1,545	1,904	(39)		24,656	24,656	

## NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

### NOTE 1 – THE COMPANY

The activities of “the Group” (meaning PARROT S.A. and its subsidiaries) and the Group’s share in associate companies or companies under joint control are presented in the attached consolidated financial statements. Parrot S.A. is a French company which is planning to make a public offering of securities during the 2006 financial year.

Its Head Office is in Paris.

The financial statements are presented in euros and rounded to the nearest thousand.

### NOTE 2 – BASIS OF PREPARATION

The accounts for the first three months from 1 January 2006 to 31 March 2006 were made in the context of the filing of a *note d’opération* with the AMF in the context of the listing of Parrot S.A. securities.

In this aim, they have also been made in order to:

- to compile the pro-forma information over the same period
- to compare the accounts with the quarterly information that will be published for the three following quarters of 2006 and for the first quarter of 2007 without presuming modifications that could be made because of later accounting method changes.

The method of recognition and of assessment used at 31 March 2006 are those provided for by the IFRS as adopted by the European Union and applied to the consolidated accounts at 31/12/2005, using the following principals:

- IAS 19, as amended, has been applied.
- IFRS 2 “Share-based payment” becomes effective from 1 January 2005: the Group has applied IFRS 2 to the only stock options granted after 7 November 2002 which had not yet vested at 1 January 2005.
- The Group has applied since 1 January 2004, IAS 32 “Financial instruments: disclosure and presentation” and IAS 39 “Financial instruments: recognition and measurement”

#### **Compliance statement:**

The intermediate financial information were prepared in accordance with the international accounts norm IAS 34 (intermediate financial information) except for comparative elements of the first quarter of the previous financial year, i.e. profit and loss account, the table of cash flow and the table of changes in equity at 31 March 2006 which are not presented. In addition, they do not include all required information for complete annual financial statements and must be read jointly with the financial statements of the Group ended 31 December 2005. The consolidated intermediate financial statements were ratified by the Board of Directors on 12 June 2006.

Main accounting principles applied by the Group are as follows:

#### **A) Consolidation methods**

The financial statements of companies controlled directly or indirectly by Parrot S.A. are fully consolidated. Parrot S.A. is deemed to exercise control over an entity when it has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Control can be said to exist if Parrot holds more than half the voting rights of the company under control. The financial statements of the companies under control are included in the Group’s consolidated financial statements from the transfer date of effective control until the date when control ceases.

Full consolidation is the only method applied by the Group since Parrot holds more than half the voting rights of all companies included in the scope of consolidation (see Note 3).



The Group's consolidated companies have prepared their accounts at 31 March 2006 in accordance with Group's accounting rules and principles. Transactions between consolidated companies as well as inter-company profits are eliminated.

The Group does not have any special purpose entities.

**B) Use of estimates**

The preparation of financial statements requires Management to make judgements, estimates and assumptions that may effect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates are based on economic data which is likely to vary over time and is subject to a degree of uncertainty.

These underlying estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these 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 current and future periods.

They mainly concern recognition of sales according to contract terms, recognition of deferred tax assets, asset impairment tests and current and non-current provisions.

**C) Foreign currency translation**

■ **Foreign currency transactions** Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

■ **Translation of financial statements of foreign companies**

The Group's consolidated accounts are presented in euros.

The assets and liabilities of foreign operations are translated to euro at foreign exchange rates ruling at the balance sheet date with the exception of equity which is recorded at historical value. The revenues and expenses of foreign operations are translated to euros at the average exchange rate. The foreign exchange differences resulting from conversions are accounted for in a reserve, as a distinct component of equity.

The exchange rates of the main currencies used to the Group over the first quarter of 2006 are as follows:

Closing exchange rate	2005	31/03/2006
US dollar . . . . .	0.84767	0.82617
Hong Kong dollar . . . . .	0.10932	0.10647
Pound Sterling . . . . .	1.45921	1.43595
	=====	=====

Average exchange rates	31/03/2006
US dollar . . . . .	0.83191
Hong Kong Dollar . . . . .	0.10723
Pound Sterling . . . . .	1.45751

**D) Income statement**

In order to best represent the accounts of the Group, income and expenses are analyzed in the consolidated income statement by function reflecting the specific nature of the Group’s business, as follows: cost of sales (expenses directly linked to products sold), research and development costs (including costs incurred during the period when not recognised as an asset on the balance sheet as well as amortisation of development costs when recorded as an asset on the balance sheet), selling expenses, general and administrative expenses and production and quality-control costs (supply-management and quality control department which mainly include the salaries of the employees of those departments).

Operating profit, main performance indicator of the Group’s business activity, is calculated by deducting these four categories of costs, which constitute the Group’s operating expenses as a whole, from sales.

In order to provide more comprehensive information, these operating expenses are analysed by nature in Note 5 “Nature of operating expenses” in the present appendix.

Profit is calculated by taking into account the following items:

- the net borrowing costs, which includes interest on financial debt based on the effective interest rates, less income from cash and cash equivalents,
- other financial revenues and expenses including mainly the impact of measuring financial instruments at fair value, and foreign exchange gains and losses,
- current and deferred tax expenses.

**E) Earnings per share**

The information below is calculated according to the following principles:

- basic earnings per share: the net income for the period (Group share) is divided by the weighted average number of ordinary shares outstanding during the period excluding treasury shares. The weighted average number of ordinary shares outstanding is an annual weighted average adjusted by the number of common shares bought-back or issued during the period and is calculated by reference to the date of issue of the shares during the financial year;
- diluted earnings per share: the net income for the period (Group share) as well as the weighted average number of shares outstanding, used to calculate basic earnings per share, are adjusted for the effects of all dilutive potential ordinary shares, corresponding to: stock options plans and share grants (Note 9.3: share-based payment transactions) and bonus shares. Regarding the intermediate results as at 31 March 2006, the exercise price for the equity instruments whose issue was authorised by the extraordinary general meeting of 28 February 2006 (€13,06) was used as the basic rate for the calculation of the diluted result per share.

**F) Sales**

Revenues arising from the sale of goods are recognised in the income statement when risks and rewards related to the ownership of the goods have been transferred to the purchaser.

Revenues arising from the rendering of services are recognised in the income statement based on the percentage of completion at the end of the period. The stage of completion is determined on the basis of costs incurred.

Revenue is not recognised when there is significant uncertainty as to the recovery of the corresponding sum due, to the costs incurred or to be incurred associated with the sale or the possible return of the goods in the event that the purchase is cancelled and when the Group retains managerial involvement in the assets.

### **G) Operating lease payments**

Operating lease payments are recognised as an expense over the term of the lease on a straight-line basis.

Benefits received constitute an integral part of total net lease expenses and are recognised in the income statement according to the same rule.

### **H) Net borrowing cost**

The net borrowing cost includes interest paid on borrowings—calculated by using the effective interest rate method—less interest received from cash equivalent and other financial assets.

Interest incomes are recognised in the income statement when acquired, by using the effective interest rate method.

Dividend incomes are recognised in the income statement as soon as the Group acquires the right to receive payments.

### **I) Segment information**

The Group follows each business segment as an independent entity with its own specific economic context, risks and profitability, which are different from those of other segments.

From a managerial standpoint, the Group's business activities are analysed on two levels: by market and by the geographical location of its customers. Markets, rather than geographical regions, are regarded as standalone profit centres, and each has its own complete performance measurement. Primary segment information is based on the markets in which the Group operates. The geographical areas in which the Group generates its sales provide the secondary segment of information.

Operating costs incurred at the Group level for each market segment are allocated either directly or on a reasonable basis.

### **J) Taxes**

The effective rate of taxes for the period ended 31 March 2006 is of 33% (against 29% for the financial year ended 31/12/2005). This evolution is mainly due to the increase in the fiscal deficits of the third quarter 2006 not recognised in the asset balance sheet.

### **K) Intangible assets**

#### – Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired at the date that control was obtained. Goodwill is not amortised.

Negative goodwill arising on an acquisition is recognised directly in profit and loss.

At the acquisition date, the cost of a business combination is attributed by recognizing the assets, liabilities, identifiable contingent liabilities of the acquired entity at fair value, with the exception of non-current assets held for sale, which are recognised at their fair value less cost to sale. Goodwill is valued at cost less accumulated impairment.

#### – Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of general and administrative expenses. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. They are amortised over a period of 2 to 3 years.

– Other intangible assets

Other intangible assets include software and user rights acquired on an unrestricted ownership basis and are amortised over their useful life, either 3 years for software and between 1 and 4 years for user rights.

#### **L) Property, plant and equipment**

Tangible fixed assets are recorded as an asset on the balance sheet at their historical cost less accumulated depreciation and impairment. They are not subject to revaluation.

Subsequent costs (replacement costs and costs needed to bring the asset to working condition) are capitalised and depreciated over the estimated useful life of the asset. Costs associated with routine maintenance and repairs are charged to expenses when they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life by category of asset. It is calculated on the basis of the acquisition cost less residual value.

Assets are depreciated over their estimated useful lives as follows:

Fixtures and fittings . . . . .	3 to 10 years
Technical industrial facilities . . . . .	10 years
Machinery and industrial tools . . . . .	3 years
Office and computer equipment . . . . .	3 to 5 years
Transportation equipment . . . . .	3 years

The residual value and useful life of assets are reviewed at each financial year-end.

Gains or losses on disposal of assets result from the difference between proceeds and the carrying amount.

#### **M) Depreciation of intangible and tangible fixed assets**

The useful value of intangible and tangible fixed assets is tested, as soon as any indications of impairment are identified, at the time of the preparation of the accounts and at least once a year in respect of goodwill.

Impairment testing consists of determining the recoverable value of each entity generating its own cash flows (Cash Generating Units). These entities are subsidiaries or geographical regions in which the Group operates, whose continued activity generates cash inflows that are substantially independent of cash flows generated by other groups of assets. The recoverable value of each CGU is determined, in particular, by applying the method of discounted future cash flows, based on budgetary estimates of growth and profitability, which are deemed to be reasonable, using a 3-year time frame. Discount rates and long-term growth rates for a period of more than 3 years, common practice in the sector in which the Group operates, are applied to all valuations of entities generating their own cash flows. When the recoverable value of a CGU is less than its carrying amount, the corresponding impairment is initially posted to goodwill and the values of other assets in the units are then reduced on a pro-rata basis and recognised in operating income.

Impairment recognised on goodwill cannot be reversed.

**N) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

**O) Trade receivables**

Trade receivables and other receivables are recognised at their fair value on initial recognition and subsequently at amortised cost less impairment.

**P) Other current financial assets**

Financial instruments classified as investments are used for transaction reasons and are consequently recognised on a fair value basis. Any change in the fair value is recognised in the income statement.

Money markets funds that do not meet the definition of cash and cash equivalents are classified in other current financial assets.

**Q) Cash and cash equivalents**

Cash and cash equivalents include cash on hand. They also include money markets funds which meet IAS 7 criteria.

Bank overdrafts repayable on demand, which form an integral part of the Group's cash management, are also included as a component of cash and cash equivalents, for the purposes of the cash flow statement.

**R) Net cash**

Net cash means for the Group: cash and cash equivalents in the balance sheet, less bank overdrafts, plus other current financial assets.

**S) Share-based payment transactions**

Stock options may be granted to certain Group employees. They confer the right to subscribe Parrot shares during a period of four or five years at a fixed exercise price determined at the grant date.

The options are measured on the basis of the fair value of the benefit granted to the employee at grant date. Their cost is recognised in staff costs in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. When the income statement is presented by function, corresponding staff costs are presented according to the function of the employees.

The fair value of the option is determined according to the "Black and Scholes" model, whose variables include, in particular, the exercise price of the options, the term, the share price or reference price at grant date, implied share price volatility and the risk free interest rate. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Pursuant to the provisions of IFRS 1 "First-time adoption of international financial reporting standards", only plans granted after 7 November 2002 that were not yet vested at 1 January 2005 have been measured and recognised as employee expenses. Plans prior to 7 November 2002 and those granted after 7 November 2002 and vested before 1 January 2005 have not been restated.

**T) Employee benefits Pension plans**

– Pension plan

The Group is mainly subject to defined contribution pension plans.

The Group's employees and companies make payments into defined contribution pension plans, administered by institutions authorised to manage such pension funds. The Group's obligations are limited to the payment of these contributions which are recognised in the income statement as incurred.

The Group is also subject to defined benefits plans, particularly for special retirement indemnity. Long-term benefits

– Long term benefits

The Group's net obligation in respect of long-term benefits other than pension plans is the amount of future benefits earned by employees in return for services rendered in the current and prior periods. The amount of the obligation is calculated by using the projected unit credit method. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximately corresponding to the terms of the Group's obligations.

The Group has applied the amended IAS 19. Consequently, all actuarial differences are recognised through equity.

**U) Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation resulting from a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. These provisions are updated if the impact is significant.

– Warranties

A provision for warranties is recognised when the underline products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

– Litigation

A provision for litigation is recognised when proceedings are brought against the company by a third party (employee, supplier, etc.) when the Group considers it likely that an outflow of economic benefits will take place and that the risk can be predicted in a reliable manner. The estimates of these provisions are made on a case-by-case basis according to the elements of each file and according to the Group's external expert advice.

**V) Trade payables**

All such payables are recorded at cost.

After their initial recognition, Parrot Group measures at amortised cost all financial liabilities other than those held for sale.

