

Parrot

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2018 Consolidated and Annual Financial Statements

This document is an extract of the French “Document de reference” and a translation from French to English of the 2018 Consolidated and Annual Financial statement.

In the event of inconsistency or discrepancy between the French version and any other language version, the French language version shall prevail.

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I. Parrot Group 2018 Consolidated financial statement

1.1. Profit & Loss statement

€'000	Note	Dec 31, 2018	Dec 31, 2017
Revenues		109 240	151 871
Cost of sales		(75 411)	(100 696)
Gross margin		33 829	51 176
<i>Gross margin as % of revenues</i>		<i>31,0%</i>	<i>33,7%</i>
Research and development costs		(37 173)	(36 915)
<i>% of revenues</i>		<i>34,0%</i>	<i>24,3%</i>
Sales and marketing costs		(36 520)	(44 797)
<i>% of revenues</i>		<i>33,4%</i>	<i>29,5%</i>
Overheads		(16 909)	(16 648)
<i>% of revenues</i>		<i>15,5%</i>	<i>11,0%</i>
Production and quality		(9 143)	(10 394)
<i>% of revenues</i>		<i>8,4%</i>	<i>6,8%</i>
Income from ordinary operations		(65 917)	(57 579)
<i>Income from ordinary operations as % of revenues</i>		<i>-60,3%</i>	<i>-37,9%</i>
Other operating income and expenses	7	(37 329)	(11 724)
EBIT		(103 246)	(69 303)
<i>EBIT as % of revenues</i>		<i>-94,5%</i>	<i>-45,6%</i>
Net finance costs	8	(18)	(319)
Other financial income and expenses	8	(906)	(4 999)
Financial income (expense)		(924)	(5 318)
Share in income from associates	15	(7 904)	(6 695)
Net income from discontinued operations		-	43 483
Tax	9	912	(1 085)
Net income		(111 161)	(38 918)
Net income (Group share)		(111 265)	(38 218)
Net income (Group share) as % of revenues		-101,9%	-25,2%
Non-controlling interests	24	104	(700)

	Note	Dec 31, 2018	Dec 31, 2017
Weighted average number of ordinary shares		30 174 671	30 174 671
Basic net income per share from continuing operations (€)	23	-3,69	-2,71
Basic net income per share from discontinued operations (€)	23	-	1,44
Weighted average number of ordinary shares (diluted)		30 174 671	30 174 671
Diluted net income per share from continuing operations (€)	23	-3,69	-2,71
Diluted net income per share from discontinued operations (€)	23	-	1,44

1.1.1. Comprehensive income statement

€'000	Dec 31, 2018	Dec 31, 2017
Net income for the period	(111 161)	(38 918)
Exchange gains or losses	1 695	(1 211)
Group exchange gains or losses	1 675	(1 178)
Non-Group exchange gains or losses	20	(34)
Change in value of derivative hedging instruments	-	-
Change in actuarial gains or losses concerning employee benefits	(16)	314
Taxes	2	(89)
Other comprehensive income items	1 682	(987)
- Subsequently non-recyclable to net income	(16)	314
- Subsequently recyclable to net income	1 698	(1 301)
Comprehensive income for the period	(109 480)	(39 904)
Attributable to owners of the parent	(109 603)	(39 171)
Attributable to non-controlling interests	123	(733)

1.2. Statement of financial position

Assets (€'000)	Note	Dec 31, 2018	Dec 31, 2017
Non-current assets		15 029	160 949
Goodwill	10	-	41 749
Other intangible assets	11	923	1 484
Property, plant and equipment	13	3 386	4 061
Investments in associates	15	6 077	107 299
Financial assets	14	4 402	6 023
Deferred tax assets	16	240	334
Current assets		229 267	241 740
Inventories	17	19 426	23 260
Trade receivables	18	27 636	40 218
Other receivables	19	20 730	20 706
Other current financial assets	28	18	13 018
Cash and cash equivalents	20	161 457	144 539
Assets held for sale		244 295	402 690

Shareholders' equity and liabilities (€'000)	Note n°	Dec 31, 2018	Dec 31, 2017
Shareholders' equity		162 868	251 193
Share capital	21	4 599	4 599
Additional paid-in capital		331 678	331 678
Reserves excluding earnings for the period		(66 363)	(48 221)
Earnings for the period - Group share		(111 265)	(38 218)
Exchange gains or losses		5 862	4 017
Equity attributable to Parrot SA shareholders		164 511	253 855
Non-controlling interests	24	(1 643)	(2 662)
Non-current liabilities		8 623	71 732
Non-current financial liabilities	22	1 313	42 199
Provisions for pensions and other employee benefits	25	933	1 033
Deferred tax liabilities	16	79	1 690
Other non-current provisions		-	-
Other non-current liabilities	27	6 299	26 811
Current liabilities		72 803	79 765
Current financial liabilities		-	-
Current provisions	26	17 297	13 996
Trade payables	27	27 631	37 587
Current tax liabilities		123	250
Other current liabilities	27	27 753	27 931
Total shareholders' equity and liabilities		244 295	402 690

1.3. Consolidated cash-flow statement

€'000	Dec 31, 2018	Dec 31, 2017
Operating cash flow		
Net income	(111 161)	(38 918)
Share in income from associates	7 904	6 695
Depreciation and amortization (2)	50 367	6 128
Capital gains and losses on disposals (1)	(14 980)	(44 747)
Capital gains linked to remeasurement of securities of companies previously recognized as long-term financial investments	-	-
Tax charges	(912)	1 085
Cost of share-based payments	1 521	1 735
Net finance costs	18	319
Cash flow from operations before net finance costs and tax	(67 242)	(67 703)
Change in working capital requirements (3)	5 487	27 970
Tax paid	(831)	(550)
Cash flow from operating activities (A)	(62 586)	(40 284)
Investing cash flow		
Acquisition of property, plant and equipment and intangible assets	(4 210)	(2 260)
Acquisition of subsidiaries, net of cash acquired	(690)	(25 444)
Acquisition of financial assets	(401)	(3 655)
Disposal of property, plant and equipment and intangible assets	13	94
Disposal of subsidiaries, net of cash divested (4)	2 670	(9 346)
Disposal of investments in associates (5)	67 509	0
Disposal of long-term financial investments	58	217
Cash flow from investment activities (B)	64 949	(40 394)
Financing cash flow		
Equity contributions	-	-
Dividends received	-	-
Receipts linked to new loans (6)	132	41 078
Other financing	-	-
Cash invested for over 3 months	13 000	14 982
Net finance costs	-	(319)
Exchange hedging instruments	(18)	-
Repayment of short-term financial debt (net) ⁽⁴⁾	-	(42 016)
Disposal / (Acquisition) of treasury stock	(84)	(60)
Cash flow from financing activities (C)	13 030	13 664
NET CHANGE IN CASH (D = A+B+C)	15 393	(67 013)
Impact of change in exchange rates	1 526	(4 799)
CASH AND CASH EQUIVALENTS AT YEAR-START	144 539	216 348
CASH AND CASH EQUIVALENTS AT YEAR-END	161 457	144 539
Cash and cash equivalents at year-end – discontinued operations (IFRS 5)	-	-
Cash and cash equivalents at year-end – continued operations	161 457	144 539

(1) Income from Shmates and Parrot Faurecia Automotive dilution

(2) Of which, goodwill impairment for 42 M€

(3) The following table details the changes in working capital requirements presented in the cash-flow statement at December 31, 2018

(4) Corresponds primarily to the repayment of the Shmates current account in connection with the sale

(5) Corresponds to cash received in connection with the sale of Parrot Faurecia Automotive

(6) See Note 22

€'000	Dec 31, 2018	Dec 31, 2017
Cash, cash equivalents and bank overdrafts at period-end	161 457	144 539
Other current financial assets (AAFC)	18	13 018
Cash, cash equivalents, AAFC and bank overdrafts	161 475	157 557

■ Change in working capital requirements

€'000	Dec 31, 2018	Details
Change in working capital requirements	5 488	
Impact of the change in inventories	4 234	(a)
Impact of the change in trade and other receivables	8 150	(b)
Impact of the change in trade and other payables	(6 667)	(c)
Interest paid	(144)	
Interest received	126	
Cost of financial debt	18	
Tax receivables	(229)	(d)

(a) The change in inventories and work in progress is presented directly (see Note 17).

(b) The change in trade and other receivables is presented below:

€'000	Dec 31, 2017	Change	Dec 31, 2018
Trade receivables	43 160	(12 027)	31 132
Impairment of trade receivables	(2 941)	(555)	(3 497)
Trade receivables	40 218	(12 582)	27 636

€'000	Dec 31, 2017	Change	Dec 31, 2018
VAT receivables	10 353	(609)	9 744
Tax receivables (excl. working capital requirements)	5 563	328	5 891
Prepaid expenses	2 271	(240)	2 031
Sundry receivables	1 585	(736)	849
Advances and deposits paid	867	1 325	2 192
Social security receivables	67	(45)	22
Other receivables	20 706	24	20 730
Total change in working capital requirements:		(12 887)	
Spread with the change in trade and other receivables:		(4 736)	

The (4.7) M€ spread between the change in trade and other receivables and the change in working capital requirements is linked primarily to the reclassification of the repayment of the Shmates current account under "Disposal of subsidiaries, net of cash divested" for (2.7) M€, with (2.4) M€ for reclassifications of trade receivables and payables, and 0.6 M€ for exchange gains or losses.

(c) The change in trade and other payables is presented below (see Note 27 for the items excluding working capital requirements):

€'000	Dec 31, 2017	Change	Dec 31, 2018
Trade payables	37 587	(9 956)	27 631
Current tax liability (excl. working capital requirements)	250	(128)	123
Credit notes to be issued	6 291	3 105	9 396
Tax and social security liabilities	12 682	(875)	11 807
Liabilities on acquisitions of minority interests (excl. working capital requirements)	0	1 301	1 301
Advances and deposits received	1 400	(1 084)	315
Other liabilities	7 559	(2 624)	4 935
Other liabilities	27 931	(178)	27 753
Total change in working capital requirements:		(11 435)	
Spread with the change in trade and other payables:		(4 768)	

The (4.8) M€ spread between the change in trade and other payables and the change in working capital requirements is linked to the deconsolidation of Shmates for (2.7) M€, the reclassifications of trade receivables and payables for (2.7) M€ (see counterpart in Note (b)) and exchange gains or losses for 0.6 M€.

(d) The (0.2) M€ change corresponds to the reclassification of the tax paid over the period.

1.4. Change in consolidated shareholder's equity

€'000	Capital	Additional paid-in capital	Exchange gains or losses	Treasury stock	Group consolidated reserves	Total shareholders' equity	Minority interests	Total
Position at end 2016	4 599	331 678	5 195	(11 396)	(39 773)	290 303	(2 166)	288 137
Net income for the period					(38 218)	(38 218)	(700)	(38 918)
Other comprehensive income			(1 178)		225	(953)	(34)	(987)
Comprehensive income	-	-	(1 178)	-	(37 994)	(39 171)	(733)	(39 904)
Cancellation of treasury stock				1 508	(1 568)	(60)		(60)
Share-based payments					1 242	1 242	31	1 273
Securities buyback options(1)					(6 560)	(6 560)		(6 560)
Airinov securities buyback options (2)					4 967	4 967		4 967
Pix4D securities buyback options (2)					22 459	22 459		22 459
Transactions between shareholders (2)					(19 469)	(19 469)	249	(19 220)
Other					144	144	(44)	100
Position at end-December 2017	4 599	331 678	4 017	(9 888)	(76 551)	253 855	(2 662)	251 193
Net income for the period					(111 264)	(111 264)	104	(111 160)
Other comprehensive income			1 675		(13)	1 661	20	1 682
Comprehensive income	-	-	1 675	-	(111 277)	(109 602)	124	(109 478)
Transactions between shareholders (2)					(1 054)	(1 054)	361	(694)
Cancellation of treasury stock				2 020	(2 104)	(84)		(84)
Share-based payments					2 801	2 801	-	2 801
Securities buyback option (1)					18 585	18 585		18 585
Recycling of exchange gains or losses			170		(170)	-	-	-
Loss of control of Parrot Shmates						-	535	535
Other					10	10		10
Position at end 2018	4 599	331 678	5 862	(7 868)	(169 760)	164 511	(1 643)	162 868

(1) The change in buy-out options for securities in 2018 factors in the revaluation of the commitment to buy out the minority shareholders in MicaSense Inc. and Pix4D. See Note 27 - Current and non-current liabilities.

(2) The transactions between shareholders are linked to the early buyout of the interests of two minority shareholders in the subsidiary MicaSense. See Note 12 - Transactions between shareholders.

1.5. Notes to the Consolidated financial statement

1.5.1. Note 1 – The Company

The appended consolidated financial statements present the operations of PARROT SA and its subsidiaries (referred to collectively as “the Group”).

Parrot SA is a French company whose securities are admitted for trading on Compartment B of the regulated market Euronext Paris. Its registered office is located at 174 quai de Jemmapes, 75010 Paris.

The financial statements for the year ended December 31, 2018 were approved by the Board of Directors on March 13, 2019. They will be submitted for approval at the General Meeting on June 13, 2019. The financial statements are presented in thousands of euros.

All the financial data are rounded off to the nearest K€.

1.5.2. Note 2 – Significant events for the period

■ Sale of Shmates

During the first half of 2018, and following approval of the decision taken by the Board of Directors on May 17, 2018, the Group sold its securities in Shmates to Horizon S.A.S.

At June 30, 2018, 80% of Shmates' share capital was sold to a related party - Horizon S.A.S - based on the nominal value of the securities. At the same time, Horizon S.A.S. repaid Parrot S.A. for the full amount of the partner current account held in relation to Shmates. An earnout will be paid after four years if two combined criteria for revenue and EBIT targets are respected by 2022.

The proceeds from this sale represent 2.1 M€.

■ Sale of Parrot Faurecia Automotive

In accordance with the agreement between Parrot and Faurecia announced on July 5, 2018, Parrot sold its entire remaining interest in Parrot Faurecia Automotive at September 30, 2018, which had been 80% owned by Parrot and 20% by Faurecia since March 31, 2017.

For reference, the impact of the loss of control recorded in the accounts at March 31, 2017 after Faurecia acquired a 20% stake in the subsidiary Parrot Automotive Faurecia represented 43 M€ after fees and taxes.

At the time of this additional sale:

Parrot received 67.5 M€, taking its overall proceeds from this operation up to 108.5 M€, including 41 M€ from the conversion of the bonds issued in 2017 by Parrot SA for Faurecia, converted at the same time as the sale of the remaining interests.

The corresponding capital gain in Parrot SA's accounts at December 31, 2018 represents:

- 12.8 M€ before fees and taxes – recorded in other operating income at December 31, 2018
- 14.5 M€ after fees and taxes, including a 1.6 M€ reversal of deferred tax liabilities and 0.1 M€ of fees.

In addition, Parrot Faurecia Automotive will continue to benefit from the “Parrot” brand license until the end of the agreed timeframe, i.e. end-2021, in return for royalties based on Parrot Automotive's revenues.