### NOTE 3 – SCOPE OF CONSOLIDATION

The scope of Parrot Group consolidation includes six consolidated companies. The complete list and the related consolidation method are:

Name	Address	Country	Interest % Parrot S.A.	Method
<b>PARENT COMPANY</b>				
<b>Parrot S.A.</b> . . . . .	174, quai de Jemmapes 75010 Paris	France		
<b>CONSOLIDATED SUBSIDIARIES</b>				
<b>Parrot Inc.</b> . . . . .	257 Madison Avenue, Suite 500, New York, NY 10016	United States	100%	Fully consolidated
<b>Parrot Italia</b> . . . . .	Via Falcone 7 20123 Milan	Italy	100%	Fully consolidated
<b>PARROT GmbH</b> . . . . .	Englmannstrasse 2 81673 Münschen	Germany	100%	Fully consolidated
<b>Parrot UK</b> . . . . .	89, Cornwall Street Birmingham	United Kingdom	100%	Fully consolidated
<b>PARROT AsiaPacific Ltd</b> . . . . .	Unit 1006, 10/F, Carnarvon Plaza, 20 Carnarvon Road, T.S.F. Kowloon, Hong Kong	Hong Kong	100%	Fully consolidated

- Acquisitions

No acquisitions were made over this period.

- Sales

No Group company was sold during the financial year.

### NOTE 4 – SEGMENT INFORMATION

#### ■ Information by segment and by market

Bluetooth hands-free car kits for which the market breakdown is as follows generate almost all sales:

- Aftermarket, which mainly includes CK3000, CK3100, CK3300 and CK 3500 products,
- Plug-&-play market, which mainly includes DriveBlue products, and Easydrive products.
- OEM market, which is made up of CK4000, and Ck5000 products.

At 31 March 2006, information by segment and by market is as follows:

First quarter 2006 In thousands of euros	After- market	Plug-& -play	OEM	Unallocated	Total
<b>INCOME STATEMENT</b>					
Sales – products . . . . .	22,400	713	448		23,560
Cost of sales – products . . . . .	(12,580)	(345)	(140)		(13,066)
Gross margin – products . . . . .	9,819	367	308	0	10,494
Sales – others . . . . .				1,926	1,926
Operating income – others . . . . .				580	580
<b>TOTAL Gross margin . . . . .</b>	<b>9,819</b>	<b>367</b>	<b>308</b>	<b>580</b>	<b>11,074</b>
Other operating expenses . . . . .				(8,198)	(8,198)
Operating profit . . . . .				2,876	2,876
Net borrowing cost . . . . .				(27)	(27)
Other financial revenues and expenses . . . . .				0	0
Income tax expense . . . . .				(945)	(945)
<b>Profit for the period . . . . .</b>					<b>1,904</b>

“Sales – others” is mainly composed of components sales to Tes and Jabil as well as received royalties.

The information by segment and by market mentioned above constitutes the most precise level of detail available by the company at the time the quarterly accounts were ended.

#### NOTE 5 – OPERATING EXPENSES BY NATURE

Operating expenses by nature can be analysed as follows:

in thousands of euros	2006 first quarter
Purchases of raw materials and consumables . . . . .	3,473
Sub-contracting costs . . . . .	10,726
Other external charges . . . . .	3,780
Staff costs . . . . .	3,829
Tax expenses . . . . .	204
Depreciation and amortisation . . . . .	701
Other operating income and expenses . . . . .	(183)
<b>Total operating costs . . . . .</b>	<b>22,529</b>

Staff costs are analysed in the following manner:

in thousands of euros	2006 first quarter
Salaries and wages . . . . .	2,615
Social security costs (including defined contribution pension plans) . . . . .	906
Employee profit-sharing . . . . .	192
Cost of share based payments . . . . .	116
<b>Total staff costs . . . . .</b>	<b>3,829</b>



**NOTE 6 – INTANGIBLE ASSETS**

(in thousands of euros)	31/12/2005	Increase	Fall	31/03/2006
<b>Cost</b>				
Development costs . . . . .	4,229	446		4,675
Patents and trade-mark . . . . .	1,498	151		1,649
Software . . . . .	500	26		525
Other intangible assets . . . . .	8			8
<b>Total . . . . .</b>	<b>6,235</b>	<b>623</b>		<b>6,858</b>
<b>Accumulated amortisation</b>				
Development costs . . . . .	(1,107)	(323)		(1,430)
Patents and trade-marks . . . . .	(1,164)	(242)	144	(1,262)
Software . . . . .	(481)	(20)		(501)
Other intangible assets				
<b>Total . . . . .</b>	<b>(2,751)</b>	<b>(584)</b>	<b>144</b>	<b>(3,192)</b>
<b>Carrying amounts</b>				
Development costs . . . . .	3,123	123		3,246
Patents and trade-marks . . . . .	334	52		387
Software . . . . .	19	6		25
Other intangible assets . . . . .	8			8
<b>Total . . . . .</b>	<b>3,484</b>	<b>181</b>		<b>3,665</b>

There is no goodwill in the balance sheet as no company within the scope of consolidation was acquired.

Development costs recognised as assets during the period correspond to the development of the Group's new product range. These costs are mainly made up of staff costs.

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

(in thousands of euros)	31/12/2005	Increase	Fall	31/03/2006
<b>Cost</b>				
Equipment and tools . . . . .	1,305	291		1,596
Other tangible assets . . . . .	1,348	151		1,499
<b>Total . . . . .</b>	<b>2,653</b>	<b>442</b>		<b>3,095</b>
<b>Accumulated amortisation</b>				
Equipment and tools . . . . .	(337)	(142)		(479)
Other tangible assets . . . . .	(383)	(97)		(480)
<b>Total . . . . .</b>	<b>(721)</b>	<b>(239)</b>		<b>(960)</b>
<b>Carrying amounts</b>				
Equipment and tools . . . . .	968	149		1,117
Other tangible assets . . . . .	965	54		1,019
<b>Total . . . . .</b>	<b>1,932</b>	<b>203</b>		<b>2,136</b>

Significant changes to tangible fixed assets concern France and can be explained by the Group's development.

No tangible fixed asset was pledged as guarantee of financial liability.

## NOTE 8 – NET CASH

(in thousands of euros)	31/12/2005	Change	Fair value adjustments	Translation adjustments	31/03/2006
Short-term investments . . . . .	317	(997)	10		1,324
Bank balances . . . . .	1,728	2,640		(7)	4,361
<b>Cash and cash equivalents . . . . .</b>	<b>2,045</b>	<b>3,637</b>	<b>10</b>	<b>(7)</b>	<b>5,685</b>
Bank overdrafts . . . . .	(17)	(480)			(497)
<b>Cash and cash equivalents in the statement of cash flows . . . . .</b>	<b>2,027</b>	<b>3,157</b>	<b>10</b>	<b>(7)</b>	<b>5,188</b>
Other current financial assets . . . . .	2,042	(2,042)			0
<b>TOTAL NET CASH . . . . .</b>	<b>4,069</b>	<b>1,115</b>	<b>10</b>	<b>(7)</b>	<b>5,188</b>

The concept of net cash used by the Group corresponds to cash that is immediately available for use as defined under IAS 7 and in the cash flow statement (see Note 1 “Rules and accounting principles”), increased by the other current financial assets held by the Group in the context of its cash management.

“Other current financial assets” correspond to money market funds whose performance is indexed on that of the CAC 40 and for which the underlying capital is guaranteed at maturity.

At 31 March 2006 the short-term financial debts were of €1,992,000. They are composed of €1,495,000, resulting from the use a *ligne de mobilisation de créances nées (MCNE)* and of €497,000€ from a bank overdraft.

## NOTE 9 – EQUITY

### 9.1 Share capital and share premium

At 31 March 2006, share capital was composed of 8,849,910 fully paid ordinary shares with a value of €1,349,363 and share premium amounted to €14,304,436. The number of ordinary shares was as follows:

### 9.2 Cumulative translation adjustments

Cumulative translation adjustments (€-39,000) relate to the American subsidiary of the Group.

### 9.3 Share based payment transactions

#### Characteristics of the plans:

The general meeting of shareholders of Parrot approved on 6 July 2004 a plan granting 200,000 B.S.P.C.E at a price of €1.76, of which 174,300 were allotted on the same day to the Board of Directors. Since then, 114,300 warrants expired before June 2005 and 3,000 expired during the first quarter of 2006.

The same general meeting approved a plan granting 71,200 equity warrants (B.S.A.) at a price of € 1.76.

The Board of Directors of Parrot, with the authorization of the general meeting of shareholders of 6 July 2004, approved a plan on 18 November 2004 granting 25,500 B.S.P.C.E at a price of €1.76. Since then, 3,000 warrants expired in 2005.

The general meeting of shareholders of Parrot approved on 7 December 2004 a plan granting 2,447,000 B.S.P.C.E with 836,000 exercisable at a price of €3.59 and 1,611,000, allotted immediately by the general meeting, at a price of €7.19. The same general meeting approved another plan of 167,131 B.S.P.C.E exercisable at a price of €3.59.

The Board of Directors of Parrot approved on 18 October 2005, with authorization of the general assembly of 7 December 2004, a plan granting 167,000 B.S.P.C.E. at a price of €3.59, of which 3,000 expired in 2005.

The general meeting of shareholders of Parrot approved on 14 December 2005 a plan granting 123,300 B.S.P.C.E at a price of €8.12, of which the Board of Directors allotted 121,000 the same day.

The same meeting approved a plan granting 51,000 stock options attributed the same day by the Board of Directors.

The same meeting approved a plan granting 175,000 stock options at a price of €8.12, of which the Board of Directors allotted 80,000 the same day and 27,000 were allotted by the Board of Directors on 28 February 2006.

The Board of Directors of Parrot, with authorization of the general meeting of 28 February 2006 approved a plan granting 89,700 B.S.P.C.E. at a price of €13.06.

**Changes to the stock ownership plans during the period:**

	First quarter of 2006	2005
Number of options at 1 January . . . . .	3,523,600	3,180,900
Options granted during period . . . . .	116,700	419,000
Options exercised during period . . . . .		(56,800)
Options expired during period . . . . .	(3,000)	(19,500)
<b>Number of options at 31 December . . . . .</b>	<b>3,637,300</b>	<b>3,523,600</b>

**Fair value of stock options and assumptions:**

- Parrot established a fair value for goods and services received during the period based on the fair value of equity instruments.
- The share's opening value is taken at grant date.
- Volatility is calculated:
  - Either in terms of the average historical volatility of securities included in the IT CAC index (except for the June 2003 plan for which 30-day average historical volatility has been preferred in that it offers the advantage of not being skewed by the extreme market movements which occurred in the first few months of 2003 in light of the geopolitical situation).
  - Or in terms of Parrot's sales based on historical data over a long period.

The interest rate curve is calculated at each grant date using euro-swap risk-less rates with a corresponding maturity (5 years) (source Bloomberg).

The event of no dividend distribution is taken into account.

**Warrants exercise terms:**

All the B.S.P.C.E and B.S.A. plans, with the exception of the plan of 7 December 2004 for 2,447,000 B.S.P.C.E, have the following characteristics (on condition that the beneficiary is still an employee of the firm):

- The beneficiary may subscribe for 25% of the warrants at the end of the first year following allotment.
- The beneficiary may then subscribe for 6.25% of the warrants at the end of each quarter during the following three year period.

Concerning the plan of 7 December 2004 for 2,447,000 B.S.P.C.E, exercise rights are immediate.

Concerning the bonus shares, they are allotted on a definitive basis only at the end of a two year period and on the condition that the beneficiary is still a Parrot Group employee.

The following assumptions have been used to determine fair value:

Date and type of plan	Reference price	Exercise price	Expected volatility	Maturity	Riskless rate
<b>Employees</b>					
EGM 24/06/03: B.S.P.C.E . . . . .	€1.76	€1.76	55% sales	5.00	2.79%
EGM 06/07/04: B.S.P.C.E . . . . .	€1.76	€1.76	48% sales	5.00	3.57%
Board 18/11/04: B.S.P.C.E . . . . .	€1.76	€1.76	48% sales	5.00	3.10%
EGM 07/12/04: B.S.P.C.E . . . . .	€3.59	€3.59	48% sales	5.00	2.85%
AGE 14/12/05: B.S.P.C.E. (financial year 06/2007) . . . . .	€8.12	€8.12	27% IT CAC	1.50	2.90%
AGE 14/12/05: B.S.P.C.E. (financial year 12/2008) . . . . .	€8.12	€8.12	27% IT CAC	2.50	3.02%
AGE 14/12/05: B.S.P.C.E. (financial year 12/2009) . . . . .	€8.12	€8.12	27% IT CAC	4.00	3.13%
AGE 14/12/05: B.S.P.C.E. Stock Options (financial year 12/02007) . . . . .	€8.12	€8.12	27% IT CAC	5.00	3.20%
AGE 14/12/05 Stock Option . . . . .	€8.12				
AGE 28/02/06 B.S.P.C.E. (financial year 02/2007)) . . . . .	€13.06	€13.06	26% IT CAC	1.00	3.11%
AGE 28/02/06 B.S.P.C.E. (financial year 02/2008) . . . . .	€13.06	€13.06	26% IT CAC	2.00	3.26%
AGE 28/02/06 B.S.P.C.E. (financial year 02/2010) . . . . .	€13.06	€13.06	26% IT CAC	4.00	3.37%
AGE 28/02/06 B.S.P.C.E. Stock Options (financial year 02/2008) . . . . .	€13.06	€13.06	26% IT CAC	5.00	3.45%
<b>Non employees</b>					
EGM 26/06/03: B.S.A. . . . .	€1.76	€1.76	55% sales	5.00	2.79%
EGM 06/07/04: B.S.A. . . . .	€1.76	€1.76	48% sales	5.00	3.57%

#### Impact on the financial statements

On the basis of the variables used to calculate fair value according to the “Black & Scholes” model, the expense recognised in relation to the allotment of warrants, options and stock dividend amounted to €116 in respect of the first quarter for the 2006.

#### 9.4 Dividends

No dividend distribution is anticipated for the first quarter of the 2006 financial year.

#### NOTE 10 – EARNINGS PER SHARE

- Basic earnings per share

Basic earnings per share is obtained by dividing Group profit by the weighted average number of ordinary shares during the year, less own shares, as the case may be. The weighted average number of common shares is an annual average calculated on the basis of the issue date or the date of the repurchase of the shares during the financial year.

	31/03/2006
Profit for the period – Group share (in euros) . . . . .	1,904,468
Weighted average number of ordinary shares . . . . .	8,849,910
<b>Basic earnings per share (in euros) . . . . .</b>	<b>0.22</b>

- Diluted earnings per share

The diluted earnings per share figure takes account of the potentially dilutive instruments at the end of the financial year.

Concerning the first quarter of 2006, the exercise price of the equity instruments allotted by the Board of Directors on 28 February 2006 (€13.06) was chosen as the basis for calculating diluted earnings per share.

	31/03/2006
Profit for the period — Group share used for determining diluted earnings per share ( <i>in euros</i> ) . . . . .	1,904,468
Weighted average number of ordinary shares (diluted) used . . . . .	11,007,391
	<hr/>
Diluted earnings per share ( <i>in euros</i> ) . . . . .	0.17
	<hr/> <hr/>

**NOTE 11 – MINORITY INTERESTS**

At 31 March 2006, there were no minority interests since all subsidiaries were wholly-owned by Parrot (see Note 3 “Scope of consolidation”).

**NOTE 12 – DIRECTORS’ REMUNERATION**

The remuneration of the Chief Executive officer and other senior officers are as follows:

In K€	First quarter 2006
Fixed remuneration . . . . .	228
Variable remuneration . . . . .	159
Other forms of remuneration . . . . .	52
	<hr/>
<b>TOTAL</b> . . . . .	<b>439</b>
	<hr/> <hr/>

**NOTE 13 – SUBSEQUENT EVENTS**

Parrot Group acquired a majority holding in the Spanish company Inpro Tecnología, sole distributor of Parrot’s products in Spain.

*This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The report should be read in conjunction with, and is construed in accordance with, French law and professional standards and doctrine applicable in France.*

**Parrot S.A.**

Registered office: 174-178, quai de Jemmapes – 75010 Paris

Share capital: € 1,349,745.11

**Report from the statutory auditors on the interim consolidated financial statements for the three-month period ended 31 March 2006**

To the members of the Board of Directors,

Following the request made to us in relation to the filing of the offering circular by Parrot with the *Autorité des Marchés Financiers*, and in our capacity as statutory auditors of Parrot S.A., we have reviewed the interim consolidated financial statements for the three month period ended 31 March 2006 presented in accordance with the basis of preparation described in the notes to the consolidated financial statements.

These financial statements have been prepared under the responsibility of the Board of Directors. Our responsibility is to express a conclusion on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. These standards require that we plan and perform the review to obtain moderate assurance as to whether the interim consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements have not been prepared, in all material aspects, in accordance with the basis of preparation described in the paragraph 2 of the notes to the financial statements.

Without qualifying our conclusion we draw attention to the paragraph 2 of the notes to the financial statements, which specifies that these interim consolidated financial statements for the period ended 31 March 2006 do not include comparative information relating to 31 March 2005.

Paris La Défense, 12 June 2006

Paris, 12 June 2006

The statutory auditors

KPMG Audit  
*Department of KPMG S.A.*

BDO Marque et Gendrot S.A.

Jean Pierre Valensi  
*Partner*

François Kimmel  
*Partner*

Patrick Viguié  
*Partner*

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**HISTORICAL UNCONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2003  
(FRENCH GAAP)**

**BALANCE SHEET ASSETS**

ITEMS	GROSS	Depreciation, amortisation, provisions	Net 31/12/03	Net 31/12/02
<b>CAPITAL SUBSCRIBED BUT NOT CALLED</b>				
<b>INTANGIBLE FIXED ASSETS</b>				
Start-up costs . . . . .				
Research & development costs . . . . .				
Licenses, patents & similar . . . . .	415,305	50,277	365,027	15,305
Goodwill . . . . .	7,622		7,622	7,622
Other intangibles . . . . .	402,075	352,438	49,637	12,498
Downpayments on intangibles . . . . .				
	825,003	402,716	422,287	35,426
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
Land . . . . .				
Buildings . . . . .				
Industrial and technical plant . . . . .	433,794	246,276	187,517	51,630
Other property, plant and equipment . . . . .	407,653	214,002	193,650	210,313
Work in progress . . . . .				
Downpayments on PP&E . . . . .				
	841,447	460,279	381,168	261,944
<b>LONG-TERM INVESTMENTS</b>				
Equity affiliates . . . . .				
Other investments . . . . .				
Receivables related to equity interests . . . . .				
Other long-term investment securities . . . . .				
Loans . . . . .				
Other long-term investments . . . . .	25,904		25,904	25,904
	25,904		25,904	25,904
<b>TOTAL FIXED ASSETS . . . . .</b>	<b>1,692,355</b>	<b>862,995</b>	<b>829,360</b>	<b>323,274</b>



ITEMS	GROSS	Depreciation, amortisation, provisions	Net 31/12/03	Net 31/12/02
<b>INVENTORIES AND WORK IN PROGRESS</b>				
Raw materials . . . . .	371,356		371,356	169,581
Work in progress – goods . . . . .	10,913		10,913	
Work in progress – services . . . . .				
Semi-finished and finished goods . . . . .	500,328	419,241	81,086	190,600
Bought-in goods . . . . .				
	<u>882,597</u>	<u>419,241</u>	<u>463,356</u>	<u>360,181</u>
<b>ACCOUNTS RECEIVABLE</b>				
Downpayments to suppliers . . . . .				
Trade accounts receivable . . . . .	2,693,970	191,842	2,502,128	936,198
Other receivables . . . . .	1,514,492	9,666	1,504,825	1,385,186
Capital subscribed and called but not paid in . . . . .				
	<u>4,208,462</u>	<u>201,508</u>	<u>4,006,954</u>	<u>2,321,385</u>
<b>CASH AND CASH EQUIVALENTS</b>				
Short-term investment securities . . . . .	701,550		701,550	1,505,152
Cash at bank and in hand . . . . .	614,580		614,580	294,552
Prepaid expenses . . . . .	54,438		54,438	37,162
TOTAL cash and cash equivalents . . . . .	<u>1,370,568</u>		<u>1,370,568</u>	<u>1,836,868</u>
<b>CURRENT ASSETS . . . . .</b>	<b><u>6,461,629</u></b>	<b><u>620,750</u></b>	<b><u>5,840,878</u></b>	<b><u>4,518,434</u></b>
Deferred charges . . . . .				
Bond redemption premium . . . . .				
Unrealised foreign exchange losses . . . . .				
<b>GRAND TOTAL . . . . .</b>	<b><u>8,153,984</u></b>	<b><u>1,483,745</u></b>	<b><u>6,670,239</u></b>	<b><u>4,841,709</u></b>

## BALANCE SHEET LIABILITIES

ITEMS	Net 31/12/03	Net 31/12/02
<b>NET EQUITY</b>		
Equity of which 1,086,000 paid in .....	1,086,000	1,086,000
Additional paid-in capital .....	8,711,294	8,711,294
Revaluation reserve of which equity accounting revaluation .....		
Legal reserve .....		
Statutory or contractual reserves .....		
Regulated reserves .....		
Other reserves .....		
Retained earnings (accumulated deficit) .....	(6,778,438)	(6,915,251)
Net income for the period .....	967,706	136,812
	3,986,562	3,018,856
<b>INVESTMENT SUBSIDIES</b> .....		
<b>REGULATED PROVISIONS</b> .....		
<b>TOTAL EQUITY</b> .....	<b>3,986,562</b>	<b>3,018,856</b>
Proceeds from issues of participating securities .....		
Subordinated loans .....		
<b>EQUITY EQUIVALENT</b> .....		
Contingency provisions .....	91,087	30,608
Loss provisions .....	7,561	7,561
<b>CONTINGENCY AND LOSS PROVISIONS</b> .....	<b>98,648</b>	<b>38,169</b>
<b>FINANCIAL LIABILITIES</b>		
Convertible bonds .....		
Other bonds .....		
Bank borrowings .....	24,860	270,329
Other borrowings .....		
	24,860	270,329
<b>DOWNPAYMENTS RECEIVED FOR WORK INPROGRESS</b>		
<b>OTHER PAYABLES</b>		
Trade accounts payable .....	1,757,086	1,091,655
Tax and employee-related liabilities .....	486,040	248,017
Amounts payable in respect of fixed assets .....		
Other liabilities .....	301,728	146,004
	2,544,855	1,485,677
<b>PREPAID INCOME</b> .....		28,676
<b>LIABILITIES</b> .....	<b>2,569,716</b>	<b>1,784,683</b>
Unrealised foreign exchange gains .....	15,312	
<b>GRAND TOTAL</b> .....	<b>6,670,238</b>	<b>4,841,709</b>

## Income Statement (Part I)

ITEMS	France	Export	31/12/03	31/12/02
Sales of bought-in goods . . . . .	7,420	10,693	18,114	18,847
Sales of own goods . . . . .	2,539,097	7,783,510	10,322,608	5,974,522
Sales of own services . . . . .	34,641	175,227	209,868	165,357
<b>NET SALES . . . . .</b>	<b><u>2,581,159</u></b>	<b><u>7,969,431</u></b>	<b><u>10,550,591</u></b>	<b><u>6,158,727</u></b>

Change in inventories of own production of goods and services . . . . .	(35,866)	(133,776)		
Own production of goods and services capitalized . . . . .				
Operating subsidies . . . . .				
Write-back of depreciation, amortisation and provisions, transfer of charges . . . . .				18,000
Other operating income . . . . .			90,238	56,042
<b>TOTAL OPERATING INCOME . . . . .</b>			<b><u>10,604,962</u></b>	<b><u>6,098,993</u></b>

<b>OPERATING EXPENSES</b>				
Purchases of bought-in goods (including customs duties) . . . . .			1045	913
Change in inventories of bought-in goods . . . . .			(36,399)	
Purchases of raw materials and other supplies . . . . .			3,477,709	1,398,813
Change in inventories (of raw materials and other supplies) . . . . .			(201,775)	125,484
Other purchases and external charges . . . . .			3,852,178	2,311,727
			<u>7,092,759</u>	<u>3,836,939</u>
<b>DUTIES AND TAXES OTHER THAN INCOME TAX . . . . .</b>			<b>104,464</b>	<b>43,917</b>
<b>PAYROLL COSTS</b>				
Wages and salaries . . . . .			1,560,248	1,009,107
Payroll taxes . . . . .			630,738	402,908
			<u>2,190,986</u>	<u>1,412,016</u>
<b>DEPRECIATION, AMORTISATION AND PROVISIONS (OPERATING)</b>				
Depreciation and amortisation of fixed assets . . . . .			202,806	91,575
Provisions for fixed assets . . . . .				
Provisions for current assets . . . . .			106,416	84,221
Provisions for contingencies and losses . . . . .			5,597	30,608
			<u>314,820</u>	<u>206,405</u>
<b>OTHER OPERATING EXPENSES . . . . .</b>			<b>32,084</b>	<b>12,149</b>
<b>OPERATING EXPENSES . . . . .</b>			<b><u>9,735,115</u></b>	<b><u>5,511,427</u></b>
<b>NET INCOME FROM OPERATIONS . . . . .</b>			<b><u>869,846</u></b>	<b><u>587,565</u></b>

## Income Statement (Part II)

ITEMS	31/12/03	31/12/02
<b>NET INCOME FROM OPERATIONS</b> . . . . .	<b>869,846</b>	<b>587,565</b>
Profits transferred in or losses transferred out . . . . .		
Profits transferred out or losses transferred in . . . . .		
<b>FINANCIAL INCOME</b>		
Financial income from participating interests . . . . .	5	296
Income from other transferable securities and long-term loans . . . . .		
Other interest and similar income . . . . .	20,220	27,682
Write-back of provisions and expense reclassifications . . . . .		
Positive foreign exchange differences . . . . .	76,575	15,873
Net proceeds from sale of short-term investments . . . . .	6,623	206
	103,424	44,058
<b>FINANCIAL EXPENSES</b>		
Amortisation of and provisions for financial items . . . . .		
Interest and similar charges . . . . .	21,010	38,513
Negative foreign exchange differences . . . . .	63,416	19,719
Net charges on sales of short-term investments . . . . .		
	84,426	58,232
<b>NET INCOME FROM FINANCIAL ITEMS</b> . . . . .	<b>18,998</b>	<b>(14,174)</b>
<b>NET INCOME BEFORE EXCEPTIONAL ITEMS/INCOME TAX</b> . . . . .	<b>888,844</b>	<b>573,391</b>
<b>EXCEPTIONAL INCOME</b>		
Exceptional income from non-capital transactions . . . . .	83,846	20,733
Exceptional income from capital transactions . . . . .		
Write-back of provisions and expense reclassifications . . . . .		4,421
	83,846	25,154
<b>EXCEPTIONAL CHARGES</b>		
Exceptional charges on non-capital transactions . . . . .	1,174	451,244
Exceptional charges on capital transactions . . . . .		717
Exceptional depreciation, amortisation and provisions . . . . .		7,561
	1,174	459,522
<b>NET EXCEPTIONAL ITEMS</b> . . . . .	<b>82,672</b>	<b>(434,368)</b>
Statutory employee profit-sharing scheme . . . . .		
Income tax . . . . .	3,811	2,210
<b>TOTAL INCOME</b> . . . . .	<b>10,792,234</b>	<b>6,168,206</b>
<b>TOTAL EXPENSES</b> . . . . .	<b>9,824,527</b>	<b>6,031,393</b>
<b>NET INCOME/LOSS</b> . . . . .	<b>967,706</b>	<b>136,812</b>

## Accounting policies

(Commercial Code, Articles 9 and 11; Decree 83-1020 of November 29, 1983 – Articles 7, 21, 24, 24-1, 24-2 and 24-3)

Generally accepted accounting conventions have been applied in conformity with the principle of prudence and with the basic accounting concepts of:

- going concern,
- consistency of accounting methods from one period to the next, and
- the independence of financial years,

and in accordance with the general rules for the preparation and presentation of annual accounts.