■ Reorganization of the Drone business

On November 23, 2018, the Group announced a plan for departures, implemented with a view to reducing the resources used by the marketing and production structures to adjust them in line with current market capacity. This plan concerns around 100 people and is focused primarily on international operations, particularly in the US and Asia. The costs incurred in connection with this reorganization represent nearly 10 M€ at December 31, 2018 (see Note 7 – Other operating income and expenses).

■ Horizon's public tender offer for the Company's securities

On November 27, 2018, the company Horizon S.A.S. (the Offeror) announced its intention to submit a public tender offer (the Offer) for the Company's securities to the French financial markets authority (AMF).

The Offeror is the Company's controlling shareholder and the Offeror is controlled by Mr Henri Seydoux, the Company's Chairman, CEO and founder.

This Offer follows the Offeror's acquisition of all the shares held by funds managed by the company Amiral Gestion, i.e. 2,893,294 Shares representing 9.59% of the Company's capital and voting rights at a price of €3.20 per share (the Acquisition of the Block). As a result of the Acquisition of the Block, the Offeror's interest was increased from 10,893,751 Shares representing 36.10% of the Company's capital and voting rights to 13,787,045 Shares representing 45.69% of the Company's capital and voting rights. Since the Offeror, which held between 30% and 50% of the Company's capital and voting rights before the Acquisition of the Block, has increased its interest by at least 1% of the Company's capital and voting rights in less than twelve consecutive months as a result of the Acquisition of the Block, the Offer is compulsory under the terms of Article L.433-3, I of the French monetary and financial code (Code monétaire et financier) and Article 234-5 of the AMF's general regulations.

The Offer concerns all the Company shares and all the warrants not already held directly or indirectly by the Offeror.

The Offeror does not intend to ask the AMF, in connection with the Offer, to apply a squeeze-out for the Company shares and warrants, or to ask Euronext to delist the Company shares and warrants from the regulated market Euronext.

The Offer is being carried out based on the standard procedure, in accordance with the terms of Articles 232-1 *et seq* of the AMF's general regulations, and is subject to the minimum acceptance threshold set by Article 231-9 I of the AMF's general regulations.

The AMF issued its opinion concerning the Offer's compliance on March 5, 2019. Following the initial Offer period, from March 7 to April 10, 2019, Horizon held, on the Offer's settlement-delivery date of April 16, 2019:

- 17,277,158 Parrot shares representing the same number of voting rights, i.e. 57.26% of Parrot's capital and voting rights¹,
- 14,927,810 Class 1 Parrot warrants (the "Class 1 Warrants") and
- 15,079,114 Class 2 Parrot warrants (the "Class 2 Warrants" and collectively with the Class 1 Warrants, the "Warrants").

As a result, the public tender offer for the PARROT securities will be reopened from April 23 to May 7, 2019 inclusive, in accordance with Article 232-4 of the general regulations.

On the date of this Reference Document, the Offer is underway and the detailed information relating to it is available on corporate.parrot.com, under "Public tender offer".

1.5.3. Note 3 – Accounting methods and rules

The consolidated financial statements for 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and as adopted by the European Union. These standards are available on the European Union website at:

https://europa.eu/youreurope/business/start-grow/annual-accounts/index_fr.htm.

Standards, interpretations and amendments applicable from the financial year started January 1, 2018 and concerning the Group:

¹ Based on Parrot's share capital at March 31, 2019 comprising 30,174,681 shares representing the same number of voting rights, in accordance with section 2 of Article 223-11 of the AMF's general regulations.

IFRS 9 - Financial Instruments: This standard came into force on January 1, 2018. It introduces significant changes to the existing provisions concerning financial instruments compared with IAS 39. The changes with IFRS 9 notably concern:

- The provisions concerning the classification and measurement of financial assets, which are now based on the joint analysis of the management model for each portfolio of assets and the contractual characteristics of the financial assets;
- The impairment model, which has abandoned the approach based on proven credit losses for an approach based on expected credit losses;

Non-consolidated equity securities are now classed as “Equity instruments” and are therefore still presented on the balance sheet under “Financial assets” (Note 14 - Financial assets and Note 28 - Fair value categories and hierarchy of financial assets and liabilities).

The Group has opted for the simplified approach to measure impairments relating to its trade receivables. The review of the history of losses recorded on these receivables did not reveal any significant amounts.

IFRS 15 - Revenue from Contracts with Customers: IFRS 15 sets out the principles for recognizing revenues relating to contracts with customers.

- The reclassification of certain marketing costs as a deduction against revenues, whereas they were previously classed as operating expenses, represents the only impact of the application of IFRS 15.

Amendments to IFRS 2: Classification and measurement of share-based payment transactions: No significant impact at Group level.

IFRIC 22: Foreign currency transactions and advance consideration: No significant impact at Group level.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture: No significant impact at Group level.

Standards and interpretations applied early at January 1, 2018 whose application is compulsory for financial years starting on or after January 1, 2019: Not applicable.

Standards and interpretations in force at January 1, 2019 whose application is compulsory after December 31, 2018:

- **IFRS 16 - Leases:** A list of the leases is currently being prepared. The finance department is currently quantifying and analyzing the potential impacts.

Other essential standards and interpretations, published by the IASB, not yet approved by the European Union:

- IFRS annual improvements (2015-2017)
- IFRIC 23 - Uncertainty over Income Tax Treatments

Change of accounting method following the application of IFRS 15 from the financial year started January 1, 2018

IFRS 15 “Revenue from Contracts with Customers” came into force on January 1, 2018. This standard replaces IAS 18 “Revenue”.

It has been applied at January 1, 2018 using the simplified retrospective approach. The financial information for previous periods has not been restated, but the impacts of the application for 2018 are presented here:

€'000	Dec 31, 2018 Published	Dec 31, 2018 Restated*	Dec 31, 2017
Revenues	109,240	113,377	151,871
Gross margin	33,829	37,965	51,176
Income from ordinary operations	(65,917)	(65,917)	(57,579)

EBIT	(103,246)	(103,246)	(69,303)
Net income	(111,161)	(111,161)	(38,918)

* Restated for the impact of IFRS 15

The reclassification of certain marketing costs as a deduction against revenues, whereas they were previously classed as operating expenses, represents the only impact of the application of IFRS 15.

The impact of the reclassification in the Group's consolidated accounts at December 31, 2018 represents 4.1 M€ for revenues.

A) Consolidation methods

The financial statements for the various companies over which Parrot SA has direct or indirect control are fully consolidated. This control exists when Parrot SA has the power to directly or indirectly control the company's financial and operational policies so as to benefit from its activities.

Parrot SA is deemed to have control when it owns more than half of the voting rights in the controlled company. The financial statements for controlled companies are included in the Group's consolidated financial statements as of the date on which control has effectively been transferred over, up until the date on which it ceases to have control.

The Group's consolidated companies drew up their financial statements at December 31, 2017 and 2018 in line with the accounting rules and methods applied by the Group. Transactions between consolidated companies, and any in-house profits are eliminated.

Affiliates are entities in which the company has a significant influence over their financial and operational policies, although without having control over them. Significant influence is presumed to exist when the Group holds between 20% and 50% of an entity's voting rights. Interests in affiliates are recognized in line with the equity method and initially recorded at cost. The Group does not control any ad hoc entities.

B) Use of estimates

To draw up the financial statements, management is required to make judgments and use estimates and assumptions that have an impact on the amounts of assets and liabilities at the close of accounts, as well as on items for earnings over the period. These estimates factor in economic data which are liable to change over time, and include various random elements.

The underlying estimates and assumptions are based on past experience and other factors that are deemed to be reasonable in view of the circumstances, particularly with regard to the current economic and financial crisis. In this way, they serve as a basis for the judgments required in order to determine the book values of assets and liabilities, which may not be obtained directly from other sources. Actual values may be different from the estimated values.

The underlying assumptions and estimates are reexamined on an ongoing basis. The impacts of changes in accounting estimates are recorded during the period of the change if they only affect this period or during the period of the change and subsequent periods if they are also affected by the change.

They primarily concern the recognition of deferred tax assets, notably resulting from tax loss carryforwards, value tests on goodwill, the valuation of share-based payments, the liabilities on acquisitions of minority interests, the provisions for commercial returns and margin guarantees, the depreciation of inventories and the current and non-current provisions.

C) Conversion methods

Transactions denominated in foreign currencies

Transactions in foreign currencies are converted into euros based on the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies on the closing date are converted based on the exchange rate in force on the closing date. Any exchange rate differences resulting

from such transactions are recorded under income or expenses unless they arise from long-term inter-company financing operations that can be considered as capital transactions: in this case, they are recognized through equity under exchange gains or losses.

Non-monetary assets and liabilities denominated in foreign currencies are recorded and kept at the historical rate in force on the transaction date.

Financial statements denominated in foreign currencies

The Group's consolidated financial statements are presented in euros, the Group's presentation currency.

The assets and liabilities of consolidated companies expressed in foreign currencies are converted into euros based on the exchange rate in force on the closing date, except for the net position, which is recorded at its historical value. These companies' income and expenses are converted into euros based on the average exchange rate for the period. Any exchange gains or losses resulting from conversions are recognized in other comprehensive income under "conversion reserves".

The conversion rates for the main currencies used within the Group over 2017 and 2018 were as follows:

Closing rate	Dec 31, 2018	Dec 31, 2017	Average rate	Dec 31, 2018	Dec 31, 2017
Australian Dollar	0.617	0.652	Australian Dollar	0.633	0.679
Swiss Franc	0.887	0.855	Swiss Franc	0.866	0.900
Yuan	0.127	0.128	Yuan	0.128	0.131
Euro	1.000	1.000	Euro	1.000	1.000
Pound Sterling	1.118	1.127	Pound Sterling	1.130	1.141
Hong Kong Dollar	0.112	0.107	Hong Kong Dollar	0.108	0.114
Yen	0.008	0.007	Yen	0.008	0.008
US Dollar	0.873	0.834	US Dollar	0.847	0.885

D) Income statement

In order to understand the specific characteristics of the Group's business more effectively, it presents an income statement for each function, highlighting the following elements: the cost of sales (costs linked directly to the products sold), research and development costs (including costs not recognized as assets on the balance sheet incurred during the year, as well as the depreciation of development costs recorded as assets on the balance sheet), commercial expenses, overheads and production and quality costs (operating costs for dedicated supply and quality management departments, primarily including wages for the staff concerned).

With the cost of sales, these four items represent operating expenses, which, deducted from revenues, make it possible to obtain the level of current operation income, the main performance indicator for the Group's business.

In order to provide more comprehensive information, these operating expenses are broken down by kind in Note 6 "Operating expenses by type" in these notes.

Other non-current operating income and expenses are recorded under EBIT. They include significant income and expenses considered to be non-recurring, such as capital gains or losses on the disposal of consolidated companies or activities, restructuring costs approved by management and communicated on externally, costs concerning exceptional disputes, costs relating to business combinations, impairments of assets and goodwill, and the recalculation of the fair value of the interest previously held by the Group in the company acquired through a business combination achieved in stages, considered to be non-recurrent.

The level of net income is then obtained by taking the following items into account:

- The cost of net financial debt, including interest on financial debt calculated based on the effective interest rate, less income from cash and cash equivalents,
- Other financial income and expenses, which include exchange gains and losses,
- The current and deferred tax expense.

E) Earnings per share

In accordance with IAS 33, the information presented is calculated in line with the following principles:

- Basic earnings per share: earnings for the period (Group share) are considered in relation to the weighted average number of ordinary shares outstanding over the period, after deducting treasury stock held during the period. The average number of ordinary shares outstanding represents a weighted annual average, adjusted for the number of ordinary shares redeemed or issued during the period and calculated based on the issue date for shares over the year;
- Diluted earnings per share: earnings for the period (Group share) and the weighted average number of shares outstanding, factored in when calculating basic earnings per share, are adjusted for the effects of all potentially dilutive ordinary shares: stock options and bonus shares (Note 21.2 Stock option and bonus share plans).

Basic earnings per share and diluted earnings per share are identical when the Group's net income is negative.

F) Revenues

Income from the sale of goods is recorded on the income statement when control of the goods has been transferred to the buyer.

No income is recorded when there is a significant level of uncertainty surrounding the collectability of the counterparty due, the costs incurred or to be incurred in relation to the sale or the possible return of goods in the event of the right to cancel the purchase, and when the Group remains involved in the management of the goods in question.

Revenues generated with specialized distributors are recognized net of any referencing or volume-based discounts.

At Group level, the risk of commercial returns is covered by provisions. These provisions for returns are calculated per customer and per product range, based on retailer stock levels at year-end and the level of sales and historical data for previous returns. Returns are deducted from revenues and the cost of products sold is booked against inventories. The estimation process also takes into consideration the market's specific features (competition, etc.).

Revenues are also affected by a provision for margin guarantees calculated per customer and per product range. This estimate covers the price differences observed between the catalogue prices and the discounted prices set up as part of previous or future promotional plans in order to protect retailer margins.

These provisions are deducted from revenues and booked against credit notes to be issued ("Other liabilities").

G) Operating lease payments

Payments for operating leases are booked as expenses on a linear basis over the term of the lease in question.

The benefits received represent an integral part of the net total for lease charges and are booked under income in line with the same rule.

H) Cost of net financial debt

The cost of net financial debt includes interest to be paid on loans (calculated based on the effective interest rate method), less interest to be received on investments and income from other dividends.

Interest-related income is recorded on the income statement when acquired under the effective interest rate method.

I) Corporate income tax

Corporate income tax (expense or income) comprises the tax expense (income) due and any deferred tax expenses (income). Tax is recorded on the income statement if it concerns items that are booked directly against shareholders' equity; in which case, it is booked against shareholders' equity.

The tax due is (i) the estimated amount of tax due relative to taxable profit for a given period, determined based on tax rates that have been adopted or virtually adopted on the closing date, and (ii) any adjustments to the amount of tax due relative to previous periods.

For deferred tax, see section N of the present note.

The tax on business value added (CVAE) is recorded under corporate income tax.

The research tax credit is booked against research and development costs or capitalized development costs.

The tax credit promoting competitiveness and employment (CICE) is deducted from staff costs and allocated to the various functions

J) Segment reporting

In accordance with IFRS 8, the information is based on the internal reporting system used by the Chief Operating Decision Maker, Henri Seydoux, the Group's Chairman and CEO, to decide on the allocation of resources and assess the performance of the operating segments.

Since the first quarter of 2017, the Group has reorganized its activities and reporting structure around a single operating segment, representative of its cash generating unit (CGU).

The key indicators reviewed and used internally for the operating segment are revenues and income from ordinary operations.

K) Intangible assets***Goodwill***

Business combinations are recorded in accordance with the acquisition method on the acquisition date, which is the date when control is transferred to the Group:

- The acquired assets and assumed liabilities of the company that has been acquired are measured at fair value.
- The acquisition price is the sum of the fair values of the assets transferred and liabilities assumed by the acquirer on the acquisition date, in addition to any equity instruments issued by the acquirer. The acquisition price includes any earnouts, measured and recognized at their fair value on the acquisition date.

The goodwill resulting from a business combination is equal to the difference between:

- The acquisition price plus the fair value of minority interests and the fair value of the net assets acquired ("full goodwill" method),
- The acquisition price for the business combination and the acquiring party's share of the fair value of the identifiable net assets acquired ("partial goodwill" method).

The initial measurement of the acquisition price and the fair values of the acquired assets and assumed liabilities is finalized within 12 months of the acquisition date and any adjustments are recognized as backdated corrections to goodwill. After this 12-month period, any adjustments are recognized directly through profit and loss.

The costs relating to the acquisition are recorded under expenses, as they are incurred.

At the time of each business combination, the Group may opt to recognize the fraction of interests not acquired:

Either at its fair value on the acquisition date, resulting in the recognition of goodwill on this non-acquired fraction ("full goodwill" method),

Or based on its share in the identifiable net assets of the acquired entity, measured at fair value, exclusively recognizing the goodwill attributable to the parent company's owners ("partial goodwill" method).

If control is established through successive acquisitions, the interest held previously by the Group is remeasured to its fair value on the date when control is acquired, with any gain or loss recognized in profit or loss.

The goodwill represents the difference between the acquisition price, plus related costs, of securities in consolidated companies and the Group share in the fair value of their net assets after deducting liabilities and contingent liabilities on the date when the interest was acquired, at the end of a measurement period for this fair value that may reach 12 months after the acquisition date. When the acquisition price, plus related costs, is lower than the fair value of the identified assets and liabilities and contingent liabilities acquired, the difference is immediately recognized through profit and loss.

Research and development cost

Research spending made with a view to acquiring new scientific or technical knowledge or understanding is booked as an expense when incurred.

Development costs, i.e. costs resulting from the application of research findings for a plan or model with a view to producing new or substantially improved products or techniques are recorded as fixed assets if the Group is able to demonstrate that it simultaneously fulfills the criteria for the technical and commercial feasibility of the product or technique, the availability of sufficient resources to complete the development, the commitment to complete the intangible asset, the capacity to use or sell this intangible asset, the capacity to generate future economic benefits, the capacity to reliably value the various expenses attributable to the intangible asset during its development.

The expenditure capitalized in this way notably includes direct labor costs and outsourcing costs. Other development costs are recorded as expenses when they are incurred.

Capitalized development costs are recorded at cost less aggregate depreciation and potential impairments in value. They are depreciated over their useful life, i.e. from two to eight years.

Other intangible assets

Patents, and fully-owned software and user rights are capitalized and depreciated over their useful life. The useful life range is from 1 to 10 years.

L) Property, plant and equipment

Property, plant and equipment are recorded under assets on the balance sheet at their depreciated historical cost, less any impairments in value. They are not revalued.

Subsequent expenditure (spending to replace assets and ensure their compliance) is capitalized and depreciated over the remaining useful life for the corresponding fixed asset. Regular upkeep and maintenance costs are booked as expenses when they are incurred.

Depreciation is calculated on a straight-line basis in view of the estimated useful life of the various categories of fixed assets. It is calculated based on the acquisition price less any residual value.

Fixed assets are depreciated based on their useful life as follows:

- | | |
|---------------------------|---------------|
| • Fixtures and fittings | 3 to 10 years |
| • Technical facilities | 10 years |
| • Plant and equipment | 3 years |
| • Office equipment and IT | 3 years |
| • Transport equipment | 3 years |

The residual values and estimated useful lives are revised at each close of accounts.

Capital gains or losses stem from differences between the sales price and the net book value of assets sold off.

M) Depreciation of tangible and intangible assets

The book value of intangible assets and property, plant and equipment is tested if there are any signs of impairment in value on the reporting date, and at least once a year for goodwill.

The value test is based on determining the recoverable value of each unit generating its own cash flow (cash generating unit, CGU). These units correspond to activities generating cash inflows that are largely independent from cash inflows generated by other assets or groups of assets.

The CGU identified within the Group is the Drones CGU.

The CGU's recoverable value is the higher of its fair value less sales costs and its value in use. The CGU's value in use is determined based on the net discounted cash flow generated by the activities that the goodwill relates to, in line with the most probable assumptions retained. The assumptions retained are based on the budget and the management team's strategic plan for the next two or three years, including rates of growth and profitability that are considered to be reasonable. The budget and the strategic plan are approved by the Board of Directors.

The long-term growth rate for beyond the four-year period is assessed based on analyses of the sector in which the Group operates.

Discounting is applied at a rate corresponding to the average cost of capital on the valuation date plus a risk premium.

When the recoverable value of a cash generating unit is lower than its net book value, the corresponding impairment in value is allocated in priority to goodwill, then to reducing the unit's other assets on a pro rata basis in line with the book value of each one of the unit's assets, and recognized under EBIT.

Any impairments in value recorded on goodwill cannot be written back.

N) Deferred tax

Deferred taxes are recorded on the income statement and on the balance sheet in order to factor in any timing differences between the book values and the tax values of certain assets and liabilities.

Deferred taxes are recorded in line with the asset-liability approach for the accrual method. Deferred taxes are valued factoring in known changes in tax rates (and tax regulations) that have been adopted or virtually adopted on the closing date. The impact of any changes in the tax rate on deferred taxes booked previously on the income statement or against shareholders' equity is recorded respectively on the income statement or under shareholders' equity during the year when such rate changes come into force.

Deferred taxes are recorded respectively on the income statement or under shareholders' equity during the year depending on whether they concern items that are themselves booked on the income statement or under shareholders' equity.

Deferred tax assets are recorded once it is likely that taxable profits will be generated, making it possible for any deferred tax assets to be used. The book value of deferred tax assets is reviewed at each close of accounts, and may be reduced if it is no longer likely that sufficient taxable profits will be available to make it possible to use the benefit of all or part of such deferred tax assets. Conversely, such a reduction will be written back if it becomes likely that sufficient taxable profits will be available.

Deferred tax assets and liabilities are offset if and only if subsidiaries are entitled to offset tax assets and liabilities due and when these concern income tax deducted by the same tax authorities and at the same time.

O) Stocks

The Parrot group primarily holds inventories of finished products. The Group differentiates between three categories of finished products, based on their lifecycle: products that are in a sellable condition, products that are at the end of their lives (listings that are no longer produced), and products that are returned or damaged.

In accordance with IAS 2, inventories are valued at the lower of their cost or their net realizable value:

- The cost of inventories is determined in line with the weighted average price method, and comprises the acquisition costs for inventories and the costs incurred for transporting them in the state and to the place where they are located.
- The net realizable value is the estimated net sales price for the subsequent period for each distribution platform (EMEA, Americas, Asia) less the estimated costs required for carrying out the sale

More specifically, end-of-life products and returned or damaged products are written off in full

Products that are in a sellable condition are subject to statistical depreciation on a case-by-case basis in line with the slow-moving approach.

P) Non-derivative financial instruments

P1) Trade and other receivables

Trade and other receivables are valued at their fair value when initially recorded in the accounts, and then at their amortized cost less the amount of any impairments in value, a provision for impairment is recognized when there is objective evidence that part of the sums due will not be recovered in accordance with the contractual arrangements.

P2) Trade and other payables

All such accounts payable are initially recorded at their fair value, and then at their amortized cost.

Following their initial recording, the Parrot Group values all financial liabilities other than those held for trading at their amortized cost.

P3) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, in addition to undertakings for collective investment in transferable securities (UCITS) that are compliant with the definition under IAS 7. Any UCITS that do not comply with the definition of cash and cash equivalents are recorded under other current financial assets.

Bank overdrafts that are repayable on demand and are an integral part of the Group's cash management represent a cash and cash equivalent component for the purposes of the cash-flow statement.

P4) Cash-flow hedging and rate hedging

The Group uses financial derivatives to hedge its exposure to the interest rate risks resulting from its financial activities for investments. The financial instruments are initially measured at fair value, i.e. the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. With the exception of the hedging cases outlined above, changes in the fair value of derivatives are recognized under financial income and expenses on the balance sheet date.

The fair value of interest rate swaps is the estimated amount which the Group would receive or pay to terminate the swap on the closing date, factoring in the current level of interest rates and the credit risk for the swap's counterparties.

P5) Share buyback commitments

When minority shareholders in a consolidated subsidiary have an option allowing them to call for their securities to be bought back by Parrot, Parrot's commitment is recognized as a liability relating to a supplier of fixed assets on the balance sheet for an amount equal to the discounted value of the put option's estimated exercise price. The discount rate retained is the marginal cost of debt for Parrot. The liability is initially recognized through a reduction in consolidated shareholders' equity, first for the amount of minority interests in the subsidiary, then for the balance, through a reduction in shareholders' equity (group share). The impacts of subsequent changes in the estimation of the exercise price (when it is variable) and the effects of liability accretion are recognized directly in shareholders' equity (group share).

Q) Net finance costs

The concept of net finance costs used by the Group corresponds to the aggregate amount of current financial liabilities including bank overdrafts and non-current financial liabilities less other current financial assets, cash and cash equivalents.

R) Treasury stock

The Company's securities held by itself or by consolidated entities are deducted from consolidated shareholders' equity based on their acquisition cost. On the other hand, proceeds from sales of treasury stock are allocated directly to shareholders' equity for the impact net of tax. As such, the capital gain or loss recorded in this way does not affect earnings for the year.

S) Share-based payments

Share warrants or bonus shares may be awarded to a certain number of the Group's employees. Share warrants entitle beneficiaries to subscribe for Parrot SA shares over a two-year period at a fixed exercise price, set at the time they are awarded. In accordance with IFRS 2, they represent an additional form of remuneration paid by the Group for beneficiaries.

Warrants and bonus shares are valued based on the fair value of the benefits granted to staff on the allocation date. The expense evaluated is recognized in profit or loss under staff costs, over the vesting period for entitlements to options, deducted from shareholders' equity. In connection with the function-based presentation of the income statement, the corresponding staff costs are broken down based on the functions of the employees concerned.

The interest rate curve is calculated based on the risk-free euro-swap rates with corresponding maturities (five years) on each allocation date (source: Bloomberg).

The fair value of options is determined in line with the "Black and Scholes" model, the parameters for which notably include the exercise price for options, their term, the reference share price on the allocation date, the implied volatility for the share price, and the risk-free interest rate. The expense recorded also factors in assumptions for the turnover of staff benefiting from the allocation of options.

The fair value of the bonus shares associated with market performance conditions includes the probability of certain conditions being met and is determined based on the optional binomial model.

T) Employee benefits***Pension scheme***

The Group is primarily subject to pension systems with defined contributions.

Defined contribution systems are subject to payments by staff and by Group companies to various organizations authorized to manage such pension funds. The Group's obligations are limited to the payment of such contributions, which are therefore recorded on the income statement as they are incurred.

The Group is also subject to various defined benefit systems, notably for end-of-career benefits paid to staff.

The Group applies the revised version of IAS 19. Any actuarial gains or losses relating to defined benefit pension plans are recognized in other comprehensive income items.

U) Provisions

A provision is recorded on the balance sheet when the Group has a current legal or implied legal obligation resulting from a past event and when it is likely that an outflow of resources representative of economic benefits will be necessary in order to fulfill the obligation.

Warranty provisions

A provision is intended to cover future expenses linked to product warranty claims concerning Retail products (Consumer drones, Car kits) sold by Parrot. It is calculated statistically based on real company information provided by its various dedicated departments. In this way, the following elements are calculated for each product category:

- Return rate
- Exchange rate

- Repair rate
- Repair or replacement costs
- Other warranty provisions

Other provisions

Provisions for supplier commitments: provisions recorded to cover the risk of impairments in the value of products ordered from suppliers based on sales prospects or decisions to discontinue production for certain products. Provisions for supplier commitments are calculated based on risks identified and quantified per supplier and per product line.

Employment tribunal provisions

A provision is estimated on a case-by-case basis in view of an analysis of the cases with help from the legal advisors in charge of monitoring them.

Litigation and claims

Provisions for litigation and claims are recognized when the Group has a current obligation relating to litigation cases in progress, government investigations, disputed proceedings and other claims arising from past events not yet settled, and when it is likely that an outflow of economic benefits, which can be reliably estimated, will be required to settle the obligation. When reliable estimates are not possible, in accordance with IAS 37, the Group records provisions exclusively for legal advisory fees relating to litigation proceedings that are underway.

1.5.4. Note 4 – Basis for consolidation

The Parrot Group's basis for consolidation comprises 26 companies, with 22 fully consolidated and four consolidated on an equity basis.

The changes in scope during the year were as follows:

- Deconsolidation of Shmates, an 80%-owned subsidiary at December 31, 2017, following its sale (see 20.2.2. "Note 2 - Significant events for the period")
- Deconsolidation of the Automotive sector companies, subsidiaries 80%-owned and consolidated on an equity basis at December 31, 2017, following their sale (see 20.2.2. "Note 2 - Significant events for the period")
- Acquisitions of capital interests without any changes in control:
 - Entry of Pix4D Shanghai and Pix4D GmbH, subsidiaries of Pix4D S.A., 95%-owned, since June 30, 2018;
 - Entry of Pix4D Spain, a 95%-owned subsidiary of Pix4D S.A. at December 31, 2018;

■ Acquisitions of capital interests with changes in control:

On December 21, 2017, Parrot Drones subscribed for a capital increase by the Belgian-law company Sky-Hero for a total of 2 M€, giving it a 33.34% interest in this company's capital and voting rights. The company is now consolidated on an equity basis.