The basic method used for the valuation of items recorded in the accounts is the historical cost method.

The main accounting methods used are as follows:

### a) Property, plant and equipment

Property, plant and equipment are valued at their acquisition cost (purchase cost, and incidental expenses, excluding acquisition costs of fixed assets) or at their production cost.

Interest on loans related specifically to the production of fixed assets is not included / is included in the production cost of these fixed assets.

Depreciation and amortisation are calculated either on a straight-line basis or a declining balance basis depending on their estimated useful life:

– Patents, licenses, brands . . . . .	1 to 4 years
– Software . . . . .	1 year
– Installations and improvements to buildings . . . . .	3 to 10 years
– Technical installations . . . . .	10 years
– Industrial plant and equipment . . . . .	3 years
– Office equipment and computers . . . . .	3 to 5 years
– Transportation equipment . . . . .	3 years

### b) Participating interests, other long-term investments, short-term investment securities

The gross value comprises the purchase cost, excluding incidental expenses. A provision for impairment is recorded if the estimated recoverable value is less than the gross value, for the difference.

### c) Inventories

Inventories are valued according to the first in, first out method.

The gross value of supplies is based on the purchase price.

Manufactured products are valued at production cost including consumables and direct and indirect production expenses. A provision for impairment is recorded if the realizable value is less than the value determined above, for the difference.

### d) Accounts receivable

Accounts receivable are valued at their nominal value. A provision for impairment is recorded if the estimated recoverable value is less than the book value.

Other receivables: this item includes a research & development tax rebate of €873,693.14.

### e) Foreign currency transactions

Expenses and income in foreign currency are converted at the exchange rate at the date of the transaction.

Cash in foreign currency is recorded in the balance sheet and converted at the closing date exchange rate.

The difference which results when foreign currency liabilities are updated using the closing date exchange rate is recorded as “Unrealised foreign exchange gains/losses” in the balance sheet.

Unrealised gains are recorded as taxable income.

**f) Exceptional income**

The sum of €83,846 corresponds to the cancellation of debt by a third party.

**g) Contingency provision**

We have estimated a provision of €54,882 for an ongoing dispute before an employment tribunal. The warranty provision has been estimated to account for the rotation of changing faulty products.

**h) 2003 Results**

Net earnings amounted to €967,706 and earnings from operations to €869,846.

Revenues were up 71.3% compared with 2002.

The company obtained renewal of ISO 9001 certification, 2000 version.

## Fixed Assets

ITEMS	Gross opening value	Increases by revaluation	Increases by acquisitions	Decreases by transfer	Decreases by disposal	Gross closing value	Legal revaluation
<b>INTANGIBLE FIXED ASSETS</b>							
Start-up costs, research and development costs . . . . .							
Other intangible fixed assets . . . . .	370,907		454,095			825,003	
	370,907		454,095			825,003	
<b>TANGIBLE FIXED ASSETS</b>							
Land . . . . .							
Buildings on company land . . . . .							
Leasehold improvements . . . . .							
Installations and improvements to buildings . . . . .							
Technical installations, industrial plant and equipment . . . . .	226,632		207,162			433,794	
General installations . . . . .	145,771		9,179			154,951	
Transportation equipment . . . . .	4,542					4,542	
Office equipment, computers and furniture . . . . .	209,705		38,454			248,160	
Re-usable packaging and miscellaneous items . . . . .							
Tangible fixed assets under construction . . . . .							
Downpayments . . . . .							
	586,651		254,796			841,447	
<b>INVESTMENTS</b>							
Investments valued by the equity method . . . . .							
Other equity investments . . . . .							
Other capitalized securities . . . . .							
Loans and other investments . . . . .	25,904					25,904	
	25,904					25,904	
<b>GRAND TOTAL . . . . .</b>	<b>983,463</b>		<b>708,892</b>			<b>1,692,355</b>	

## Depreciation and Amortisation

CHANGES OVER THE YEAR				
DEPRECIABLE FIXED ASSETS	Opening amount	Increases depreciation	Decreases reversals	Closing amount
<b>INTANGIBLE FIXED ASSETS</b>				
Start-up costs, research and development costs . . . . .				
Other intangible fixed assets . . . . .	335,481	67,234		402,716
	335,481	67,234		402,716
<b>TANGIBLE FIXED ASSETS</b>				
Land . . . . .				
Buildings on company land . . . . .				
Leasehold improvements . . . . .				
Installations and improvements to buildings . .				
Tech. installations, industrial plant & eqpmt. .	175,001	71,275		246,276
General installations . . . . .	35,662	15,717		51,379
Transportation equipment . . . . .	200	1,666		1,866
Office equipment, computers and furniture .	113,843	46,912		160,756
Re-usable packaging and miscellaneous items . . . . .				
	324,707	135,571		460,279
<b>GRAND TOTAL . . . . .</b>	<b>660,189</b>	<b>202,806</b>		<b>862,995</b>

BREAKDOWN OF DEPRECIATION AND AMORTISATION FOR THE YEAR			
DEPRECIABLE FIXED ASSETS	Straight-line amortisation	Declining balance amortisation	Exceptional amortisation
<b>INTANGIBLE FIXED ASSETS . . . . .</b>			
Start-up costs, research and development costs . . . . .			
Other intangible fixed assets . . . . .	67,234		
	67,234		
<b>TANGIBLE FIXED ASSETS</b>			
Land . . . . .			
Buildings on company land . . . . .			
Leasehold improvements . . . . .			
Installations and improvements to buildings . . . . .			
Technical installations, industrial plant and equipment . . . . .	71,275		
General installations . . . . .	15,717		
Transportation equipment . . . . .	1,666		
Office equipment, computers and furniture . . . . .	46,912		
Re-usable packaging and miscellaneous items . . . . .			
	135,571		
<b>GRAND TOTAL . . . . .</b>	<b>202,806</b>		



## Depreciation and Amortisation (continued)

MOVEMENTS AFFECTING THE PROVISION FOR EXCESS TAX DEPRECIATION		
DEPRECIABLE FIXED ASSETS	Increase	Decrease
<b>INTANGIBLE FIXED ASSETS</b>		
Start-up costs, research and development costs . . . . .		
Other intangible fixed assets . . . . .	_____	_____
<b>TANGIBLE FIXED ASSETS</b>		
Land . . . . .		
Buildings on company land . . . . .		
Leasehold improvements . . . . .		
Installations and improvements to buildings . . . . .		
Technical installations, industrial plant and equipment . . . . .		
General installations . . . . .		
Transportation equipment . . . . .		
Office equipment, computers and furniture . . . . .		
Re-usable packaging and miscellaneous items . . . . .	_____	_____
	_____	_____
<b>GRAND TOTAL . . . . .</b>	=====	=====

MOVEMENTS FOR THE PERIOD AFFECTING DEFERRED CHARGES				
ITEMS	Net opening amount	Increases	Depreciation and amortisation for the year	Net closing amount
Deferred charges . . . . .				
Bond redemption premium . . . . .				

## Balance sheet provisions

ITEMS	Opening amount	Increases depreciation	Decreases reversals	Closing amount
Provisions for replacing oil or mining deposits . . . . .				
Provisions for investments . . . . .				
Provisions for price rises . . . . .				
Provisions for foreign exchange fluctuations . .				
Provisions for excess tax depreciation . . . . .				
Tax provisions for operations set up abroad before 1 January 1992 . . . . .				
Tax provisions for operations set up abroad after 1 January 1992 . . . . .				
Provisions for start-up loans . . . . .				
Other regulated provisions . . . . .				
<b>REGULATED PROVISIONS . . . . .</b>				
Litigation provisions . . . . .				
Provisions for client warranties . . . . .	30,608	36,205	30,608	36,205
Provisions for losses on futures markets . . .				
Provisions for fines and penalties . . . . .				
Provisions for foreign-exchange losses . . . . .				
Provision for pensions and similar liabilities . .				
Tax provisions . . . . .	7,561			7,561
Provisions for renewal of fixed assets . . . . .				
Provisions for major repairs . . . . .				
Provisions for social and fiscal charges on accrued holiday pay . . . . .				
Other contingency and loss provisions . . . . .		54,882		54,882
<b>CONTINGENCY AND LOSS PROVISIONS</b>	<b>38,169</b>	<b>91,087</b>	<b>30,608</b>	<b>98,648</b>
Provisions for depreciation and amortisation .				
Of intangible fixed assets . . . . .				
Of tangible fixed assets . . . . .				
Of equity affiliates . . . . .				
Of participating interests . . . . .				
Of other long-term investments . . . . .				
Of inventories and work in progress . . . . .	320,109	419,241	320,109	419,241
Of trade receivables . . . . .	184,558	7,283		191,842
Other provisions for depreciation and amortisation . . . . .	9,666			9,666
<b>PROVISIONS FOR DEPRECIATION AND AMORTISATION . . . . .</b>	<b>514,333</b>	<b>426,524</b>	<b>320,109</b>	<b>620,750</b>
<b>GRAND TOTAL . . . . .</b>	<b>552,502</b>	<b>517,611</b>	<b>350,717</b>	<b>719,398</b>

## Maturity of receivables and liabilities

ACCOUNTS RECEIVABLE	Gross amount	Within 1 year	After one year
<b>FIXED ASSETS</b>			
Receivables relating to participating interests . . . . .			
Loans . . . . .			
Other long-term investments . . . . .	25,904		25,904
	<u>25,904</u>		<u>25,904</u>
<b>CURRENT ASSETS</b>			
Doubtful or contested trade receivables . . . . .	193,539		193,539
Other trade receivables . . . . .	2,500,431	2,500,431	
Receivables relating to loaned securities . . . . .			
Employees and related accounts . . . . .	500	500	
Social security receivables . . . . .			
State – Income tax . . . . .	881,193	881,193	
State – Value added tax . . . . .	331,547	331,547	
State – Other taxes, duties and similar payments . . . . .	300,000	300,000	
State – Other . . . . .			
Group and associates . . . . .			
Other debtors . . . . .	1,251	1,251	
	<u>4,208,462</u>	<u>4,014,923</u>	<u>193,539</u>
PREPAID EXPENSES . . . . .	54,438	54,438	
<b>GRAND TOTAL . . . . .</b>	<b><u>4,288,805</u></b>	<b><u>4,069,361</u></b>	<b><u>219,443</u></b>

LIABILITIES	Gross Amount	Within 1 year	More than 1 yr and less than 5 yrs	Due after 5 yrs
Convertible bonds . . . . .				
Other bonds . . . . .				
Loans and other borrowings from credit institutions: . . . . .				
- originally for less than 2 years . . . . .				
- originally for more than 2 years . . . . .	24,860	24,860	0	
Other borrowings . . . . .				
Trade payables and related accounts . . . . .	1,757,086	1,677,086	80,000	
Employee liabilities . . . . .	164,211	164,211		
Social security liabilities . . . . .	220,310	220,310		
Income tax . . . . .				
Value added tax . . . . .	25,620	25,620		
Secured bonds . . . . .				
Other taxes, duties and similar liabilities . . . . .	75,898	75,898		
Liabilities relating to fixed assets and related accounts . . . . .				
Group and associates . . . . .				
Other liabilities . . . . .	301,728	182,128	119,600	
Liabilities corresponding to borrowed securities . . . . .				
Prepaid income . . . . .				
<b>GRAND TOTAL . . . . .</b>	<b><u>2,569,716</u></b>	<b><u>2,370,115</u></b>	<b><u>199,600</u></b>	

### Accrued expenses

AMOUNT OF ACCRUED EXPENSES INCLUDED IN THE FOLLOWING BALANCE SHEET ITEMS	Amount
Convertible bonds . . . . .	
Other bonds . . . . .	
Bank borrowings . . . . .	18,322
Other borrowings . . . . .	
Trade payables and related accounts . . . . .	54,736
Tax and employee-related liabilities . . . . .	332,128
Amounts payable in respect of fixed assets and related accounts . . . . .	
Cash at bank and in hand, accrued expenses . . . . .	6,538
Other liabilities . . . . .	5,120
<b>TOTAL . . . . .</b>	<b>416,847</b>

### Accrued income

AMOUNT OF ACCRUED INCOME INCLUDED IN THE FOLLOWING BALANCE SHEET ITEMS	Amount
<b>Long-term investments</b>	
Receivables relating to participating interests . . . . .	
Other long-term investments . . . . .	
<b>Receivables</b>	
Trade accounts receivable and related accounts . . . . .	
Employees . . . . .	75,305
Social Security . . . . .	
State . . . . .	300,000
Other accrued income . . . . .	
Other receivables . . . . .	
<b>Short-term investment securities . . . . .</b>	
<b>Cash at bank and in hand . . . . .</b>	<b>916</b>
<b>TOTAL . . . . .</b>	<b>376,222</b>

### Prepaid income and expenses

ITEMS	Expenses	Income
Operating income and expenses . . . . .	54,438	
Financial income and expenses . . . . .		
Extraordinary income and expenses . . . . .		
<b>TOTAL . . . . .</b>	<b>54,438</b>	

## Share capital

SHARE CATEGORIES	Number	Par value
1 – Shares or stock interests at the beginning of the year . . . . .	71,218	15
2 – Shares or stock interests issued during the year . . . . .		
3 – Shares or stock interests redeemed during the year . . . . .		
4 – Shares or stock interests at the end of the year . . . . .	7,121,800	0.1524

The number of shares has been multiplied by 100.