- The following table presents a list of the fully consolidated companies and the associates consolidated on an equity basis:

Company name	Address	Country	Dec 31, 2018		Dec 31, 2017	
			% interest	Consolidation method	% interest	Consolidation method
PARENT COMPANY						
Parrot S.A.	174 quai de Jemmapes 75010 Paris	France				
FULLY CONSOLIDATED COMPANIES						
Parrot GmbH.	Maximilianstraße 27 80539 München	Deutschland	100.0%	FC	100.0%	FC
Parrot Anz Ltd Limited	68 72 York street South Melbourne Victoria 3205	Australia	100.0%	FC	100.0%	FC
Parrot Trading Shenzhen Ltd (subsidiary of Parrot Asia Pacific Ltd.)	2401, Xinhua Insurance Bdg, 171 Mintian Road, Futian CBD, Futian Qu, Shenzhen Shi, Guangdong Sheng, 518048	China	100.0%	FC	100.0%	FC
Parrot Iberia SL.	Calle Orense 81-7 Madrid - 28020	Spain	100.0%	FC	100.0%	FC
Parrot Inc.	300 Brannan St, San Francisco, CA 94107	USA	100.0%	FC	100.0%	FC
MicaSense Inc.	1055 N 38th St. Seattle, WA 98103	USA	81.64%	FC	56.0%	FC
Pix4D Inc. (subsidiary of Pix4D)	150 Post street, Suite 650 San Francisco, CA 94108	USA	95%	FC	95%	FC
senseFly Inc. subsidiary of Parrot Inc.)	205 New York Avenue NW Washington, DC 20001	USA	100.0%	FC	100.0%	FC
Airinov S.A.S.	47, Rue des Vinaigriers 75010 Paris	France	99.3%	FC	99.3%	FC
Chez Parrot SARL	30-34 Rue du Quatre Septembre, 75002 Paris	France	100.0%	FC	100.0%	FC
Parrot Drones S.A.S.	174 quai de Jemmapes 75010 Paris	France	100.0%	FC	100.0%	FC
Parrot Shmates S.A.S.	174 quai de Jemmapes 75010 Paris	France	-	FC-	80.0%	FC
Parrot Air Support	174 quai de Jemmapes 75010 Paris	France	100.0%	FC	100.0%	FC
Parrot Asia Pacific Ltd.	Suite 707-9, 7/F., Wharf T&T Centre, 7 Canton Road, Tsim Sha Tsui, Kowloon Hong Kong	Hong Kong	100.0%	FC	100.0%	FC
Parrot Italia Srl.	Via Giuseppe Revere 16 20123 Milano, Italia	Italia	100.0%	FC	100.0%	FC
Parrot Japan KK	PMC Building 1-23-5 Higashi-Azabu, Minato-ku, Tokyo Park View	Japan	100.0%	FC	100.0%	FC
Parrot UK Ltd	One Central Boulevard Blythe Valley Business Park Solihull B90 8BG Birmingham	UK	100.0%	FC	100.0%	FC
senseFly SA	Route de Genève 38 1033 Cheseaux-sur-Lausanne	Switzerland	100.0%	FC	100.0%	FC
Pix4D SA	EPFL Innovation Park Building D, 1015 Lausanne	Switzerland	95.0%	FC	95.0%	FC

Pix4D GmbH (subsidiary of Pix4D)	Alte Jakobstraße 85, 86 (Neue Grünstraße 17, 18) 10179 Berlin	Deutschland	95%	FC	95%	FC
Pix4D Shanghai (subsidiary of Pix4D)	Suite 405, 798 Zhaojiabang Lu, Xuhui District, Shanghai 200030, PRC	China	95%	FC	-	-
Pix4D Espagne (subsidiary of Pix4D)	Velazquez, 92 28006 Madrid	Spain	95%	FC	-	-

COMPANIES CONSOLIDATED ON AN EQUITY BASIS

Parrot Automotive Asia Pacific Ltd. (subsidiary of Parrot Faurecia Automotive S.A.S.)	Suite 707-9, 7/F., Wharf T&T Centre, 7 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hong Kong	-	-	80.0%	EM
Parrot Automotive Shenzhen (subsidiary of Parrot Automotive Asia Pacific Ltd.)	2401, Xinhua Insurance Bdg, 171 Mintian Road, Futian CBD, Futian Qu, Shenzhen Shi, Guangdong Sheng, 518048	China	-	-	80.0%	EM
Parrot Faurecia Automotive S.A.S.	174 quai de Jemmapes 75010 Paris	France	-	-	80.0%	EM
EOS Innovation	7, rue Montespan 91000 Evry	France	49.1%	EM	49.1%	EM
Iconem	6 rue Jules Chaplain 75006 Paris	France	45.0%	EM	45.0%	EM
Planck Aerosystems Inc	710 13th St #307 San Diego, CA 92101	USA	49.3%	EM	49.3%	EM
Sky-Hero	Place Willy Devezon 4 boîte 3 7903 Leuze-en-Hainaut	Belgium	33.34%	EM	-	-

Parrot UK Limited, registered in the UK under number 05480392, a fully-owned subsidiary of Parrot SA, is exempt from the requirement under the Companies Act 2006 to prepare individual accounts in accordance with Article s479A of the Companies Act 2006.

1.5.5. Note 5 – Segment reporting

The Group is organized around a single operating segment, representative of its cash generating unit (CGU). The operating segment represents the level at which goodwill is monitored by the Group's management.

■ Income statement

€'000	Dec 31, 2018	Dec 31, 2017
Revenues	109,240	151,871
<i>% of Group Revenues</i>	<i>100%</i>	<i>100%</i>
Income from ordinary operations	(65,917)	(57,579)

■ Statement of financial position

With a single operating segment, all the assets and liabilities represent the Drones CGU since January 1, 2017.

■ Analysis of the Group's sales by region

Breakdown by region (€'000)	Dec 31, 2018	Dec 31, 2017
EMEA	43,448	73,855
AMERICA	18,176	23,169
ASIA	6,877	10,659
Total Consumer products	68,502	107,683

Key Account products ⁽¹⁾	40,738	44,188
Total Group revenues	109,240	151,871

(1) Key Account products include Commercial Drone products.

■ Analysis of the Group's sales by main contributors

€'000	Dec 31, 2018	Dec 31, 2017
USA	30,798	42,142
France	21,783	32,557
Spain	8,020	10,982
UK	6,032	10,408
Germany	5,080	10,715
Latin America	4,760	4,201
Italy	4,676	6,823
Japan	3,615	2,311
Canada	3,573	2,860
China	3,370	3,241
Top 10	91,706	129,660
Other	17,535	22,211

■ Headcount at year-end

Employees	Total
2018 Group headcount	641
2017 Group headcount	597

These headcounts include apprenticeship contracts.

1.5.6. Note 6 – Operating expenses by kind

Expenses by kind can be broken down as follows:

€'000	Dec 31, 2018	Dec 31, 2017
Consumption of raw materials and goods, and outsourcing purchases	(70,430)	(86,758)
Other external expenses	(48,788)	(44,799)
Staff costs	(62,118)	(66,680)
Tax	(2,132)	(3,392)
Depreciation and amortization	318	(12,908)
Stored production	2,085	(6,009)
Other operating income and expenses	5,909	11,095
Total operating expenses	(175,157)	(209,451)

The 2018 "CIR" research tax credit of 3.7 M€ (3.7 M€ in 2017) and the 0.2 M€ "CICE" tax credit for competitiveness and employment are deducted from operating expenses.

Staff costs can be broken down as follows:

€'000	Dec 31, 2018	Dec 31, 2017
Salaries and wages	(47,726)	(51,580)
Payroll taxes	(12,513)	(13,153)
Employee profit sharing	(418)	339
Share warrant expenses	(1,461)	(2,287)
Total staff costs	(62,118)	(66,680)

1.5.7. Note 7 – Operating income and expenses

€'000	Dec 31, 2018	Dec 31, 2017
Income from sale of Parrot Faurecia Automotive	12,853	-
Income from sale of Parrot Shmates	2,134	-
Impairment of goodwill	(41,964)	-
Income and expenses linked to the restructuring plan	-	(12,259)
2017 job protection plan (PSE)	(633)	-
2018 restructuring	(9,907)	-
Discontinued projects	384	-
Other	(195)	535
Other operating income and expenses	(37,329)	(11,724)

At December 31, 2018, other operating income and expenses came to (37.3) M€ and primarily include the following elements:

- Proceeds from Parrot Faurecia Automotive's sale for 12.8 M€ (see 20.2.2. "Note 2 - Significant events for the period")
- Proceeds from Parrot Shmates' sale for 2.1 M€ (20.2.2. "Note 2 - Significant events for the period")
- Goodwill impairment for (42) M€ (see 20.2.10. "Note 10 – Goodwill")
- Provisions relating to the 2018 restructuring plan (20.2.2. "Note 2 - Significant events for the period"), which correspond primarily to compensation, support measures and associated management costs for 4.6 M€, as well as provisions for supplier commitments for 3.9 M€.

1.5.8. Note 8 – Financial income and expenses

€'000	Dec 31, 2018	Dec 31, 2017
Cost of gross financial debt	(144)	(369)
Income from cash and cash equivalents	126	50
Cost of net financial debt	(18)	(319)
Exchange gains	3,471	6,202
Exchange losses	(3,891)	(11,175)
Other financial income and expenses	(486)	(26)
Total other financial income / expenses	(906)	(4,999)
Total	(924)	(5,318)

1.5.9. Note 9 – Tax

Tax expense:

€'000	Dec 31, 2018	Dec 31, 2017
Current tax	(604)	(1,037)
Deferred tax	1,516	(48)
Total	912	(1,085)

The current tax expense for 2018 primarily includes the 15% tax on royalties, the withholding tax and the business value added tax (CVAE).

The reconciliation between the theoretical tax expense and the effective tax expense is as follows:

€'000	Dec 31, 2018	Dec 31, 2017
Earnings for the period	(111,161)	(38,918)
Net income from associates	(7,904)	(6,695)
Income from discontinued operations, net of tax	-	(43,483)
Tax charges	(912)	1,085
- of which CVAE	142	96
Pre-tax earnings	(104,170)	(74,621)
Actual tax rate	0,14%	-1,45%
Theoretical tax rate of 34.43%	(35,866)	(25,692)
Reconciliation:	,	,
Permanent differences	2,189	313
Goodwill impairment	13,463	-
Tax rate difference	(40)	(4,535)
Tax losses	20,286	31,508
Research tax credit	(1,257)	(1,279)
Withholding tax that cannot be allocated	-	-
Other	312	772
Actual tax expense	(912)	1,085

1.5.10. Note 10 – Goodwill

At December 31, 2018, the breakdown of goodwill was as follows:

€'000	Dec 31, 2017	Acquisitions	Change in scope	Exchange gains or losses and reclass	Dec 31, 2018
Gross values					
Drones CGU	41,749	-	-	655	42,404
Total	41,749	-	-		
Depreciation					
Drones CGU	-	(39,101)	-	(3,303)	(42,404)
Total	-	(39,101)	-	(3,303)	(42,404)
Net book values					
Drones CGU	41,749	(39,101)	-	(2,648)	-
Total	41,749	(39,101)	-	(2,648)	-

The Group carries out value tests annually or when any evidence of impairments arises.

In view of the Group's results, which highlight the difficulty of establishing reliable forecasts in the current environment and the deterioration in the Group's outlook as announced, the Group has written down goodwill in full at September 30, 2018. This position was confirmed with a valuation report from an independent third party concerning the Group's shareholders' equity.

At December 31, 2017, the breakdown of goodwill was as follows:

€'000	Dec 31, 2016	Acquisitions	Change in scope	Exchange gains or losses and reclass	Dec 31, 2017
Gross values					
Drones CGU		43,652		(1,903)	41,749
Total		43,652	-	(1,903)	41,749
Depreciation					
Drones CGU		-			-
Total		-	-	-	-
Net book values					
Drones CGU		43,652	-	(1,903)	41,749
Total		43,652	-	(1,903)	41,749

1.5.11. Note 11 – Intangible assets

At December 31, 2018, intangible assets can be broken down as follows:

€'000	Dec 31, 2017	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	Dec 31, 2018
Gross values						
Development costs	15,719	-	-	-	158	15,877
Patents	19,650	755	(9)	-	714	21,110
Software	2,992	69	-	-	0	3,061
Fixed assets under construction	476	520	-	-	(476)	520
Other intangible assets	8	-	-	-	(0)	8
Total	38,844	1,344	(9)	-	396	40,575
Depreciation and amortization						
Development costs	(15,556)	(89)	-	-	(134)	(15,779)
Patents	(19,065)	(1,704)	21	-	(274)	(21,022)
Software	(2,738)	(112)	0	-	(0)	(2,851)
Fixed assets under construction	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	0
Total	(37,359)	(1,905)	21	-	(408)	(39,652)
Net book values						
Development costs	162	(89)	-	-	24	98
Patents	585	(949)	12	-	439	88
Software	254	(43)	0	-	0	211
Fixed assets under construction	476	520	-	-	(476)	520
Other intangible assets	8	-	-	-	(0)	8
Total	1,484	(561)	12	-	(12)	923

Depreciation charges are recorded under operating expenses.

At December 31, 2017, intangible assets can be broken down as follows:

€'000	Dec 31, 2016	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	Dec 31, 2017
Gross values						
Development costs	16,087	-	-	-	(369)	15,719
Patents	19,616	495	-	-	(462)	19,650
Software	2,911	40	(26)	-	67	2,992
Fixed assets under construction	67	476	-	-	(67)	476
Other intangible assets	8	-	-	-	-	8
Total	38,690	1,010	(26)	-	(831)	38,844
Depreciation and amortization						
Development costs	(14,360)	(1,477)	-	-	280	(15,556)
Patents	(17,821)	(1,813)	-	-	570	(19,065)
Software	(2,637)	(127)	26	-	0	(2,738)
Fixed assets under construction	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-
Total	(34,818)	(3,417)	26	-	850	(37,359)
Net book values						
Development costs	1,728	(1,477)	-	-	(89)	162

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Patents	1,795	(1,318)	-	-	108	585
Software	274	(88)	-	-	67	254
Fixed assets under construction	67	476	-	-	(67)	476
Other intangible assets	8	-	-	-	-	8
Total	3,872	(2,407)	-	-	19	1,484

1.5.12. Note 12 – Business combinations

MicaSense

On October 10, 2018, Parrot Drones acquired 15.03% of MicaSense's shares for 0.5 M\$, taking its interest up to 71.36%.

On December 31, 2018, Parrot Drones acquired 10.28% of MicaSense's shares for 0.3 M\$, taking its interest up to 81.64%.

1.5.13. Note 13 – Property, plant and equipment

At December 31, 2018, the breakdown of property, plant and equipment was as follows:

€'000	Dec 31, 2017	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	Dec 31, 2018
Gross values						
Buildings	246	465	-	-	22	733
Plant and equipment	18,758	1,410	(29)	-	500	20,639
Other property, plant and equipment	13,114	877	(120)	-	59	13,929
Total	32,118	2,752	(148)	-	580	35,302
Depreciation and amortization						
Buildings	(38)	(261)	-	-	(8)	(307)
Plant and equipment	(16,879)	(2,101)	21	-	(465)	(19,424)
Other property, plant and equipment	(11,140)	(1,123)	117	-	(38)	(12,185)
Total	(28,057)	(3,485)	138	-	(511)	(31,915)
Net values						
Buildings	208	204	-	-	14	426
Plant and equipment	1,879	(691)	(8)	-	35	1,216
Other property, plant and equipment	1,973	(246)	(2)	-	20	1,745
Total	4,061	(733)	(10)	-	69	3,386

At December 31, 2017, the breakdown of property, plant and equipment was as follows:

€'000	Dec 31, 2016	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	Dec 31, 2017
Gross values						
Buildings	341	51	(118)	-	(29)	246
Plant and equipment	20,040	587	(367)	-	(1,502)	18,758
Other property, plant and equipment	13,012	520	(272)	(6)	(146)	13,114
Total	33,393	1,159	(757)	(6)	(1,677)	32,118
Depreciation and amortization						
Buildings	21	(49)	28	-	3	(38)
Plant and equipment	(15,440)	(3,096)	383	6	1,273	16,879

Other property, plant and equipment	(9,866)	(1,487)	179	-	34	(11,140)
Total	(25,326)	(4,632)	591	6	1,310	28,057
Net values						
Buildings	321	3	(90)	-	(26)	208
Plant and equipment	4,600	(2,508)	16	6	229	1,879
Other property, plant and equipment	3,146	(967)	(93)	(6)	(112)	1,973
Total	8,067	(3,473)	(166)	-	(367)	4,061

1.5.14. Note 14 – Financial assets

Other long-term financial investments

All of the Group's "Other long-term financial investments" are financial assets at fair value through other comprehensive income under IFRS 9.

The financial assets at fair value through other comprehensive income are subsequently measured at fair value.

The equity securities primarily comprise securities in companies from the Drone business.

Other receivables attached to equity interests

The "Other receivables attached to equity interests" comprise the Group's advances to non-consolidated companies. These are financial assets at amortized cost under IFRS 9.

These assets are measured at amortized cost. Impairments are deducted from this amortized cost. The interest income, exchange gains and losses, and impairments are recognized in profit or loss. The gains and losses resulting from derecognition are recognized in profit or loss.

The changes in financial assets are presented below:

€'000	Dec 31, 2017	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	Dec 31, 2018
Gross values						
Other receivables attached to equity interests	500	0	-	-	(0)	500
Security deposits	1,354	399	(58)	-	34	1,729
Other long-term financial investments	7,710	45	-	(43)	(1,997)	5,715
Total	9,565	444	(58)	(43)	(1,963)	7,944
Depreciation						
Other receivables attached to equity interests	(500)	-	-	-	-	(500)
Security deposits	-	-	-	-	-	-
Other long-term financial investments	(3,042)	-	-	-	-	(3,042)
Total	(3,542)	-	-	-	-	(3,542)
Net book values						
Other receivables attached to equity interests	-	0	-	-	(0)	-
Security deposits	1,354	399	(58)	-	34	1,729
Other long-term financial investments	4,667	45	-	(43)	(1,997)	2,673
Total	6,023	444	(58)	(43)	(1,963)	4,402

Parrot Drones S.A.S. holds a 23% interest in BioCarbon for 2.2 M€. As this interest is not significant, this company is not consolidated on an equity basis in the Group's accounts.

Parrot Drones S.A.S. holds a 23.02% (0.4 M€) interest in the company Chouette S.A.S.

On December 21, 2017, Parrot Drones subscribed for a capital increase by the Belgian-law company Sky-Hero for a total of 2 M€, giving it a 33.34% interest in this company's capital and voting rights. The company is now consolidated on an equity basis (see Note 4), and has been reclassified for (2) M€.

The securities of NanoRacing S.A.S., a French company that is developing a racing UAV, acquired by Parrot Drones S.A.S. on March 24, 2016 (1.0 M€) are still written down in full at December 31, 2018.

The EOS Innovation bonds acquired for 2.0 M€ have been written down in full, in the same way as the loan granted to the subsidiary in July 2016 (0.5 M€).

1.5.15. Note 15 – Associates

The financial position and value of investments in associates at December 31, 2018 are presented below:

€'000	% of capital held	Revenues (100% basis)	Shareholders' equity (100% basis)	Income from associates (share of income)
Iconem	45.00%	749	1 391	8
Parrot Faurecia Automotive S.A.S.	80%	31,234	50,796	(6,992)
Parrot Automotive Asia Ltd, (Parrot Faurecia Automotive subsidiary)	80%	15,802	2,983	199
Parrot Automotive Shenzhen (Parrot Automotive Asia Ltd subsidiary)	80%	1,418	829	(37)
Planck Aerosystems Inc.	49.30%	1,038	842	(675)
Sky-Hero	33.34%	285	381	(406)
Total				(7,904)

€'000 (100% basis)	Dec 31, 2017	Inclusion in scope	Earnings	Deconsolidation	Exchange gains or losses and reclass.	Dec 31, 2018
Iconem	1,329	-	8	-	-	1,337
Parrot Faurecia Automotive S.A.S.	99,447	-	(6,992)	(92,595)	139	-
Parrot Automotive Asia Ltd, (Parrot Faurecia Automotive subsidiary)	1,842	-	199	(2,116)	75	-
Parrot Automotive Shenzhen (Parrot Automotive Asia Ltd subsidiary)	1,011	-	(37)	(962)	(13)	-
Planck Aerosystems Inc.	3,669	-	(675)		153	3,146
Sky-Hero	-	2,000	(406)		-	1,594
Total	107,298	2,000	(7,904)	(95,672)	355	6,077

€'000	2018	2017
Book value of equity securities at January 1	107,299	1,243
Parrot Faurecia Automotive's transfer to equity basis consolidation	-	109,160
Planck Aerosystems Inc's transfer to equity basis consolidation	-	4,021
Sky-Hero's transfer to equity basis consolidation	2,000	
Share in income of associates	(7,904)	(6,695)
Exchange gains or losses	215	(584)
Sale of Parrot Faurecia Automotive	(95,672)	
Share in other comprehensive income of associates	139	152
Book value of equity securities at December 31	6,077	107,299

1.5.16. Note 16 – Deferred tax

Change in deferred tax assets

€'000	Dec 31, 2018	Dec 31, 2017
At January 1	334	720
Income (expense) for the year	(94)	(386)
Impact on reserves	-	-
At December 31	240	334

Change in deferred tax liabilities

€'000	Dec 31, 2018	Dec 31, 2017
At January 1	1,690	465
Income (expense) for the year	(1,611)	(337)
Impact on reserves	-	-
Deferred tax liabilities to be discontinued or sold	-	1,562
IFRS 5 reclassification	79	-
At December 31	1,690	1,690

Detailed breakdown of deferred tax assets and liabilities by kind

€'000	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Intangible assets	-	-	(161)	(256)	161	256
Property, plant and equipment	-	-	-	-	-	-
Depreciation of treasury stock	-	-	-	-	-	-
Inventories	1,332	2,610	764	1,916	567	693
Capitalization of development costs	-	-	90	69	(90)	(69)
Capitalization of loss carryforwards	-	-	-	-	-	-
Restriction of deferred tax assets	(684)	(1,619)	(683)	(1,622)	(1)	3
Investment subsidies	-	-	-	-	-	-
Other assets	919	931	-	-	919	931
Provisions:	340	420	102	73	238	348
Of which pensions	223	264	102	73	121	191
Of which other social	-	-	-	-	-	-
provisions	-	-	-	-	-	-
Of which depreciation of	-	-	-	-	-	-
subsidiary receivables	-	-	-	-	-	-
Of which other provisions	117	157	-	-	117	157
Other liabilities	-	-	(33)	1,509	33	(1,509)
Tax loss carryforwards	-	-	-	-	-	-
Net deferred tax assets (liabilities)	(1,667)	(2,008)	-	-	(1,667)	(2,008)
Intangible assets	240	334	79	1,690	161	(1,356)

Non-capitalized losses represent 219.5 M€ for the tax consolidation group, with 38.8 M€ for Parrot Drones and 64.2 \$M for Parrot Inc.

1.5.17. Note 17 – Inventories

€'000	Dec 31, 2017	Change	Exchange gains or losses and reclass.	Dec 31, 2018
Gross values	43,980	(7,306)	743	37,416
Depreciation	(20,720)	3,073	(343)	(17,990)
Net value of inventories	23,260	(4,234)	400	19,426

1.5.18. Note 18 – Trade receivables

€'000	Dec 31, 2018	Dec 31, 2017
Trade receivables	31,132	43,159
Depreciation	(3,497)	(2,941)
Total	27,636	40,218

The lower level of trade receivables at December 31, 2018 compared with the previous year reflects the contraction in the Group's revenues. Receivables do not bear interest and are in general due to be paid within 30 to 90 days.

1.5.19. Note 19 – Other receivables

€'000	Dec 31, 2018	Dec 31, 2017
VAT receivables	9,744	10,353
Tax receivables	5,891	5,563
Prepaid expenses	2,031	2,271
Sundry debtors	849	1,585
Advances and deposits paid	2,192	867
Social security receivables	22	67
Total	20,730	20,706

VAT receivables correspond to VAT that can be deducted on purchases, primarily in France.

Tax receivables correspond primarily to the research tax credit for 2018. In addition, Parrot S.A. has transferred out and derecognized its receivables from the French State relating to the 2017 research tax credit for a total of 3.5 M€ (95% of the total receivable). The cash received represents 3.4 M€. The cost of this transfer, recognized in net finance costs, represents 0.1 M€. This transfer was made without any appeals.

In accordance with IFRS 9, the company no longer records receivables on which the contractual rights to cash flow have been transferred, and substantially all the risks and benefits associated with these receivables.

Other receivables are due in less than 12 months with the exception of the section of research tax credit receivables (5% of total receivables) that is not transferred.

1.5.20. Note 20 – Net finance costs

At December 31, 2018, net finance costs represent (160,162) K€.

Cash, cash equivalents and other current financial assets came to 161,475 K€, including 18 K€ of other current financial assets, up 3,919 K€ compared with the previous year's closing position.

Cash equivalents primarily comprise risk-free investments, such as interest-bearing current accounts and guaranteed term deposits / accounts maturing within a maximum of three months.

Current and non-current financial liabilities represent 1,313 K€ (see Note 22).

1.5.21. Note 21 – Shareholders' equity

1.5.21.1. Share capital

At December 31, 2018, the share capital was split into 30,174,671 fully paid-up ordinary shares, representing a total of 4,599 K€. Changes in the number of shares outstanding can be broken down as follows:

	Dec 31, 2017	Issues	Reductions	Dec 31, 2018
Number of securities	30,174,671	-	-	30,174,671
Rounded off par value (€)	0.15 €	-	-	0.15 €
Share capital (€)	4,599,258	-	-	4,599,258

1.5.21.2. Stock option, warrant and bonus share scheme

Stock options (SO)

Date of Board meeting and type of plan	Duration	Adjusted number of SO at Dec 31, 2017	SO awarded during period	SO exercised during period	SO cancelled or lapsed	Number of SO at Dec 31, 2018
BM 28/07/11: SO	7 years	4,318	-	-	-4,318	-
BM 10/11/11: SO	7 years	68,092	-	-	-20,866	-
BM 15/02/12: SO	7 years	249,670	-	-	-91,766	157,904
BM 12/05/12: SO	7 years	24,178	-	-	-18,708	5,470
BM 10/11/12: SO	7 years	31,086	-	-	-26,769	4,317
BM 20/02/13: SO	7 years	8,635	-	-	-4,318	4,317
BM 15/05/13: SO	7 years	23,027	-	-	-11,515	11,512
Total		409,006	-	-	-178,260	183,520

For all the plans, the changes in the number of options are presented below:

Number of SO	2018	2017
Number of options at Jan 1	409,006	409,006
SO awarded during the period	0	0
SO exercised during the period	0	0
SO maturing during the period	(201,888)	0
Post-capital increase adjustments	0	0
Number of SO at year-end	207,118	409,006

All the stock options schemes have the following characteristics (conditions for presence within the company):

- Beneficiaries may subscribe for 50% of the options awarded at the end of the second year following allocation.
- At the end of each quarter, beneficiaries may then subscribe for 6.25% of the options awarded over the following three-year period

Bonus shares (BS)

Date of Board meeting and type of plan	Duration	Adjusted BS at Dec 31, 2017	BS awarded during period	BS delivered during period	BS cancelled or lapsed	Number of BS at Dec 31, 2018
BM 01/03/15: BS	3 years	20,869	-	-20,869	-	-
BM 20/11/15: BS	3 years	91,524	-	-85,914	-5,610	-
BM 01/05/16: BS	3 years	19,200	-	-4,689	-6,311	8,200
BM 13/05/17: BS	1 year	25,000	-	-25,000	-	-
BM 24/05/17: BS	2 years	215,750	-	-	-37,100	178,650
BM 27/07/17: BS	2 years	20,750	-	-	-2,750	18,000
BM 09/11/17: BS	2 years	14,500	-	-	-1,000	13,500
BM 14/03/18: BS	2 years	-	247,500	-	-27,000	220,500
BM 24/05/18: BS	2 years	-	16,500	-	-	16,500
BM 31/07/18: BS	2 years	-	27,000	-	-	27,000
Total		407,593	291,000	-136,472	-79,771	482,350

For all the plans, the changes in the number of bonus shares are presented below:

Number of bonus shares	2018	2017
Number of BS at Jan 1	407,593	301,744
BS awarded during the period	291,000	283,000
BS exercised during the period	-136,472	-86,212
BS cancelled at maturity during the period	-79,771	-90,939
Post-capital increase adjustments	0	0
Number of BS at year-end	482,350	407,593

Characteristics of bonus share schemes in 2018

Board meeting date	Date awarded	Initial number	Start of vesting	Vesting period	Vesting date
14/03/2018	14/03/2018	247 500	15/03/2018	2 years	15/03/2020
24/05/2018	24/05/2018	16 500	25/05/2018	2 years	24/05/2020
31/07/2018	31/07/2018	27 000	01/08/2018	2 years	31/07/2020

Conditions for awarding bonus shares in 2018

Bonus shares are only definitively vested after the end of a two-year period and provided that beneficiaries are still employed by the Parrot Group on this date.

On March 14, 2018, the Board of Directors approved the proposal, terms and conditions for the Remuneration and Incentive Plan Regulations submitted by the Appointments and Compensation Committee. The Appointments and Compensation Committee has set up two plans for awarding units settled in Parrot shares at the end of a two-year period subject to presence and performance conditions for all beneficiaries.

Impact on the financial statements

The expense recognized for awards of stock options and bonus shares represents 1,461 K€ for 2018 (versus 2,287 K€ in 2017).

1.5.21.3. Treasury shares

	Dec. 31, 2017	Acquisition	Disposal	Reclassi- fication	Cancellation	Awarded on registered basis	Dec. 31, 2018
Number of securities	721,062	394,837	(502,984)	-	(736)	-	612,179
Value (€)	9,888						7,868

The number of securities at December 31 comprises:

	Dec. 31, 2017	Acquisition	Disposal	Reclassi- fication	Cancellation	Awarded on registered basis	Dec. 31, 2018
Unallocated treasury stock	150,423	-	-	147,401	-	(291,000)	6,824
Bonus shares awarded and not delivered to staff	407,593	-	(136,472)	-	(79,771)	291,000	482,350
Shares to be cancelled	148,137	-		(147,401)	79,035	-	79,771
Subtotal	706,153	-	(136,472)	-	(736)	-	568,945
Liquidity agreement	14,909	394,837	(366,512)	-	-	-	43,234
Total	721,062	394,837	(502,984)	-	(736)	-	612,179

The general shareholders' meeting on June 12, 2018 authorized a share buyback program. The shares bought back may be used with a view to:

- Continuing to implement the liquidity agreement,
- Awarding stock options and/or bonus shares to the Parrot Group's employees or corporate officers,
- Reducing the Company's capital.

Liquidity agreement

	Quantity (shares)	Acquisition/sale price (€)
Number of securities at Jan. 1, 2018	14,909	131,435
Purchase in 2018	394,837	2,157,193
Sales in 2018	366,512	2,161,591
Number of securities at Dec. 31, 2018	43,234	127,037

Share buyback program

The value of the various programs corresponds to the balance for shares awarded to staff and not served, as well as the remaining shares purchased at December 31, 2018.