The par value has been divided by 100.

## Average number of employees

STAFF	Salaried employees	Staff made available to the company
Managerial . . . . .	29	
Supervisory and technical . . . . .	3	
Office and clerical . . . . .	6	
Manual . . . . .	_____	_____
<b>TOTAL</b> . . . . .	<b>38</b>	_____

## Total remuneration and by category of senior management

REMUNERATION OF DIRECTORS AND EXECUTIVES	Amount
Board of Directors . . . . .	
Management and Supervisory Board . . . . .	_____
<b>TOTAL</b> . . . . .	_____

Remuneration is not shown, as this would reveal individual remuneration.

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## **Parrot S.A.**

Registered office: 174, quai de Jemmapes – 75010 Paris  
Share capital: €1,086,000

### **Auditor's general report**

Year ended 31 December 2003

To the shareholders,

In performance of the assignment given to us by your General Meeting, we hereby submit our report for the year ended 31 December 2003 on:

- our audit of the annual accounts of Parrot S.A. as attached to this report;
- substantiation of our opinion;
- the specific verifications and information required by law.

The annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on them based on our audit.

#### **1 – OPINION ON THE ANNUAL ACCOUNTS**

We conducted our audit in accordance with the prevailing standards of the profession in France. Those standards require that we plan and perform our audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the accounts. An audit also includes assessing the accounting principles used and significant estimates made in the preparation of the financial statements and evaluating their overall presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts give a true and fair view, according to French accounting principles, of the results of operations for the year ended 31 December 2003 and of the financial condition and assets of the company at that date.

#### **2 – JUSTIFICATION OF OUR ASSESSMENTS**

Pursuant to the provisions of Article L. 225-235 of the Commercial Code, introduced by the Financial Security Act of 1 August 2003 and applicable this year for the first time, we inform you that the assessments we have made in order to issue our opinion on the annual accounts as a whole concerning the accounting principles used and significant estimates made in the preparation of the financial statements and their overall presentation do not call for any particular comment.

#### **3 – SPECIFIC VERIFICATIONS**

We have also carried out the specific verifications required by law in accordance with the professional standards that apply in France.

We are satisfied that the information given in the Board of Directors' management report and in the documents provided to shareholders concerning the financial condition and annual accounts is fairly stated and agrees with the annual accounts.

Levallois-Perret, 13 April 2004

KPMG Entreprises  
*A department of KPMG S.A.*

Patrick Geoffroy  
*Partner*

G rard Bizien  
*Partner*

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**PARROT SA**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's special report on regulated agreements**

Year ended 31 December 2003

To the shareholders,

In our capacity as auditor of your company we are required to present a report on the regulated agreements which have been brought to our attention. Our assignment is not to find out whether such agreements exist.

We hereby inform you that we have not been advised of any agreement referred to at Article L. 225-38 of the Commercial Code.

Levallois-Perret, 13 April 2004

KPMG Entreprises  
*A department of KPMG S.A.*

Patrick Geoffroy  
*Partner*

Gérard Bizien  
*Partner*

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**PARROT SA**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report prepared in accordance with the final paragraph of Article L. 225-235 of the Commercial Code on the report of the Chairman of Parrot SA on internal control procedures relating to the preparation and treatment of accounting and financial information**

Year ended 31 December 2003

To the shareholders,

In our capacity as auditor of Parrot SA and pursuant to the provisions of the first paragraph of Article L. 225-235 of the Commercial Code, we hereby present our report on the report prepared by the Chairman of your company in accordance with the provisions of Article L. 225-37 of the Commercial Code for the year ended 31 December 2003.

It is for the management, under the aegis of the Board of Directors, to define and implement appropriate and effective internal control procedures. The Chairman's report should describe the conditions for preparing and organising the Board's work and the internal control procedures introduced in the company.

Our responsibility is to inform you of our observations based on the information and statements contained in the Chairman's report concerning internal control procedures relating to the preparation and treatment of accounting and financial information.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify that the information given in the Chairman's report concerning internal control procedures relating to the preparation and treatment of accounting and financial information is fairly stated.

Our work consists in particular in:

- acquainting ourselves with the objectives and general organisation of internal controls and the internal control procedures relating to the preparation and treatment of accounting and financial information described in the Chairman's report;
- acquainting ourselves with the procedures underlying the information contained in the report.

On the basis of this work, we have no comment to make about the information concerning the company's internal control procedures relating to the preparation and treatment of accounting and financial information contained in the Chairman's report prepared pursuant to the provisions of the final paragraph of Article L. 225-37 of the Commercial Code.

Levallois-Perret, 13 April 2004

KPMG Entreprises  
*A department of KPMG S.A.*

Patrick Geoffroy  
*Partner*

Gérard Bizien  
*Partner*



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**PARROT SA**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report on the issuance of equity warrants with cancellation of preferential subscription rights**

Extraordinary General Meeting on 24 June 2003

To the shareholders,

As auditor of your company and in performance of the assignment set forth at Article L. 228-92 of the Commercial Code, we hereby present our report on the planned reserved issuance of 35,600 equity warrants at the price of €0.0176 each, a transaction which you have been asked to approve. Each warrant will give entitlement to one share of €0.1524 par at the price of €1.76.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify:

- the information contained in the Board of Directors' report on the reasons for proposing to cancel the preferential subscription right and the justification for choosing the information used to calculate the issue price and the amount thereof;
- the figures taken from the annual accounts prepared by the Board of Directors, which we have audited in accordance with the prevailing standards of the profession in France.

We have no comment to make on:

- the fairness of the figures taken from the company's accounts and contained in the Board of Directors' report;
- the proposal to cancel the preferential subscription right that you are asked to approve and the choice of information used to calculate the issue price of the equity securities to be issued and the amount thereof;
- the description of the effect of the transaction on the situation of shareholders in relation to shareholders' equity.

Levallois-Perret, 8 June 2003

KPMG Entreprises  
*A department of KPMG S.A.*

Jérôme Giannetti  
*Partner*

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**PARROT SA**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report on the capital increase with cancellation of preferential subscription rights**

Extraordinary General Meeting on 24 June 2003

To the shareholders,

As auditor of your company and in performance of the assignment set forth in Article L. 225-135 of the Commercial Code, we hereby present our report on the planned reserved capital increase of €1,524, a transaction which you have been asked to approve. The capital increase is subject to your approval pursuant to the provisions of Article L. 225-129 of the Commercial Code and Article L. 443-5 of the Labour Code.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify:

- the information contained in the Board of Directors' report on the reasons for proposing to cancel the preferential subscription right and the justification for choosing the information used to calculate the issue price and the amount thereof;
- the figures taken from the annual accounts prepared by the Board of Directors, which we have audited in accordance with the prevailing standards of the profession in France.

We have no comment to make on:

- the fairness of the figures taken from the company's accounts and contained in the Board of Directors' report;
- the proposal to cancel the preferential subscription right that you are asked to approve and the choice of information used to calculate the issue price and the amount thereof;
- the description of the effect of the transaction on the situation of shareholders in relation to shareholders' equity.

Levallois-Perret, 8 June 2003

KPMG Entreprises  
*A department of KPMG S.A.*

Jérôme Giannetti  
*Partner*

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**PARROT SA**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report on the issuance of business founder warrants**

Extraordinary General Meeting of 24 June 2003

To the shareholders,

As auditor of your company and in performance of the assignment set forth at Article L. 228-95 of the Commercial Code, we hereby present our report on the planned issuance free of charge of 502,000 business founder warrants, a transaction which you have been asked to approve. Each warrant will give entitlement to one share of €0.1524 par at the price of €1.76.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify:

- the information contained in the Board of Directors' report on the reasons for proposing to cancel the preferential subscription right and the justification for choosing the information used to calculate the issue price and the amount thereof;
- the figures taken from the annual accounts prepared by the Board of Directors, which we have audited in accordance with the prevailing standards of the profession in France.

We have no comment to make on:

- the fairness of the figures taken from the company's accounts and contained in the Board of Directors' report;
- the proposal to cancel the preferential subscription right relating to both the warrants themselves and the shares to be issued, inherent in the conditions for issuing business founder warrants allocated to salaried employees and to managers subject to the tax rules applicable to salaried employees as set forth in the provisions of Article 163 bis G of the General Tax Code;
- the choice of information used to calculate the issue price of the equity securities to be issued and the amount thereof;
- the description of the effect of the transaction on the situation of shareholders in relation to shareholders' equity.

Levallois-Perret, 8 June 2003

KPMG Entreprises  
*A department of KPMG S.A.*

Jérôme Giannetti  
*Partner*

**HISTORICAL UNCONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2004  
(FRENCH GAAP)**

**BALANCE SHEET ASSETS**

ITEMS	GROSS	Depreciation, amortisation, provisions	Net 31/12/04	Net 31/12/03
<b>CAPITAL SUBSCRIBED BUT NOT CALLED</b>				
<b>INTANGIBLE FIXED ASSETS</b>				
Start-up costs . . . . .				
Research & development costs . . . . .				
Licenses, patents & similar . . . . .	483,966	183,588	300,378	365,027
Goodwill . . . . .	7,622		7,622	7,622
Other intangibles . . . . .	446,371	422,266	24,104	49,637
Downpayments on intangibles . . . . .				
	937,960	605,855	332,105	422,287
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
Land . . . . .				
Buildings . . . . .				
Industrial and technical plant . . . . .	528,087	347,063	181,023	187,517
Other property, plant and equipment . . . . .	734,683	320,225	414,458	193,650
Work in progress . . . . .				
Downpayments on PP&E . . . . .				
	1,262,771	667,288	595,482	381,168
<b>LONG-TERM INVESTMENTS</b>				
Equity affiliates . . . . .				
Other investments . . . . .	808		808	
Receivables related to equity interests . . . . .	108,041		108,041	
Other long-term investment securities . . . . .				
Loans . . . . .				
Other long-term investments . . . . .	73,421		73,421	25,904
	182,271		182,271	25,904
<b>TOTAL FIXED ASSETS . . . . .</b>	<b>2,383,003</b>	<b>1,273,143</b>	<b>1,109,860</b>	<b>829,360</b>

ITEMS	GROSS	Depreciation, amortisation, provisions	Net 31/12/04	Net 31/12/03
<b>INVENTORIES AND WORK IN PROGRESS</b>				
Raw materials . . . . .	3,677,633		3,677,633	371,356
Work in progress – goods . . . . .				10,913
Work in progress – services . . . . .				
Semi-finished and finished goods . . . . .	300,089		300,089	81,086
Bought-in goods . . . . .				
	<u>3,977,723</u>		<u>3,977,723</u>	<u>463,356</u>
<b>ACCOUNTS RECEIVABLE</b>				
Downpayments to suppliers . . . . .				
Trade accounts receivable . . . . .	3,014,548	211,068	2,803,479	2,502,128
Other receivables . . . . .	3,204,909	9,666	3,195,242	1,504,825
Capital subscribed and called but not paid in . . . . .				
	<u>6,219,457</u>	<u>220,734</u>	<u>5,998,722</u>	<u>4,006,954</u>
<b>CASH AND CASH EQUIVALENTS</b>				
Short-term investment securities . . . . .	1,252,440		1,252,440	701,550
Cash at bank and in hand . . . . .	614,184		614,184	614,580
Prepaid expenses . . . . .	20,496		20,496	54,438
	<u>1,887,121</u>		<u>1,887,121</u>	<u>1,370,568</u>
<b>CURRENT ASSETS . . . . .</b>	<b><u>12,084,302</u></b>	<b><u>220,734</u></b>	<b><u>11,863,567</u></b>	<b><u>5,840,878</u></b>
Deferred charges . . . . .				
Bond redemption premium . . . . .				
Unrealised foreign exchange losses . . . . .	35,326		35,326	
	<u>35,326</u>		<u>35,326</u>	
<b>GRAND TOTAL . . . . .</b>	<b><u>14,502,631</u></b>	<b><u>1,493,878</u></b>	<b><u>13,008,753</u></b>	<b><u>6,670,239</u></b>