Share buyback program	Remaining shares at Dec. 31, 17	Cancelled in 2018	Awarded and served in 2018	Buybacks	Awarded and not served	Remaining shares at Dec. 31, 2018
n° 6	2,200	-736				1,464
n° 10	128,685					42,473
n° 11	75,270					75,270
n° 12	149,700		-111,472			38,228
n° 13	436,510		-25,000			411,510
Total	792,365	-736	-136,472	0	0	568,945

Dividends

There are no plans to pay out any dividends relative to 2018.

1.5.22. Note 22 – Financial liabilities

€'000	Dec 31, 2018	Dec 31, 2017
Borrowings and debt with credit institutions	-	-
Convertible bonds	-	41,019
Liabilities relating to leased fixed assets	152	15
Sundry borrowings and financial debt	1,161	1,165
Non-current financial liabilities (long-term)	1,313	42,199
Borrowings and debt with credit institutions	-	-
Sundry borrowings and financial debt	-	-
Accrued interest on borrowings	-	-
Current financial liabilities (short-term)	-	-

Sundry borrowings and financial debt

At December 31, 2018, an interest-free repayable advance from BPIfrance was recorded for Parrot Drones in connection with the FELIN future integrated LTE equipment with virtualization project for 1,162 K€, aiming to develop next-generation integrated circuits and equipment for 4G connected devices. This advance will be repayable from 2020.

Parrot Faurecia Automotive convertible bonds

On February 28, 2017, Parrot SA issued 13,319,906 bonds with a nominal value of €3.0797, representing a total of 41 M€. These bonds were due to mature on December 31, 2021, based on interest with a margin of 200 basis points over the 3-month Euribor quarterly rate (minimum rate of 0%).

On account of the early exit from Parrot Automotive (see 20.2.2. "Note 2 - Significant events for the period"), the bonds issued in 2017 by Parrot SA for Faurecia were converted on September 30, 2018 at the same time as the sale.

As a result, at December 31, 2018, the bonds with Faurecia were extinguished, along with the value of the derivative instrument set up at the same time as the bond issue to protect against interest rate fluctuations.

Fair value of derivative instruments at year-end

€'000	Dec 31, 2018	Dec 31, 2017
Current liabilities	-	
Non-current liabilities	-	(2)

Change in liabilities from financing activities

€'000	Dec 31, 2017	Cash flow		Non-monetary changes			Dec 31, 2018
		Receipts linked to new loans	Repayment of financial debt	Foreign exchange effects	Reclassification	Sale of Parrot Faurecia Automotive	
Non-current liabilities							
Borrowings and debt with credit institutions	-	-	-	-	-		-
Convertible bonds	41,019	-	-	-	-	(41,019)	-
Liabilities relating to leased fixed assets	15	132	-	5	-		152
Sundry borrowings and financial debt	1,165	-	-	(4)	-		1,161
Non-current financial liabilities (long-term)	42,199	132	-	1	-	(41,019)	1,313
Current liabilities							
Borrowings and debt with credit institutions	-	-	-	-	-		-
Accrued interest on borrowings	-	-	-	-	-		-
Current financial liabilities (short-term)	-	-	-	-	-		-
Financial liabilities	42,199	132	-	1	-	(41,019)	1,313

The flow concerning the reduction in bonds corresponds to the conversion of bonds over the period (see Note 22).

1.5.23. Note 23 – Earnings per share
Basic earnings per share

The level of basic earnings per share is obtained by dividing earnings (Group share) by the weighted average number of ordinary shares outstanding during the period, less any treasury stock, as relevant. The weighted average number of ordinary shares represents an annual average calculated based on the issue or redemption date for shares over the period.

In €	Dec 31, 2018	Dec. 31, 2017
Net income (Group share, €, from continuing operations)	(111,264,330)	(81,700,703)
Weighted average number of shares outstanding	30,174,671	30,174,671
Basic net earnings per share from continuing operations (€)	-3.69 €	-2.71 €

In €	Dec 31, 2018	Dec. 31, 2017
Net income (Group share from discontinued operations) in euros	-	43,482,536
Weighted average number of shares outstanding	-	30,174,671
Basic net income per share from discontinued operations	-	1.44 €

Diluted earnings per share

Diluted earnings per share factor in any diluting instruments outstanding at the end of the period. Following the negative result recorded for 2018, existing potentially dilutive instruments have not been taken into account to calculate diluted earnings per share.

In €	Dec 31, 2018	Dec. 31, 2017
Net income (Group share) used to determine diluted earnings per share	(111,264 330)	(81,700,703)
Weighted average number of shares outstanding retained to determine diluted net earnings per share	30,174,671	30,174,671
Diluted net income per share from continuing operations	-3,69 €	-2,71€

In €	Dec 31, 2018	Dec 31, 2017
Net income (Group share) used to determine diluted earnings per share	-	43,482,536
Weighted average number of shares outstanding retained to determine diluted net earnings per share	-	30,174,671
Diluted net income per share from discontinued operations	-	1.44 €

1.5.24. Note 24 – Non-controlling interests

None in 2018.

1.5.25. Note 25 – Provisions for pensions and related commitments

25.1 Introduction

Employee benefits primarily comprise pension benefits concerning Parrot Drones and Parrot SA.

The Group is subject to defined benefit pension systems for the end-of-career benefits paid to staff. These systems are not financed in any way by the Group.

25.2 Financial information

Supplementary employee benefits primarily concern provisions for retirement benefits (PRB).

At December 31, 2018, the provisions primarily included:

- 652 K€ of provisions for retirement benefits for Parrot Drones (724 K€ at December 31, 2017);
- 201 K€ of provisions for retirement benefits for Parrot SA (183 K€ at December 31, 2017).

(Expenses) / income for the year - €'000	2018	2017
Net cost of services	(148)	(163)
Net interest on the liability / asset	(19)	(21)
Plan change during the year	-	-
Reduction / liquidation effects	251	468
(Expenses) / Income for the year	84	284

The 251 K€ reduction effect, including 184 K€ for Parrot Drones, relates primarily to the impact of the departures plan announced in the third quarter of 2018.

Change in provisions	2018	2017
(Provision) / amount paid in advance at start of period	(942)	(1 608)
Income (expense) for the year	84	284
Amount recognized in OCI for the year	(14)	284
Contributions paid by employer	-	-
Benefits paid by employer	-	-
(Acquisition) / sales	-	98
(Provision) / amount paid in advance	(872)	(942)

*Restatement of the OEM Automotive business under operations held for sale at the start of FY 2016.

Change in actuarial liability over the year	2018	2017
Actuarial liability (DBO) at start of period*	(942)	(1 608)
Net cost of services	(148)	(163)
Net interest on the liability / asset	(19)	(21)
Plan change	-	-
Reduction / liquidation effects	251	468
Experience gains (losses) generated over the period	(3)	286
Gains (losses) relating to changes in demographic assumptions	(11)	(2)
Gains (losses) relating to changes in financial assumptions	-	-
Benefits paid	-	-
(Acquisition) / sale	-	-
Transfers	-	98
Actuarial liability (DBO) at end of period	(872)	(942)

*Restatement of the OEM Automotive business under operations held for sale at the start of FY 2016.

Main assumptions	2018	2017
Discount rate	2.00%	2.00%
Inflation rate	2.00%	2.00%
Rate for increase in pay	3.00%	3.00%

1.5.26. Note 26 – Current provisions

The change in current provisions over the year can be broken down as follows:

€'000	Dec 31, 2017	Allowance	Reversals	Changes in scope	Translation difference	Dec 31, 2018
Provisions for customer warranties	5,512	805	(3,895)	-	72	2,494
Other prov. for contingencies and liabilities	8,484	10,867	(4,647)		99	14,803
Total current provisions	13,996	11,672	(8,542)	,	171	17,297

Other provisions for contingencies and liabilities primarily concern:

- Provisions for disputes: Parrot and its subsidiaries are still involved in disputes in the US and elsewhere, for which a total of 1.8 M€ of provisions have been recorded;
- 2018 restructuring provisions of 8.3 M€, corresponding primarily to compensation and support measures for 4.4 M€ and supplier commitments for 3.9 M€;
- Provisions for supplier commitments for 1.2 M€;
- 2017 restructuring provisions of 1.9 M€, corresponding primarily to settlement compensation and support measures;
- Other provisions: 1.4 M€.

1.5.27. Note 27 – Liabilities and other current and non-current liabilities

27.1 Trade payables, current tax liabilities and other current liabilities

Trade payables represented 27.6 M€ at December 31, 2018, compared with 37.6 M€ at December 31, 2017, with this reduction primarily reflecting the contraction in business.

The 2018 business value added tax (CVAE), totaling 142 K€ (versus 203 K€ in 2017), is presented under current tax liabilities.

The credit notes to be issued for 9.4 M€ correspond to the provisions for commercial returns and margin guarantees.

€'000	Dec. 31, 2018	Dec. 31, 2017
Trade payables	27,631	37,587
Current tax liability	123	250
Advances	9,396	6,291
Tax and social security liabilities	11,807	12,682
Liabilities on acquisitions of minority interests	1,301	0
Advances and deposits received	315	1,400
Other liabilities	4,935	7,559
Other current liabilities	27,753	27,931

27.2 Other non-current liabilities

€'000	Dec. 31, 2018	Dec. 31, 2017
Liabilities on acquisitions of minority interests	6,299	26,811
Other non-current liabilities	6,299	26,811

Details of liabilities on acquisitions of minority interests

€'000	Dec 31, 2017	Change through equity	Change through P&L	Exchange gains or losses	Dec 31, 2018
Put options: Pix4D, MicaSense, Airinov	25,147	(18,585)	-	534	(797)
Other	1,664	-	(1,200)	41	(504)
Total	26,811	(18,585)	(1,200)	575	(1,301)

Parrot's obligations to buy back Pix4D and MicaSense securities are recognized under liabilities relating to acquisitions of minority interests, classed as current and non-current liabilities depending on the exercise date. These call options are measured at fair value based on operational performance, i.e. the discounted value of the estimated exercise price, in line with the levels of margins and revenues. The discount rate reflects the marginal cost of debt for Parrot.

Other current and non-current liabilities include 7.6 M€ relating to these call options.

The liabilities relating to the MicaSense call options were presented under non-current liabilities at December 31, 2017. They are classed as current liabilities at December 31, 2018 taking into account the exercise date in 2019. The 18.6 M€ change through equity corresponds to the revaluation of the liabilities for MicaSense and Pix4D taking into account operational performance forecasts.

1.5.28. Note 28 – Financial instruments

28.1 Category and fair value of financial assets and liabilities

At December 31, 2018 (€'000)	Fair value through P&L	Put liabilities	Fair value through OCI	Amortized cost	Balance sheet value	Fair value
Financial assets			4,402		4,402	4,402
Trade receivables				27,478	27,478	-
Other current receivables				20,602	20,602	-
Other current fin. assets	18				18	18
Cash and cash equivalents	161,457				161,457	161,457
Total financial assets	161,475		4,402	48,079	213,957	165,877
Other financial liabilities				1,313	1,313	
Other non-current liabilities		6,299			6,299	
Trade payables				27,345	27,345	
Other current liabilities		1,301		26,452	27,753	
Total financial liabilities		7,599		55,111	62,710	

At December 31, 2017 (€'000)	Fair value through P&L	Fair value through equity	Assets available for sale	Loans and receivables	Debts at amortized cost	Derivatives	Balance sheet value	Fair value
Financial assets	-	-	6 023	-	-	-	6 023	-
Trade receivables	-	-	-	40 218	-	-	40 218	-
Other current receivables	-	-	-	20 706	-	-	20 706	-
Other current fin. assets	13 018	-	-	-	-	-	13 018	13 018
Cash and cash equivalents	144 539	-	-	-	-	-	144 539	144 539
Total financial assets	157 556	-	6 023	60 924	-	-	224 503	157 556
Non-convertible bonds	-	-	-	-	41 021	(2)	41 019	41 019
Other current receivables	-	-	-	-	1 180	-	1 180	-
Other non-current liabilities	-	26 811	-	-	-	-	26 811	-
Trade payables	-	-	-	-	37 587	-	37 587	-
Other current liabilities	-	-	-	-	27 931	-	27 931	-
Total financial liabilities	-	26 811	-	-	107 719	(2)	134 527	41 019

Fair value hierarchy

The criteria used for recording financial instruments at each fair value level are objective criteria based on the definition of fair value levels under IFRS 7.

The categories of assets and liabilities measured at fair value after their initial recognition are as follows:

- Assets / liabilities measured at fair value through profit or loss and through equity
- Assets measured at fair value through equity
- Future cash-flow hedging derivative instruments.

The fair value hierarchy is based on the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Input data other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly - through prices - or indirectly - through data derived from prices - (Level 2);
- Input data relating to the asset or liability that are not based on observable market data - unobservable inputs - (Level 3).

We did not make any transfers between the various levels between 2017 and 2018.

At December 31, 2018 - €'000	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value, of which:				
Other current financial assets	-	-	-	-
Cash and cash equivalents	18	18	-	-
Total assets	161 457	161 457	-	-
Financial liabilities measured at fair value, of which:				
Convertible bonds	-	-	-	-
Other financial liabilities	-	-	-	-
Other current liabilities	-	-	-	-
Other non-current liabilities	-	-	-	-
Total liabilities	(2)	-	(2)	-

For the financial liabilities measured at fair value under Level 2 (variable-fixed rate swap agreement mentioned in Note 22), valuations are based on the forward rates on all the maturities by an independent cash organization.

At December 31, 2017 €'000	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value, of which:				
Other current financial assets	13 018	13 018	-	-
Cash and cash equivalents	144 539	144 539	-	-
Total assets	157 556	157 556	-	-
Financial liabilities measured at fair value, of which:				
Convertible bonds	-	-	-	-
Other financial liabilities	(2)	-	(2)	-
Other current liabilities	-	-	-	-
Other non-current liabilities	-	-	-	-
Total liabilities	(2)	-	(2)	-

28.2 Schedule for financial liabilities

Financial liabilities are detailed in Note 22.

28.3 Analysis of trade receivables and their seniority

At December 31, 2018 (€'000)	Not due	Trade receivables for which the payment due date has passed				Total
		0-3 months	3-6 months	6-12 months	>1 year	
Trade receivables	16 236	9 354	3 592	236	1 714	31 132
Total financial assets	16 235	9 354	3 592	236	1 714	31 132
Of which, COFACE cover	10 298	7 703	1 132	0	0	19 132
Trade receivables not covered	5 938	1 652	2 460	236	1 714	12 000
Provisions for trade receivables and related						3 497
Total trade receivables	16 236	9 354	3 592	236	1 714	27 636

At December 31, 2018, the new classification and valuation method introduced by IFRS 9 did not have any impact on Parrot's accounts; the valuation method for trade receivables provisions remains unchanged.

At December 31, 2017 (€'000)	Not due	Trade receivables for which the payment due date has passed				Total
		0-3 months	3-6 months	6-12 months	>1 year	
Trade receivables	22 679	11 333	7 693	39	1 416	43 159
Total financial assets	22 679	11 333	7 693	39	1 416	43 159
Of which, COFACE cover	13 475	3 238	2 275	-	-	18 989
Trade receivables not covered	9 203	8 095	5 417	39	1 416	24 170
Provisions for trade receivables and related	-	-	-	-	-	2 941
Total trade receivables	22 679	11 333	7 692	39	1 416	40 218

Overdue receivables concern a limited number of customers, which are closely monitored and analyzed. As relevant, provisions for depreciation have been recorded for a total of 3 390 K€, an increase of 449 K€ for 2018.

The Group's policy for trade receivables is based on managing cover under the existing COFACE policy and regularly monitoring trade receivables.

28.4 Hedging instruments

For reference, in connection with the new bond issue set up on February 28, 2017, the Parrot Group was exposed to the rate risk, and more specifically fluctuations in the three-month Euribor. To hedge this exposure, the Parrot Group decided to take out a 0% capped swap rate agreement to protect itself against interest rate fluctuations.

On account of the early exit from Parrot Automotive (see 20.2.2. "Note 2 - Significant events for the period"), the bonds issued in 2017 by Parrot SA for Faurecia were converted in the fourth quarter of 2018 at the same time as the sale. As a result, at December 31, 2018, the bonds with Faurecia were extinguished, along with the value of the derivative instrument set up at the same time as the bond issue to protect against interest rate fluctuations.

1.5.29. Note 29 – Market risks

29.1 Foreign exchange risks

The Group is exposed to two types of foreign exchange risk which may have an impact on earnings and equity: on the one hand, risks relating to the translation, for drawing up the consolidated accounts, of the foreign currency accounts of consolidated subsidiaries with a different functional currency from the euro, and on the other hand, operational risks on operating or financial flows not denominated in the entities' operating currencies.

In 2018, 33% of the Group's revenues, 91% of its costs of sales and 14% of its operating costs were denominated in USD or currencies linked to the dollar, with the Group exposed to this currency's fluctuations against the euro. The Group has not hedged its net exposure to changes in the USD.

In order to limit the impact of changes in the USD on its profitability, the Group has been developing the sales denominated in this currency.

At the end of December 2018, 11% of the Group's cash and other financial asset position was in US dollars or related currencies.

Foreign exchange risk exposure:

'000 at Dec 31, 2018	USD	HKD	GBP	CNY	CHF
Trade receivables	2 908	0	0	4 225	667
Trade payables	(15 957)	(860)	(969)	(9 208)	(2 044)
Other equity interest-related receivables	31 574	(4 718)			(7 000)
Current account	3 469				545
Financial derivatives	-	-	-	-	-

'000 at Dec 31, 2017	USD	HKD	GBP	CNY
Trade receivables	8 384	8 769	-	639
Trade payables	(21 839)	(2 488)	(1 282)	(5 967)
Other equity interest-related receivables	34 106	-	-	-
Current account	-	1 873	-	-
Financial derivatives	-	-	-	-

€'000 at Dec 31, 2018	P&L Impact	Impact of FV adjustment on reserves	P&L Impact	Impact of FV adjustment on reserves
	10 % appreciation for currencies against euro		Appreciation of 10% for euro against the currencies	
Trade receivables	342	-	-280	-
Other equity interest-related receivables	-	3 967		-3 293
Current account		339		-277
Trade payables	-1 822	-	1 491	-
Financial derivatives	-	-	-	-

€'000 at Dec 31, 2017	P&L Impact 10 % appreciation for currencies against euro	Impact of FV adjustment on reserves	P&L Impact Appreciation of 10% for euro against the currencies	Impact of FV adjustment on reserves
Trade receivables	890	-	(728)	-
Other equity interest-related receivables	-	3 160		(2 585)
Current account		22		(18)
Trade payables	(2 315)	-	1 894	-
Financial derivatives	-	-	-	-

The exchange risk sensitivity table above presents the impact of a 10% appreciation or depreciation in the euro against the other currencies in terms of the amounts of trade receivables, trade payables and hedging financial derivatives. It also presents how this impact would be reflected in the accounts.

29.2 Rate risk

Cash is invested during the year in risk-free vehicles with underlying rates of mostly up to three months.

The impact of a 1% variation in the average rate of return would represent a 318 K€ loss on the level of consolidated financial income.

The cash pooling system which has also been rolled out in order to optimize cash management within the Group, lending funds to or borrowing funds from subsidiaries as necessary, has made it possible to reduce the rate risks, repatriate surplus cash from certain subsidiaries and optimize the investment of free cash flow.

Lastly, the Parrot Group's rate risk management policy involves limiting the risks of changes in rates for drawdowns on the variable-rate external growth credit line. The Parrot Group adopts a policy which is intended to ensure that all or part of the exposure to changes in interest rates on borrowings is covered by fixed rates. The Group takes out an interest-rate swap and classes it as hedging for drawdowns on the variable-rate credit line.

29.3 Risk relating to treasury stock

The Group holds treasury stock, in line with the share buyback program authorized by the general shareholders' meeting.

Parrot's share price has historically been subject to significant variations, both upwards and downwards. These variations, which may continue, are dependent on numerous factors, such as the Group's financial performance.

The value of treasury stock reclassified as equity represents 7 868 K€ for 612 179 shares.

29.4 Liquidity and counterparty risk

Liquidity risk management is centralized by the Finance Division. Global cash management at Group level makes it possible to offset any internal cash requirements and surpluses.

The Company has carried out a specific review of its liquidity risk and considers that it is in a position to cover its upcoming maturities.

Parrot's financing policy aims to ensure that the Group has the liquidity needed to finance its assets, its short-term cash requirements and its development at all times, in terms of both the duration and the amounts, at the lowest possible cost.

Financial assets at December 31, 2018

The counterparty risk represents the risk of a financial loss for the Group in the event of a customer or counterparty for a financial instrument failing to uphold its contractual obligations. This risk stems primarily from trade receivables.

The net book value of financial assets represents the Group's maximum exposure faced with the credit risk. At December 31, 2017 the maximum credit risk exposure can therefore be broken down as follows:

PARROT

• Trade receivables:	27,6 M€
• Other receivables:	20,7 M€
• Other financial assets:	18 K€
• Cash and cash equivalents:	161,5 M€

Since 2016, the Parrot Group's policy is to diversify its counterparty risk management by distributing investments among first-rate banking institutions and over various timeframes, in addition to regularly monitoring developments.

Faced with the counterparty risk on trade receivables, a provision is recorded for bad debt, which may correspond to all or part of the amount, determined in view of the probability of the debt being collected.

The credit risk is monitored at Group level by the treasury department. The Group monitors terms of payment with its subsidiaries on a monthly basis and records provisions for debts which it considers to be unrecoverable.

To protect itself against the credit risk and therefore cover its risk of non-payment, the Group has put in place procedures for collecting funds and blocking customer accounts.

A COFACE policy covers the non-collection of debt from certain French and foreign Company customers located within Regions "1" and "2" (respectively covering OECD countries and the rest of the world, based on criteria defined by COFACE) for sales of Company products, as well as sales made by the subsidiaries: Parrot Automotive, Parrot Drones, Parrot Inc. and Parrot Asia Pacific Ltd at Parrot Automotive Asia Pacific Ltd. The amount of the cover represents 90% of the net debt covered excluding VAT.

Financial liabilities at December 31, 2018

The Group's ability to service its debt depends on the performance of its operational activities and its capacity to generate cash flow through its activities. The schedule for financial liabilities can be broken down as follows:

At December 31, 2018 (€'000)	Book value	Contractual cash flow	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities						
Non-convertible bonds	-	-	-	-	-	-
Debt with credit institutions	-	-	-	-	-	-
Sundry borrowings and financial debt	1 313	-	-	1 313	-	-
Bank overdraft	-	-	-	-	-	-
Trade payables	27 473	-	27 473	-	-	-
Other liabilities	34 052	-	27 753	-	6 299	-
Current tax liability	123	-	123	-	-	-
Total	62 961	-	55 349	1 313	6 299	-
Derivative financial liabilities						
Rate instruments	-	-	-	-	-	-
Currency instruments	-	-	-	-	-	-
Total	-	-	-	-	-	-

At December 31, 2017 (€'000)	Book value	Contractual cash flow	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities						
Non-convertible bonds	41 019	-	-	-	41 019	-
Debt with credit institutions	-	-	-	-	-	-
Sundry borrowings and financial debt	1 178	-	307	871	-	-
Bank overdraft	-	-	-	-	-	-
Trade payables	38 158	-	38 158	-	-	-
Other liabilities	54 170	-	27 360	12 066	14 744	-
Current tax liability	250	-	250	-	-	-
Total	134 775	-	66 075	12 937	14 744	-
Derivative financial liabilities						
Rate instruments	(2)	-	-	-	(2)	-
Currency instruments	-	-	-	-	-	-
Total	(2)	-	-	-	(2)	-

1.5.30. Note 30 – Executive compensation

The total amount of compensation paid to members of the management committee can be broken down as follows:

€'000	Dec 31, 2018	Dec 31, 2017
Fixed pay	1 730	1 802
Variable pay	615	372
Short-term benefits	2 346	2 175
Post-employment benefits	-	-
Payments in shares	760	662
Total	3 105	2 837

The management committee is made up of 9 people who perform the following functions: Chairman and Chief Executive Officer, Executive Vice President, VP Legal, VP New Product Development, VP Finance, VP Human Resources, VP Sales and Marketing, VP Core Portfolio Program and VP Procurement and Industry.

1.5.31. Note 31 – Related parties

See the information on Shmates' sale to Horizon in Note 2.

1.5.32. Note 32 – Commitments given or received

Commitments given

Commitments relating to operating leases that cannot be terminated represented 12,5 M€.

At December 31, the amount of firm orders placed with our main suppliers came to a total of 13 M€.

A parent company guarantee for USD 2,236,736 was signed on January 29, 2016 with the company Matrix Partners Management Services LP, guaranteeing rental commitments for the American subsidiary Parrot Inc.

Parrot Faurecia Automotive will continue to benefit from the "Parrot" brand license until the end of the agreed timeframe, i.e. end-2021, in return for royalties based on Parrot Automotive's revenues, representing 2.1% of revenues.

1.5.33. Note 33 – Statutory auditing fees

Amounts excluding VAT (€'000)	KPMG		2018	2017	EY		2018	2017
	KPMG AUDIT IS	Network members	Total	Total	EY	Network members	Total	Total
Account certification	112	30	142	147	262	57	319	300
Services other than account certification	-	46	46		20	-	20	
Total	112	76	188	147	282	57	339	300

1.5.34. Note 34 – Post balance-sheet events

Post balance-sheet events are detailed in Note 2.

1.6. Statutory auditors' report on the consolidated financial statements for 2018

KPMG Audit IS

Tour Egho
2, avenue Gambetta
CS 60055
92066 Paris-La Défense cedex
S.A.S. au capital de € 200.000
512 802 653 R.C.S Nanterre

ERNST & YOUNG et Autres

Tour First
TSA 14444
92037 Paris-La Défense cedex
S.A.S. à capital variable
438 476 913 R.C.S. Nanterre

Statutory Auditors

Member of the Compagnie Régionale de Versailles

Statutory Auditors

Member of the Compagnie Régionale de Versailles

To the General Assembly of Parrot,

Opinion

In accordance with the terms of our appointment by your general meetings, we have audited Parrot's consolidated financial statements for the year ended December 31, 2018, as appended to this report.

We certify that the consolidated financial statements present fairly, in all material respects, the results of operations for the past year, as well as the financial position, assets and liabilities at year-end for all the parties and entities included in the basis for consolidation, in accordance with IFRS, as adopted in the European Union.

The opinion presented above is consistent with the content of our report for the Audit Committee.

Basis for our opinion

■ Audit standards

We conducted our audit in accordance with the industry standards applicable in France. We believe that the elements we have collected are sufficient and appropriate to form a basis for our opinion.

Our responsibilities under these standards are indicated in the section on "Statutory auditors' responsibilities relating to the auditing of the consolidated financial statements" in this report.

■ Independence

We conducted our audit in accordance with the rules governing us in terms of independence for the period from January 1, 2018 to the date of our report. More specifically, we have not provided any services forbidden by Article 5, Paragraph 1, of EU Regulation 537/2014 or by the professional code of conduct for statutory auditors.

Observations

Without calling into question the opinion expressed above, we would like to draw your attention to Note 3 "Accounting rules and methods" in the notes to the consolidated financial statements, which presents the adoption of IFRS 15 "Revenue from Contracts with Customers" on January 1, 2018 notably concerning the recognition of revenues.

Basis for our opinions – Key points from the audit

In accordance with Articles L. 823-9 and R.823-7 of the French commercial code relating to the forming of our opinions, we would like to draw your attention to the key points from the audit relating to the risks of material misstatements which, in our professional judgement, were the most significant for the audit of the consolidated financial statements, as well as our responses to these risks.

The assessments made in this way are part of our audit of the consolidated financial statements in general and the formation of our opinion as expressed above. We are not expressing an opinion on the elements from these consolidated financial statements taken individually.

■ Value of goodwill

Risk identified	Our response
<p>In connection with its development, the Group carries out external growth operations and recognizes goodwill as an asset on its balance sheet.</p> <p>Goodwill is recorded on the consolidated balance sheet for 41.7 M€ at December 31, 2017. This goodwill was written down in full for 41.7 M€ in 2018. This impairment was recorded in "Other operating expenses".</p> <p>During each reporting period, management ensures that the book value of this goodwill is not higher than its recoverable value and does not involve any risk of impairments.</p> <p>The conditions for determining the impairment of goodwill at December 31, 2018 are presented in Note 10 to the consolidated financial statements.</p> <p>In view of the group's results, which highlight the difficulty of establishing reliable forecasts in the current environment and the deterioration in the group's outlook as announced, the group has written down goodwill in full at September 30, 2018. This position was confirmed with a valuation report from an independent third party concerning the group's shareholders' equity.</p> <p>A poor assessment of the outlook retained is likely to significantly affect the recoverable value of this goodwill.</p> <p>We consider that the value of the Drone goodwill represents a key audit point on account of (i) the significant amount of its impairment in the group's accounts at December 31, 2018, and (ii) the management team's estimates and assessments required to determine its recoverable value, as well as the assumptions and estimates retained by the independent third party in its valuation report.</p>	<p>We have analyzed the compliance of the company's methodology with the accounting standards in force.</p> <p>We analyzed the assumptions retained by management for the accounts at September 30, 2018 acknowledging the full impairment of the goodwill.</p> <p>We conducted sensitivity tests based on the outlook provided by management and we assessed the appropriate nature of the impairment.</p> <p>At December 31, 2018, we obtained the report on the valuation of the group's shareholders' equity prepared by an independent third party, confirming the group's position to write down the goodwill in full, and we:</p> <ul style="list-style-type: none"> ▶ assessed the competence and independence of this third party; ▶ assessed the valuation methodologies used by this independent third party; ▶ assessed the consistency of the estimates made by the independent third party with the amount retained for the impairment of goodwill; ▶ reviewed, based on samples, the consistency of the budget forecasts retained in the independent third party's report with those presented by the board of directors for 2019 and 2020 and those estimated by management for subsequent years. <p>We have assessed the appropriate nature of the financial information provided in Note 10 to the consolidated financial statements.</p> <p>Our work was carried out with our firms' valuation experts.</p>

■ Depreciation of inventories

Risk identified	Our response
<p>Inventories of finished products are recorded on the consolidated balance sheet at December 31, 2018 for a gross total of M€ 37,4 and a net total of M€ 19,4.</p> <p>As indicated in Note O to the consolidated financial statements, inventories are valued at the lower of their cost or their net realizable value. The net realizable value is the estimated net sales price for the subsequent period for each</p>	<p>Our work involved assessing the data and assumptions used by management to determine the provisions reducing inventories to their net realizable value.</p> <p>We have:</p> <ul style="list-style-type: none"> ▶ reviewed the procedures put in place to identify items whose realizable value would be lower than their weighted average unit cost;

distribution platform (EMEA, Americas, Asia) less the estimated costs required for carrying out the sale. More specifically, end-of-life products and returned or damaged products are written off in full. Products that are in a sellable condition are subject to statistical depreciation on a case-by-case basis in line with the slow-moving approach.