## BALANCE SHEET LIABILITIES

ITEMS	Net 31/12/04	Net 31/12/03
<b>NET EQUITY</b>		
Equity of which €1,086,000 paid in . . . . .	1,086,000	1,086,000
Additional paid-in capital . . . . .	8,713,174	8,711,294
Revaluation reserve of which equity accounting revaluation . . . . .		
Legal reserve . . . . .		
Statutory or contractual reserves . . . . .		
Regulated reserves . . . . .		
Other reserves . . . . .		
Retained earnings (accumulated deficit) . . . . .	(5,810,732)	(6,778,438)
Net income for the period . . . . .	4,658,768	967,706
Total net equity: . . . . .	8,647,210	3,986,562
<b>INVESTMENT SUBSIDIES</b> . . . . .		
<b>REGULATED PROVISIONS</b> . . . . .		
<b>TOTAL SHAREHOLDERS' EQUITY</b> . . . . .		
	<b>8,647,210</b>	<b>3,986,562</b>
Proceeds from issues of participating securities . . . . .		
Subordinated loans . . . . .		
<b>EQUITY EQUIVALENT</b> . . . . .		
Contingency provisions . . . . .	330,634	91,087
Loss provisions . . . . .	7,561	7,561
<b>CONTINGENCY AND LOSS PROVISIONS</b> . . . . .		
	<b>338,195</b>	<b>98,648</b>
<b>FINANCIAL LIABILITIES</b>		
Convertible bonds . . . . .		
Other bonds . . . . .		
Bank borrowings . . . . .	8,621	24,860
Other borrowings . . . . .		
Total financial liabilities: . . . . .	8,621	24,860
<b>DOWNPAYMENTS RECEIVED FOR WORK IN PROGRESS</b>		
<b>OTHER PAYABLES</b>		
Trade accounts payable . . . . .	2,252,421	1,757,086
Tax and employee-related liabilities . . . . .	1,255,260	486,040
Amounts payable in respect of fixed assets . . . . .		
Other liabilities . . . . .	494,867	301,728
Total other payables: . . . . .	4,002,549	2,544,855
<b>PREPAID INCOME</b> . . . . .		
<b>LIABILITIES</b> . . . . .		
	<b>4,011,170</b>	<b>2,569,716</b>
Unrealised foreign exchange gains . . . . .	12,177	15,312
<b>GRAND TOTAL</b> . . . . .		
	<b>13,008,753</b>	<b>6,670,239</b>

## Income Statement (Part I)

ITEMS	France	Export	31/12/04	31/12/03
Sales of bought-in goods . . . . .	180,330	5,658	185,988	18,114
Sales of own goods . . . . .	3,517,475	24,082,307	27,599,782	10,322,608
Sales of own services . . . . .	109,092	308,105	417,197	209,868
<b>NET SALES . . . . .</b>	<b>3,806,897</b>	<b>24,396,071</b>	<b>28,202,968</b>	<b>10,550,591</b>

Change in inventories of own production of goods and services . . . . .			(211,152)	(35,866)
Own production of goods and services capitalized . . . . .				
Operating subsidies . . . . .				
Write-back of depreciation, amortisation and provisions, transfer of charges . . . . .			419,241	
Other operating income . . . . .			141,273	90,238
<b>TOTAL OPERATING INCOME</b>			<b>28,552,332</b>	<b>10,604,962</b>

<b>OPERATING EXPENSES</b>				
Purchases of bought-in goods (including customs duties) . . . . .			7,721	1,045
Change in inventories of bought-in goods . . . . .				(36,399)
Purchases of raw materials and other supplies . . . . .			11,836,750	3,477,709
Change in inventories (of raw materials and other supplies) . . . . .			(3,150,083)	(201,775)
Other purchases and external charges . . . . .			10,557,073	3,852,178
			19,251,461	7,092,759
<b>DUTIES AND TAXES OTHER THAN INCOME TAX . . . . .</b>			<b>282,192</b>	<b>104,464</b>
<b>PAYROLL COSTS</b>				
Wages and salaries . . . . .			2,825,183	1,560,248
Payroll taxes . . . . .			1,205,804	630,738
			4,030,988	2,190,986
<b>DEPRECIATION, AMORTISATION AND PROVISIONS (OPERATING)</b>				
Depreciation and amortisation of fixed assets . . . . .			411,907	202,806
Provisions for fixed assets . . . . .				
Provisions for current assets . . . . .			19,226	106,416
Provisions for contingencies and losses . . . . .			29,564	5,597
			460,697	314,820
<b>OTHER OPERATING EXPENSES . . . . .</b>			<b>5,708</b>	<b>32,084</b>
<b>OPERATING EXPENSES . . . . .</b>			<b>24,031,048</b>	<b>9,735,115</b>
<b>NET INCOME FROM OPERATIONS . . . . .</b>			<b>4,521,283</b>	<b>869,846</b>

## Income Statement (Part II)

ITEMS	31/12/04	31/12/03
<b>NET INCOME FROM OPERATIONS</b> . . . . .	4,521,283	869,846
Profits transferred in or losses transferred out . . . . .		
Profits transferred out or losses transferred in . . . . .		
<b>FINANCIAL INCOME</b>		
Financial income from participating interests . . . . .	871	5
Income from other transferable securities and long-term loans . . . . .		
Other interest and similar income . . . . .	14,300	20,220
Reversals of provisions and expenses transferred . . . . .		
Positive foreign exchange differences . . . . .	281,860	76,575
Net proceeds from sale of short-term investments . . . . .	6,596	6,623
	<u>303,629</u>	<u>103,424</u>
<b>FINANCIAL EXPENSES</b>		
Amortisation of and provisions for financial items . . . . .		
Interest and similar charges . . . . .	107,858	21,010
Negative foreign exchange differences . . . . .	46,703	63,416
Net charges on sales of short-term investments . . . . .		
	<u>154,561</u>	<u>84,426</u>
<b>NET INCOME FROM FINANCIAL ITEMS</b> . . . . .	<b>149,068</b>	<b>18,998</b>
<b>NET INCOME BEFORE EXCEPTIONAL ITEMS/INCOME TAX</b> . . . . .	<b>4,670,351</b>	<b>888,844</b>
<b>EXCEPTIONAL INCOME</b>		
Exceptional income from non-capital transactions . . . . .		83,846
Exceptional income from capital transactions . . . . .		
Reversals of provisions and expenses transferred . . . . .		
		<u>83,846</u>
<b>EXCEPTIONAL CHARGES</b>		
Exceptional charges on non-capital transactions . . . . .	82,347	1,174
Exceptional charges on capital transactions . . . . .	2186	
Reversals of provisions and expenses transferred . . . . .	209,983	
	<u>294,516</u>	<u>1,174</u>
<b>NET EXCEPTIONAL ITEMS</b> . . . . .	<b>(294,516)</b>	<b>82,672</b>
Statutory employee profit-sharing scheme . . . . .		
Income tax . . . . .	(282,933)	3,811
<b>TOTAL INCOME</b> . . . . .	<b>28,855,961</b>	<b>10,792,234</b>
<b>TOTAL EXPENSES</b> . . . . .	<b>24,197,193</b>	<b>9,824,527</b>
<b>NET INCOME/LOSS</b> . . . . .	<b>4,658,768</b>	<b>967,706</b>



## Accounting policies

(Commercial Code, Articles 9 and 11; Decree 83-1020 of November 29, 1983 – Articles 7, 21, 24, 24-1, 24-2 and 24-3)

Generally accepted accounting conventions have been applied in conformity with the principle of prudence and with the basic accounting concepts of:

- going concern,
- consistency of accounting methods from one period to the next, and
- the independence of financial years,

and in accordance with the general rules for the preparation and presentation of annual accounts.

The basic method used for the valuation of items recorded in the accounts is the historical cost method.

The main accounting methods used are as follows:

### a) Property, plant and equipment.

Property, plant and equipment are valued at their acquisition cost (purchase cost, and incidental expenses, excluding acquisition costs of fixed assets) or at their production cost.

Depreciation and amortisation are calculated either on a straight-line basis or a declining balance basis depending on their estimated useful life:

– Patents, licenses, brands . . . . .	1 to 4 years
– Software . . . . .	1 year
– Installations and improvements to building . . . . .	3 to 10 years
– Technical installations . . . . .	10 years
– Industrial plant and equipment . . . . .	3 years
– Office equipment and computers . . . . .	3 to 5 years
– Transportation equipment . . . . .	3 years

### b) Participating interests, other long-term investments, short-term investment securities.

The gross value comprises the purchase cost, excluding incidental expenses. A provision for impairment is recorded if the estimated recoverable value is less than the gross value, for the difference.

### c) Inventories

Inventories are valued according to the first in, first out method.

The gross value of supplies is based on the purchase price.

Manufactured products are valued at production cost including consumables and direct and indirect production expenses. A provision for impairment is recorded if the realizable value is less than the value determined above, for the difference.

The €419,241.69 reversal made to inventory provisions was equal to the amount originally set aside.

### d) Accounts receivable

Accounts receivable are valued at their nominal value. A provision for impairment is recorded if the estimated recoverable value is less than the book value.

Other receivables: this item includes a research & development tax rebate of €1,160,376.14.

### e) Foreign currency transactions

Expenses and income in foreign currency are converted at the exchange rate at the date of the transaction.

Cash in foreign currency is recorded in the balance sheet and is converted at the closing date exchange rate.

The difference which results when foreign currency liabilities are up-dated using the closing date exchange rate is recorded as “Unrealised foreign exchange gains/losses” in the balance sheet.

Unrealised gains are recorded as taxable income.

**f) Contingency provision**

We have estimated a provision of €42,515 for an ongoing dispute before an employment tribunal.

The warranty provision has been estimated to account for the rotation of changing faulty products.

**g) Exceptional expenses**

Exceptional expenses primarily include contingency provisions on prior contracts for which the Company has committed to using third party technology.

**h) 2004 Results**

Net earnings amounted to €4,658,768 and earnings from operations to €4,521,283.

Revenues were up 167.31% compared with 2003.

The company obtained renewal of ISO 9001 certification, 2000 version.

## Fixed Assets

ITEMS	Gross opening value	Increases by revaluation	Increases by acquisitions
<b>INTANGIBLE FIXED ASSETS</b>			
Start-up costs, research and development costs . . . . .			
Other intangible fixed assets . . . . .	825,003		112,957
	<u>825,003</u>		<u>112,957</u>
<b>TANGIBLE FIXED ASSETS</b>			
Land . . . . .			
Buildings on company land . . . . .			
Leasehold improvements . . . . .			
Installations and improvements to buildings . . . . .			
Technical installations, industrial plant and equipment . . .	433,794		94,292
General installations . . . . .	154,951		125,100
Transportation equipment . . . . .	4,542		
Office equipment, computers and furniture . . . . .	248,160		201,930
Re-usable packaging and miscellaneous items . . . . .			
Tangible fixed assets under construction . . . . .			
Downpayments . . . . .			
	<u>841,447</u>		<u>421,323</u>
<b>INVESTMENTS</b>			
Investments valued by the equity method . . . . .			
Other equity investments . . . . .			108,849
Other capitalized securities . . . . .			
Loans and other investments . . . . .	25,904		47,517
	<u>25,904</u>		<u>156,367</u>
<b>GRAND TOTAL . . . . .</b>	<b><u>1,692,355</u></b>		<b><u>690,647</u></b>

ITEMS	Decreases by transfer	Decreases by disposal	Gross closing value	Legal revaluation
<b>INTANGIBLE FIXED ASSETS</b>				
Start-up costs, research and development costs . . . . .			937,960	
Other intangible fixed assets . . . . .			937,960	
			937,960	
<b>TANGIBLE FIXED ASSETS</b>				
Land . . . . .				
Buildings on company land . . . . .				
Leasehold improvements . . . . .				
Installations and improvements to building . .				
Tech. installations, industrial plant & equipment . . . . .			528,087	
General installations . . . . .			280,051	
Transportation equipment . . . . .			4,542	
Office equipment, computers and furniture .		3,945	450,090	
Re-usable packaging and miscellaneous items . . . . .				
Tangible fixed assets under construction . . .				
Downpayments . . . . .				
		3,945	1,262,771	
<b>INVESTMENTS</b>				
Investments valued by the equity method . . .				
Other equity investments . . . . .			108,849	
Other capitalized securities . . . . .				
Loans and other investments . . . . .			73,421	
			182,271	
			182,271	
<b>GRAND TOTAL . . . . .</b>		<b>3,945</b>	<b>2,383,003</b>	
		<b>3,945</b>	<b>2,383,003</b>	

## Depreciation and Amortisation

CHANGES OVER THE YEAR				
DEPRECIABLE FIXED ASSETS	Opening amount	Increases depreciation	Decreases reversals	Closing amount
<b>INTANGIBLE FIXED ASSETS</b>				
Start-up costs, research and development costs . . . . .				
Other intangible fixed assets . . . . .	402,716	203,138		605,854
	402,716	203,138		605,854
<b>TANGIBLE FIXED ASSETS</b>				
Land . . . . .				
Buildings on company land . . . . .				
Leasehold improvements . . . . .				
Installations and improvements to building .				
Tech. installations, industrial plant & equipment . . . . .	246,276	100,786		347,063
General installations . . . . .	51,379	21,365		72,744
Transportation equipment . . . . .	1,866	2,225		4,092
Office equipment, computers and furniture .	160,756	84,390	1,758	243,388
Re-usable packaging and miscellaneous items . . . . .				
	460,279	208,767	1,758	667,288
<b>GRAND TOTAL . . . . .</b>	<b>862,995</b>	<b>411,905</b>	<b>1,758</b>	<b>1,273,142</b>

BREAKDOWN OF DEPRECIATION AND AMORTISATION FOR THE YEAR			
DEPRECIABLE FIXED ASSETS	Straight-line amortisation	Declining balance amortisation	Exceptional amortisation
<b>INTANGIBLE FIXED ASSETS</b>			
Start up costs, research and development costs . . . . .			
Other intangible fixed assets . . . . .	203,138		
	203,138		
<b>TANGIBLE FIXED ASSETS</b>			
Land . . . . .			
Buildings on company land . . . . .			
Leasehold improvements . . . . .			
Installations and improvements to building . . . . .			
Technical installations, industrial plant and equipment . . . . .	100,786		
General installations . . . . .	21,365		
Transportation equipment . . . . .	2,225		
Office equipment, computers and furniture . . . . .	84,390		
Re-usable packaging and miscellaneous items . . . . .			
	208,767		
<b>GRAND TOTAL . . . . .</b>	<b>411,905</b>		

## Depreciation and Amortisation (continued)

CHANGES AFFECTING THE PROVISION FOR EXCESS TAX DEPRECIATION		
DEPRECIABLE FIXED ASSETS	Depreciation	Reversals
<b>INTANGIBLE FIXED ASSETS</b>		
Start-up costs, research and development costs . . . . .		
Other intangible fixed assets . . . . .	_____	_____
<b>TANGIBLE FIXED ASSETS</b>		
Land . . . . .		
Buildings on company land . . . . .		
Leasehold improvements . . . . .		
Installations and improvements to building . . . . .		
Technical installations, industrial plant and equipment . . . . .		
General installations . . . . .		
Transportation equipment . . . . .		
Office equipment, computers and furniture . . . . .		
Re-usable packaging and miscellaneous items . . . . .	_____	_____
	_____	_____
<b>GRAND TOTAL . . . . .</b>	=====	=====

CHANGES FOR THE PERIOD AFFECTING DEFERRED CHARGES				
ITEMS	Net opening amount	Increases	Depreciation and amortisation for the year	Net closing amount
Deferred charges . . . . .				
Bond redemption premium . . . . .				

## Balance sheet provisions

ITEMS	Opening amount	Increases depreciation	Decreases reversals	Closing amount
Provisions for mineral and oil deposits . . . . .				
Provisions for investments . . . . .				
Provisions for price rises . . . . .				
Provisions for foreign exchange fluctuations . .				
Provisions for excess tax depreciation . . . . .				
Tax provisions for operations set up abroad before 1 January 1992 . . . . .				
Tax provisions for operations set up abroad after 1 January 1992 . . . . .				
Provisions for start-up loans . . . . .				
Other regulated provisions . . . . .				
<b>REGULATED PROVISIONS</b>				
Litigation provisions . . . . .				
Provisions for client warranties . . . . .	36,205	29,564		65,769
Provisions for losses on futures markets . . . . .				
Provisions for fines and penalties . . . . .				
Provisions for foreign-exchange losses . . . . .				
Provision for pensions and similar liabilities . .				
Tax provisions . . . . .	7,561			7,561
Provisions for renewal of fixed assets . . . . .				
Provisions for major repairs . . . . .				
Provisions for social and fiscal charges on accrued holiday pay . . . . .				
Other contingency and loss provisions for . . . .	54,882	209,983		264,865
<b>CONTINGENCY AND LOSS PROVISIONS . .</b>	<b>98,648</b>	<b>239,547</b>		<b>338,195</b>
Provisions for depreciation and amortisation				
Of intangible fixed assets . . . . .				
Of tangible fixed assets . . . . .				
Of equity affiliates . . . . .				
Of participating interests . . . . .				
Of other long-term investments . . . . .				
Of inventories and work in process . . . . .	419,241		419,241	
Of trade receivables . . . . .	191,842	19,226		211,068
Other provisions for depreciation and amortisation . . . . .	9,666			9,666
<b>PROVISIONS FOR DEPRECIATION AND AMORTISATION . . . . .</b>	<b>620,750</b>	<b>19,226</b>	<b>419,241</b>	<b>220,734</b>
<b>GRAND TOTAL . . . . .</b>	<b>719,398</b>	<b>258,773</b>	<b>419,241</b>	<b>558,929</b>

## Maturity of receivables and liabilities

ACCOUNTS RECEIVABLE	Gross amount	Within 1 year	More than 1 year
<b>FIXED ASSETS</b>			
Receivables relating to participating interests . . . . .	108,041		108,041
Loans . . . . .			
Other long-term investments . . . . .	73,421		73,421
	181,463		181,463
<b>CURRENT ASSETS</b>			
Doubtful or contested trade receivables . . . . .	212,765		212,765
Other accounts receivable . . . . .	2,801,782	2,801,782	
Receivables relating to loaned securities . . . . .			
Employees and related accounts . . . . .	4,687	4,687	
Social security receivables . . . . .			
State – Income tax . . . . .	1,179,126	1,179,126	
State – Value added tax . . . . .	1,190,759	1,190,759	
State – Other taxes, duties and similar payments . . . . .	800,000	800,000	
State – Other . . . . .			
Group and associates . . . . .	21,036	21,036	
Other debtors . . . . .	9,300	9,300	
	6,219,457	6,006,692	212,765
<b>PREPAID EXPENSES</b> . . . . .	20,496	20,496	
<b>GRAND TOTAL</b> . . . . .	<b>6,421,416</b>	<b>6,027,188</b>	<b>394,228</b>

LIABILITIES	Gross amount	Within 1 year	More than 1 yr and less than 5 yrs	Due after 5 years
Convertible bonds . . . . .				
Other bonds . . . . .				
Loans and other borrowings from credit institutions:				
– originally for less than 2 years . . . . .	8,621	8,621	0	
– originally for more than 2 years . . . . .				
Other borrowings . . . . .	2,252,421	2,252,421		
Trade payables and related accounts . . . . .	433,521	433,521		
Employee liabilities . . . . .	557,445	557,445		
Social security liabilities . . . . .				
Income tax . . . . .	27,505	27,505		
Value added tax . . . . .				
Secured bonds . . . . .	236,789	236,789		
Other taxes, duties and similar liabilities . . . . .				
Liabilities relating to fixed assets and related accounts . . . . .	494,867	494,867		
Group and associates . . . . .				
Other liabilities . . . . .				
Liabilities corresponding to securities borrowed . . . . .				
Prepaid income . . . . .				
<b>GRAND TOTAL</b> . . . . .	<b>4,011,170</b>	<b>4,011,170</b>	<b>0</b>	



### Accrued expenses

AMOUNT OF ACCRUED EXPENSES INCLUDED IN THE FOLLOWING BALANCE SHEET ITEMS	Amount
Convertible bonds . . . . .	
Other bonds . . . . .	
Bank borrowings . . . . .	
Other borrowings . . . . .	
Trade payables and related accounts . . . . .	
Tax and employee-related liabilities . . . . .	124,290
Amounts payable in respect of fixed assets and related accounts . . . . .	895,331
Cash at bank and in hand, expenses accrued . . . . .	
Other liabilities . . . . .	8,621
	309,646
<b>TOTAL . . . . .</b>	<b>1,337,890</b>

### Accrued income

AMOUNT OF ACCRUED INCOME INCLUDED IN THE FOLLOWING BALANCE SHEET ITEMS	Amount
<b>Long-term investments</b>	
Receivables relating to participating interests . . . . .	
Other long-term investments . . . . .	2,152
<b>Receivables</b>	
Trade accounts receivable and related accounts . . . . .	604,719
Employees . . . . .	
Social Security . . . . .	
State . . . . .	800,000
Other accrued income . . . . .	
Other receivables . . . . .	9,300
<b>Short-term investment securities</b>	
<b>Cash at bank and in hand . . . . .</b>	<b>870</b>
<b>TOTAL . . . . .</b>	<b>1,417,042</b>

### Prepaid income and expenses

ITEMS	Expenses	Income
Operating income and expenses . . . . .	20,496	
Financial income and expenses . . . . .		
Extraordinary income and expenses . . . . .		
<b>TOTAL . . . . .</b>	<b>20,496</b>	

## Share capital

SHARE CATEGORIES	Number	Par value
1 – Shares or stock interests at the beginning of the year . . . . .	7,121,800	0.1524
2 – Shares or stock interests issued during the year . . . . .		
3 – Shares or stock interests redeemed during the year . . . . .		
4 – Shares or stock interests at the end of the year . . . . .	7,121,800	0.1524

## Subsidiaries and participating interests

SUBSIDIARIES AND PARTICIPATING INTERESTS	Total equity	Share of capital owned (%)	Net income at closing of last fiscal year
<b>A. DETAILS OF SUBSIDIARIES AND PARTICIPATING INTERESTS</b>			
1. Subsidiaries (more than 50% owned)			
PARROT INC . . . . .	808.25	100.00	62,889.00
The loss recorded by the subsidiary is a result of its first year of existence . . . . .			
2. Participating interests (10 to 50% owned) . . . . .			
<b>B. GENERAL INFORMATION ON OTHER SUBSIDIARIES AND PARTICIPATING INTERESTS</b>			
1. Subsidiaries not included in A:			
– French . . . . .			
– Foreign . . . . .			
2. Participating interests not included in A:			
– French . . . . .			
– Foreign . . . . .			
	=====	=====	=====

## Breakdown of net sales

BY BUSINESS SEGMENT	Amount
RETAIL CHANNELS . . . . .	23,210,564
OTHER . . . . .	4,992,404
<b>TOTAL . . . . .</b>	<b>28,202,968</b>

BY GEOGRAPHICAL AREA	Amount
FRANCE . . . . .	4,197,771
EUROPE . . . . .	20,624,570
OTHER . . . . .	3,380,627
<b>TOTAL . . . . .</b>	<b>28,202,968</b>

### Average number of employees

STAFF	Salaried employees	Staff made available to the company
Managerial . . . . .	62	
Supervisory and technical . . . . .	3	
Office and clerical . . . . .	11	
Manual . . . . .	_____	_____
<b>TOTAL</b> . . . . .	<b>76</b>	_____
	=====	=====

### Total remuneration and by category of senior management

REMUNERATION OF DIRECTORS AND EXECUTIVES	Amount
Board of Directors . . . . .	
Management and Supervisory Board . . . . .	_____
<b>TOTAL</b> . . . . .	_____
	=====

Remuneration is not shown, as this would reveal individual remuneration.

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## **Parrot S.A.**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

### **Auditor's general report**

Year ended 31 December 2004

To the shareholders,

In performance of the assignment given to us by your General Meeting, we hereby submit our report for the year ended 31 December 2004 on:

- our audit of the annual accounts of Parrot S.A. as attached to this report;
- substantiation of our opinion;
- the specific verifications and information required by law.

The annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on them based on our audit.

### **1 – OPINION ON THE ANNUAL ACCOUNTS**

We conducted our audit in accordance with the prevailing standards of the profession in France. Those standards require that we plan and perform our audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the accounts. An audit also includes assessing the accounting principles used and significant estimates made in the preparation of the financial statements and evaluating their overall presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts give a true and fair view, according to French accounting principles, of the results of operations for the year ended 31 December 2004 and of the financial condition and assets of the company at that date.

### **2 – Justification of our assessments**

Pursuant to the provisions of Article L. 225-235 of the Commercial Code relating to substantiation of our opinion, we inform you that our assessment involved verifying that the accounting principles used are appropriate and that significant estimates made are reasonable.

Our assessments form part of our audit of the annual accounts as a whole and therefore informed our opinion expressed in the first part of this report.

### **3 – Specific verifications and information**

We have also carried out the specific verifications required by law in accordance with the professional standards that apply in France.

We are satisfied that the information given in the Board of Directors' management report and in the documents provided to shareholders concerning the financial condition and annual accounts is fairly stated and agrees with the annual accounts.

As required by law, we have satisfied ourselves that information relating to acquisitions of equity and controlling interests has been provided to you in the management report.

Levallois-Perret, 23 May 2005

KPMG Entreprises  
*A department of KPMG S.A.*

Patrick Geoffroy

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**Parrot S.A.**

Registered office: 174, quai de Jemmapes – 75010 Paris  
Share capital: €1,086,000

**Auditor's special report on regulated agreements**

Year ended 31 December 2004

To the shareholders,

In our capacity as auditor of your company we hereby present to you our report on regulated agreements which have been brought to our attention.

**Agreements entered into during the year**

Our assignment is not to find out whether such agreements exist but to advise you, on the basis of the information provided to us, of the principal features and terms of the agreements brought to our attention. We are not asked to give an opinion on whether they are useful or necessary. Under the terms of Article 92 of the decree of 23 March 1967, it is for you to assess whether these agreements are appropriate with a view to approving them.

We hereby inform you that we have not been advised of any agreement referred to at Article L. 225-38 of the Commercial Code.

**Agreements concluded during the year and not authorised beforehand**

We hereby present our report on the agreements referred to at Article L. 225-42 of the Commercial Code.

Pursuant to Article L. 225-240 of the Commercial Code, we inform you that the agreements in question were not authorised beforehand by the Board of Directors.

Our assignment, on the basis of the information provided to us, is to advise you of the principal features and terms of these agreements and of the circumstances due to which the authorisation procedure was not followed. We are not asked to give an opinion on whether they are useful or necessary. Under the terms of Article 92 of the decree of 23 March 1967, it is for you to assess whether these agreements are appropriate with a view to approving them.

***With Parrot Inc.***

***Current account agreement***

- Persons concerned:

Henry Seydoux  
Edward Planchon

- Nature and purpose:

Parrot S.A. owns all the shares of Parrot Inc. Within the context of the group thus formed, the two companies will grant each other cash advances according to their needs and their financial possibilities. They may on occasion pay expenses for one another.

- Terms

The amounts will be recorded in a current account and will bear interest either at 3% or at the maximum tax-deductible rate for such advances if that rate is lower than 3%.

Amount of advances made by Parrot S.A. to Parrot Inc.: €108,041.

Amount of interest booked as revenue: €3,927 net of tax.

***Supply agreement***

- Nature and purpose

Parrot S.A. supplies products to Parrot Inc. which Parrot Inc. then markets in the United States.

- Terms

To help its subsidiary in its start-up phase, Parrot S.A. has sold its products at the procurement price in accordance with supplement number one to the supply agreement.

Sales to Parrot Inc.: €187,000

***With Edward Planchon, director***

- Nature and purpose

Mr Edward Planchon, a director of your company, has considerable expertise in the marketing of high-technology products in the United States. Parrot S.A. has sought to take advantage of his expertise by sending him to supervise the establishment of the American subsidiary Parrot Inc.

- Terms

Mr Edward Planchon is paid fees according to the time he spends in the United States and his expenses are reimbursed on presentation of vouchers.

Fees paid in 2004: €22,500.

Expenses reimbursed: €5,392.

These agreements were not submitted to the Board for prior approval by error.

We carried out our work in accordance with the prevailing standards of the profession in France. Those standards require us to verify that the information provided to us is consistent with the source documents from which it is derived.

Levallois-Perret, 23 May 2005

KPMG Entreprises  
*A department of KPMG S.A*

Patrick Geoffroy

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**Parrot S.A.**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report prepared in accordance with the final paragraph of Article L. 225-235 of the Commercial Code on the report of the Chairman of Parrot SA on internal control procedures relating to the preparation and treatment of accounting and financial information**

Year ended 31 December 2004

To the shareholders,

In our capacity as auditor of Parrot SA and pursuant to the provisions of the final paragraph of Article L. 225-235 of the Commercial Code, we hereby present our report on the report prepared by the Chairman of your company in accordance with the provisions of Article L. 225-37 of the Commercial Code for the year ended 31 December 2004.

The Chairman's report should describe the conditions for preparing and organising the Board's work and the internal control procedures introduced in the company.

Our responsibility is to inform you of our observations based on the information contained in the Chairman's report concerning internal control procedures relating to the preparation and treatment of accounting and financial information.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify that the information given in the Chairman's report concerning internal control procedures relating to the preparation and treatment of accounting and financial information is fairly stated. Our work consists in particular in:

- acquainting ourselves with the objectives and general organisation of internal controls and the internal control procedures relating to the preparation and treatment of accounting and financial information described in the Chairman's report;
- acquainting ourselves with the procedures underlying the information contained in the report.

On the basis of this work, we have no comment to make about the information concerning the company's internal control procedures relating to the preparation and treatment of accounting and financial information contained in the Chairman's report prepared pursuant to the provisions of the final paragraph of Article L. 225-37 of the Commercial Code.

Levallois-Perret, 23 May 2005

KPMG Entreprises  
*A department of KPMG S.A.*

Patrick Geoffroy



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**Parrot S.A.**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report on the issuance of business founder warrants**

Extraordinary General Meeting of 7 December 2004

To the shareholders,

As auditor of your company and in performance of the assignment set forth at Article L. 228-92 of the Commercial Code, we hereby present our report on the planned issuance free of charge of 2,447,000 business founder warrants allocated to Mr Henry Seydoux, a transaction which you have been asked to approve.

836,000 warrants will give entitlement to one share of €0.1524 par at a price of €3.59.

1,611,000 warrants will give entitlement to one share of €0.1524 par at a price of €7.19.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify:

- the information contained in the Board of Directors' report on the reasons for proposing to cancel the preferential subscription right and the justification for choosing the information used to calculate the issue price and the amount thereof;
- the figures taken from the interim accounts prepared by the Board of Directors as at 30 September 2004 using the same methods and presentation as the most recent annual accounts. We have conducted a limited audit of the interim accounts in accordance with the prevailing standards of the profession in France.

We have no comment to make on:

- the fairness of the figures taken from the company's accounts and contained in the Board of Directors' report;
- the proposal to cancel the preferential subscription right relating to both the warrants themselves and the shares to be issued, inherent in the conditions for issuing business founder warrants allocated to salaried employees and to managers subject to the tax rules applicable to salaried employees as set forth in the provisions of Article 163 bis G of the General Tax Code.

We have the following comments to make on the choice of information used to calculate the issue price of the equity securities to be issued and the amount thereof and the description of the effect of the transaction on the situation of shareholders in relation to shareholders' equity:

- the Board considered that it should retain a value of €3.59 for the first tranche of 836,000 warrants and a value of €7.19 for the second tranche of 1,611,000 warrants;
- the Board justified the setting of the issue price on the basis of projected sales in 2004 for the first tranche of 836,000 warrants and retained an issue price double that of the first tranche for the second tranche of 1,611,000 warrants, which is an agreed price determined with the investors taking part in the capital increase decided by the EGM on 7 December 2004.

For that reason we cannot issue an opinion on the choice of information used to calculate the issue price or the amount thereof, or on the effect of the transaction on the situation of the shareholders in relation to shareholders' equity.

This report refers to the articles of the French commercial code resulting from amendments made by ordinance 2004-604 of 24 June 2004. While awaiting publication of the implementing decrees provided for in the ordinance, this report has been prepared on the basis of the previous regulations.

Levallois-Perret, 22 November 2004

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**Parrot S.A.**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report on the issuance of business founder warrants in favour of employees**

Extraordinary General Meeting of 7 December 2004

To the shareholders,

As auditor of your company and in performance of the assignment set forth at Article L. 228-92 of the Commercial Code, we hereby present our report on the planned issuance free of charge of 167,131 business founder warrants, a transaction which you have been asked to approve.

Each warrant will give entitlement to one share of €0.1524 par at the price of €3.59.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify:

- the information contained in the Board of Directors' report on the reasons for proposing to cancel the preferential subscription right and the justification for choosing the information used to calculate the issue price and the amount thereof;
- the figures taken from the interim accounts prepared by the Board of Directors as at 30 September 2004 using the same methods and presentation as the most recent annual accounts. We have conducted a limited audit of the interim accounts in accordance with the prevailing standards of the profession in France.

We have no comment to make on:

- the fairness of the figures taken from the company's accounts and contained in the Board of Directors' report;
- the proposal to cancel the preferential subscription right relating to both the warrants themselves and the shares to be issued, inherent in the conditions for issuing business founder warrants allocated to salaried employees and to managers subject to the tax rules applicable to salaried employees as set forth in the provisions of Article 163 bis G of the General Tax Code.

We have the following comments to make on the choice of information used to calculate the issue price of the equity securities to be issued and the amount thereof and the description of the effect of the transaction on the situation of shareholders in relation to shareholders' equity:

- the Board considered that it should retain a value of €3.59 per share;
- the Board justified the setting of the issue price on the basis of projected sales in 2004.

For that reason we cannot issue an opinion on the choice of information used to calculate the issue price or the amount thereof, or on the effect of the transaction on the situation of the shareholders in relation to shareholders' equity.

This report refers to the articles of the Commercial Code resulting from amendments made by ordinance 2004-604 of 24 June 2004. While awaiting publication of the implementing decrees provided for in the ordinance, this report has been prepared on the basis of the previous regulations.

Levallois-Perret, 22 November 2004

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**Parrot S.A.**

Registered office: 174 quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report on the capital increase with cancellation of preferential subscription rights prepared in accordance with Article L. 225-129-6 of the Commercial Code and Article L. 443-5 of the Labour Code**

Extraordinary General Meeting on 7 December 2004

To the shareholders,

As auditor of your company and in performance of the assignment set forth in Article L. 225-135 of the Commercial Code, we hereby present our report on the planned reserved capital increase by way of the issuance of new shares at the price of €3.59 per share up to a maximum of 3% of the share capital, a transaction which you have been asked to approve. The capital increase is subject to your approval pursuant to the provisions of Article L. 225-129-6 of the Commercial Code and Article L. 443-5 of the Labour Code.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify:

- the information contained in the Board of Directors' report on the reasons for proposing to cancel the preferential subscription right and the justification for choosing the information used to calculate the issue price and the amount thereof;
- the figures taken from the interim accounts prepared by the Board of Directors as at 30 September 2004 using the same methods and presentation as the most recent annual accounts. We have conducted a limited audit of the interim accounts in accordance with the prevailing standards of the profession in France.

We have no comment to make on the fairness of the figures taken from the company's accounts and contained in the Board of Directors' report.

We have the following comment to make on the proposal to cancel the preferential subscription right that you have been asked to approve, the choice of information used to calculate the issue price of the equity securities to be issued and the amount thereof and the description of the effect of the transaction on the situation of shareholders in relation to shareholders' equity:

- the Board justified the setting of the issue price on the basis of projected sales in 2004.

For that reason we cannot issue an opinion on the choice of information used to calculate the issue price or the amount thereof, or on the effect of the transaction on the situation of the shareholders in relation to shareholders' equity, and in consequence on the proposal to cancel the preferential subscription right that you have been asked to approve.

This report refers to the articles of the Commercial Code resulting from amendments made by ordinance 2004-604 of 24 June 2004. While awaiting publication of the implementing decrees provided for in the ordinance, this report has been prepared on the basis of the previous regulations.

Levallois-Perret, 22 November 2004

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**Parrot S.A.**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report on the issuance of equity warrants with cancellation of preferential subscription rights**

Extraordinary General Meeting on 6 July 2004

To the shareholders,

As auditor of your company and in performance of the assignment set forth at Article L. 228-92 of the Commercial Code, we hereby present our report on the planned reserved issuance at the price of €0.0176 of 71,200 equity warrants, a transaction which you have been asked to approve. Each warrant will give entitlement to one share of €0.1524 par at the price of €1.76.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify:

- the information contained in the Board of Directors' report on the reasons for proposing to cancel the preferential subscription right and the justification for choosing the information used to calculate the issue price and the amount thereof;
- the figures taken from the annual accounts prepared by the Board of Directors, which we have audited in accordance with the prevailing standards of the profession in France.

We have no comment to make on the fairness of the figures taken from the company's accounts and contained in the Board of Directors' report.

We have the following comment to make on the choice of information used to calculate the issue price of the equity securities to be issued and the amount thereof and the description of the effect of the transaction on the situation of shareholders in relation to shareholders' equity:

- the Board considered that it should retain the same value as the one retained for the transaction decided on 24 June 2003, namely €1.76 per share.

For that reason we cannot issue an opinion on the proposal to cancel the preferential subscription right, or on the choice of information used to calculate the issue price or the amount thereof, or on the effect of the transaction on the situation of the shareholders in relation to shareholders' equity.

Levallois-Perret, 21 June 2004

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*A department of KPMG S.A.*

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**Parrot S.A.**

Registered office: 174, quai de Jemmapes – 75010 Paris

Share capital: €1,086,000

**Auditor's report on the issuance of business founder warrants**

Extraordinary General Meeting of 6 July 2004

To the shareholders,

As auditor of your company and in performance of the assignment set forth at Article L. 228-92 of the Commercial Code, we hereby present our report on the planned issuance free of charge of 200,000 business founder warrants, a transaction which you have been asked to approve. Each warrant will give entitlement to one share of €0.1524 par at a price of €1.76.

We have performed our assignment in accordance with the prevailing standards of the profession in France. Those standards require us to verify:

- the information contained in the Board of Directors' report on the reasons for proposing to cancel the preferential subscription right and the justification for choosing the information used to calculate the issue price and the amount thereof;
- the figures taken from the annual accounts prepared by the Board of Directors, which we have audited in accordance with the prevailing standards of the profession in France.

We have no comment to make on:

- the fairness of the figures taken from the company's accounts and contained in the Board of Directors' report;
- the proposal to cancel the preferential subscription right relating to both the warrants themselves and the shares to be issued, inherent in the conditions for issuing business founder warrants allocated to salaried employees and to managers subject to the tax rules applicable to salaried employees as set forth in the provisions of Article 163 bis G of the General Tax Code.

We have the following comment to make on the choice of information used to calculate the issue price of the equity securities to be issued and the amount thereof and the description of the effect of the transaction on the situation of shareholders in relation to shareholders' equity:

- the Board considered that it should retain the same value as the one retained for the transaction decided on 24 June 2003, namely €1.76 per share.

For that reason we cannot issue an opinion on the choice of information used to calculate the issue price or the amount thereof, or on the effect of the transaction on the situation of the shareholders in relation to shareholders' equity.

Levallois-Perret, 21 June 2004

KPMG Entreprises  
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Patrick Geoffroy







Parrot