The success of the Group's products, particularly for consumer activities, depends on the Group's ability to offer innovative products that are aligned with consumers' expectations. The market's acceptance of new products is decisive for determining sales prices. If the Group's offering is not in line with market demands, there is a risk that the net realizable value for these products may be lower than their costs. An error with the assessment of the net realizable value of the products would lead to an error with the assessment of provisions for the depreciation of inventories.

We have therefore considered this to be a key audit point because the estimated net sales prices for the subsequent period mentioned above and the potential provisions resulting from this are inherently dependent on the Group's assumptions, estimates or assessments concerning the level of prices at which it will be able to clear its stock.

- ▶ took note of the procedures and controls put in place by the logistics provider to identify damaged items;
- ▶ analyzed the launch plans for new products;
- ▶ compared, based on samples, the cost of inventory items based on the net sales price applied, as well as the promotional sales price retained at the end of the season and the future sales price retained for the 2019 budget, approved by the board of directors on December 13, 2018, in order to assess the amount of the impairment;
- ▶ compared the methodology for calculating the slow turnover provision with the statistical method theoretically defined by the group;
- ▶ analyzed the outlook for clearing products estimated by management based on past performance and the budget to assess the consistency of the resulting amounts of impairments.

■ Evaluation of credit notes to be issued

Risk identified	Our response
<p>As indicated in Note F, revenues from the sale of goods are recorded when the significant risks and benefits inherent in ownership of the items have been transferred to the buyer.</p> <p>Provision for commercial returns</p> <p>At Group level, the risk of commercial returns is covered by provisions. These provisions for returns are calculated based on the returns reported by retailers, as well as the level of sales and historical data for returns. The estimation of these provisions also takes into consideration the market's specific features.</p> <p>Provision for margin guarantees</p> <p>Revenues are also affected by a provision for margin guarantees calculated per customer and per product range. This estimate covers the price differences observed between the catalogue prices and the discounted prices set up as part of previous or future promotional plans in order to protect retailer margins.</p> <p>Provisions for commercial returns and margin guarantees represent 3 M€ and 3.3 M€ respectively at December 31, 2018 and are recorded in assets to be issued ("Other liabilities") and as a deduction from revenue.</p>	<p>Our work involved assessing the data and assumptions used by management to determine the amount of credit notes to be issued linked to commercial returns and the margin guarantee policy.</p> <p>To assess the estimation of provisions for "commercial returns", we have:</p> <ul style="list-style-type: none"> ▶ analyzed the main commercial agreements and reviewed retailers' commercial practices with management ▶ reviewed the process to estimate requests for commercial returns by retailers and the estimation of credit notes already issued for these requests; ▶ analyzed the estimate of the return rate in relation to historical data; ▶ compared the historical level of sales used for calculating provisions with the monitoring of revenues; ▶ compared the actual returns in a subsequent period with the returns provisioned at the previous year-end in order to assess the consistency of provisions; ▶ assessed the accounting principles applied by the group for the recognition and classification of provisions for returns.

For the margin guarantee provisions, we have:

A poor assessment of provisions for commercial returns and margin guarantees would result in a poor assessment of the level of revenues.

We have therefore considered this as a key audit point because the use of judgement by the Group's management team to estimate these credit notes to be issued are complex faced with the diverse commercial agreements and practices, the prices at which the various products may be able to be sold off, and the determination of future promotional offers for each product range.

- ▶ reviewed the process for estimating retailer stock levels at year-end;
- ▶ analyzed the consistency of the estimated retailer stock levels at year-end with the confirmed retailer stock levels or sales team estimates;
- ▶ reviewed the process for estimating future prices per product, notably reviewing the promotional campaign plan defined by management and stock clearance operations to sell off products
- ▶ compared the promotional sales price retained for calculating the provisions for margin guarantees with the future sales price retained for the 2019 budget, approved by the Board of Directors on December 13, 2018;
- ▶ assessed the accounting principles applied by the group for the recognition and classification of provisions for margin guarantees.

■ Provisions for restructuring

Risk identified	Our response
<p>As indicated in Note 2 to the consolidated financial statements, the group announced a departures plan on November 23, 2018 in connection with the reorganization of the Drone business. This plan has been implemented with a view to reducing the resources used by the marketing and production structures to adjust them in line with current market capacity. It concerns around 100 people and is focused primarily on international operations, particularly in the US and Asia.</p> <p>Following its assessment of the future costs for this reorganization, the group recorded 8.5 M€ of provisions at December 31, 2018, corresponding primarily to the compensation, support measures and associated management costs, as well as the supplier commitments, as presented in Note 26 to the consolidated financial statements.</p> <p>We considered this to be a key point for the audit, taking into account the significant nature of the restructuring for the group.</p>	<p>To gain an understanding of the restructuring decided on by the group and the corresponding elements of judgment, we held discussions with the management teams of the group and the main subsidiaries, and we analyzed the procedures applied to identify all the risks and costs relating to the restructuring.</p> <p>In addition, we:</p> <ul style="list-style-type: none"> ▶ took note of the process applied by management to assess the corresponding provisions, determined the information to be provided as notes, and assessed the methodology for determining the amounts recorded as provisions; ▶ assessed the consistency of the risks identified with the announcement made to the employees of the entities concerned by the plan and our knowledge of the group; ▶ assessed the main assumptions retained, notably with reference to the underlying data used (contracts with third parties, staff concerned by the restructuring); ▶ checked the arithmetical accuracy of all the calculations; ▶ assessed the classification as other operating income and expenses, in line with accounting principles; ▶ assessed the relevance of the information provided in Note 26 to the consolidated financial statements concerning the restructuring.

Verification of disclosures concerning the Group in the management report

In accordance with the industry standards applicable in France, we have also verified the information given relating to the Group in the Board of Directors' management report, as required under French law.

We do not have any observations to make regarding the accuracy of this information or its application for the consolidated financial statements.

We certify that the consolidated sustainability performance declaration covered by Article L. 225-102-1 of the French commercial code is included in the information concerning the group given in the management report, while noting that, in accordance with Article L. 823-10 of this code, we have not verified the information contained in this declaration in terms of its accuracy or its consistency with the consolidated financial statements and it must be subject to a report from an independent third party.

Information resulting from other legal and regulatory requirements

■ Appointment of the statutory auditors

We were appointed as Parrot's statutory auditors at the general meeting on June 18, 1996, which acknowledged the merger-absorption on March 15, 1996 of the company François Kimmel – André Touati with KPMG and on June 6, 2012 for ERNST & YOUNG et Autres.

At December 31, 2018, KPMG was as a minimum in the 23rd year of its mission without interruption (including 13 years since the company's securities were admitted for trading on a regulated market), while ERNST & YOUNG et Autres was in its 7th year.

Responsibilities of management and corporate governance representatives in relation to the consolidated financial statements

Management is responsible for preparing consolidated financial statements that present a true and accurate image in accordance with IFRS, as adopted in the European Union, in addition to putting in place the internal control arrangements that it considers necessary to prepare the consolidated accounts without any material misstatements, whether these result from fraud or errors.

When preparing the consolidated financial statements, management has a responsibility to assess the company's capacity to continue operating, to present the information required relating to the continuity of operations in these accounts, if applicable, and to apply the accounting conventions for continuous operations unless there are plans to liquidate the company or cease its activities.

The audit committee has a responsibility to monitor the process for preparing financial information and to monitor the efficiency and effectiveness of the internal control and risk management systems, in addition to, if applicable, the internal audit arrangements, with regard to the procedures for the preparation and processing of accounting and financial information.

The consolidated financial statements have been approved by the Board of Directors.

Statutory auditors' responsibilities relating to the auditing of the consolidated financial statements

■ Audit approach and objective

It is our responsibility to prepare a report on the consolidated financial statements. Our objective is to obtain reasonable assurance that the consolidated financial statements in general are free from any material misstatements. Reasonable assurance corresponds to a high level of assurance, without however guaranteeing that an audit carried out in line with industry standards might make it possible to systematically detect any material misstatements. Misstatements may be the result of fraud or errors and are considered to be material when they can reasonably be expected, taken individually or collectively, to potentially influence the economic decisions taken by users of the accounts based on them.

As indicated in Article L. 823-10-1 of the French commercial code, our mission to certify the accounts does not involve guaranteeing the viability or quality of your company's management.

Based on an audit carried out in accordance with the industry standards applicable in France, the statutory auditors exercise their professional judgement throughout this audit. In addition:

- They identify and assess the risks that the consolidated financial statements include material misstatements, that these are the result of fraud or errors, define and put in place audit procedures faced with these risks, and collect the elements that they consider sufficient and appropriate to form a basis for their opinion. The risk of a material misstatement resulting from fraud

not being detected is higher than for a material misstatement resulting from an error, because fraud may imply collusion, falsification, voluntary omissions, misrepresentation or a bypassing of internal control arrangements;

- ▶ They review the relevant internal control arrangements for the audit in order to define audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- ▶ They assess the appropriate nature of the accounting methods applied and the reasonable nature of any accounting estimates made by management, in addition to the information concerning them provided in the consolidated financial statements;
- ▶ They assess the management team's appropriate application of the accounting convention for continuous operations and, depending on the elements collected, whether or not there is any significant uncertainty relating to events or circumstances that might call into question the company's capacity to continue operating. This assessment is based on the elements collected up until the date of their report, while noting however that subsequent circumstances or events might call into question the continuity of operations. If they conclude that there is any significant uncertainty, they draw the attention of readers of their report to the information provided in the consolidated financial statements relating to this uncertainty or, if this information is not provided or is not relevant, they issue their certification with reservations or refuse to certify the accounts;
- ▶ They assess the overall presentation of the consolidated financial statements and evaluate whether the consolidated financial statements accurately reflect the underlying events and operations;
- ▶ With regard to the financial information for parties or entities included in the basis for consolidation, they collect the elements that they consider sufficient and appropriate to express an opinion on the consolidated accounts. They are responsible for the management, supervision and performance of the audit of the consolidated financial statements, as well as the opinion expressed concerning these accounts.

■ **Report for the audit committee**

We provide a report to the audit committee which notably presents the scope of the audit work and the program of work carried out, as well as the conclusions based on our work. If applicable, we also bring to the committee's attention any significant shortcomings with internal control that we have identified with the procedures applied for the preparation and processing of accounting and financial information.

The elements provided in the report for the audit committee include the risks of material misstatements which we considered to be most significant for the audit of the consolidated financial statements and which therefore constitute the key points from the audit, which it is our responsibility to present in this report.

We also provide the audit committee with the declaration required under Article 6 of EU Regulation 537-2014 confirming our independence, in accordance with the rules applicable in France as notably set by Articles L. 822-10 to L. 822-14 of the French commercial code and in the professional code of conduct for statutory auditors. If applicable, we conduct discussions with the audit committee to review the risks concerning our independence and any safeguard measures adopted.

Paris-La Défense, April 27, 2019

The statutory auditors

KPMG Audit IS

ERNST & YOUNG et Autres

Nicolas Piofret

Pierre Bourgeois

II. Parrot SA 2018 Annual financial statements

2.1. Parrot SA Balance sheet

SECTIONS	GROSS	Depreciation and provisions	Net Dec 31, 2018	Net Dec 31, 2017
INTANGIBLE ASSETS				
Research and development costs	-	-	-	-
Concessions, patents and related	3 145 368	3 112 509	32 859	121 715
Goodwill	7 622	-	7 622	7 622
Other intangible assets	1 296 280	1 283 208	13 072	38 623
Intangible assets under construction	7 760	-	7 760	-
TOTAL intangible assets	4 457 030	4 395 717	61 313	167 961
PROPERTY, PLANT AND EQUIPMENT				
Technical facilities, plant and equipment	-	-	-	-
Other property, plant and equipment	9 028 618	8 265 454	763 164	1 005 889
Fixed assets under construction	-	-	-	-
TOTAL property, plant and equipment	9 028 618	8 265 454	763 164	1 005 889
LONG-TERM FINANCIAL INVESTMENTS				
Equity securities	192 427 363	189 818 874	2 608 490	101 901 226
Equity interest-related receivables	46 981 979	46 981 979	-	48 432 051
Other long-term financial investments	1 628 251	789 598	838 653	3 002 242
TOTAL long-term financial investments	241 037 593	237 590 451	3 447 143	153 335 520
FIXED ASSETS	254 523 240	250 251 621	4 271 619	154 509 370
INVENTORIES AND WORK-IN-PROGRESS				
Inventories of raw materials	-	-	-	-
Inventories of intermediate and finished products	-	-	-	-
TOTAL inventories and work – in-progress	-	-	-	-
RECEIVABLES				
Advances and deposits paid on orders	2 851	-	2 851	5 021
Trade receivables and related	7 787 420	-	7 787 420	5 462 384
Other receivables	149 452 681	139 934 582	9 518 099	121 541 229
TOTAL receivables	157 242 952	139 934 582	17 308 370	127 008 634
CASH AND CASH EQUIVALENTS				
Marketable securities	42 885 652	63 746	42 821 906	55 932 630
Cash at bank and in hand	81 342 807	-	81 342 807	21 169 588
Prepaid expenses	144 699	-	144 699	615 379
TOTAL cash and cash equivalents	124 373 159	63 746	124 309 413	77 717 597
CURRENT ASSETS	281 616 111	139 998 328	141 617 782	204 726 231
Deferred expenses over several years	-	-	-	-
Bond redemption premiums	-	-	-	-
Translation gains	7 058 600	-	7 058 600	14 291 865
GENERAL TOTAL	543 197 951	390 249 949	152 948 001	373 527 465

BALANCE SHEET: LIABILITIES

SECTIONS	Net Dec 31, 2018	Net Dec 31, 2017
NET POSITION		
Share or individual capital, of which 4,599,258 paid	4 599 258	4 599 258
Issue, merger, contribution premiums	331 677 756	331 677 756
Revaluation differences	-	-
Legal reserve	203 512	203 512
Statutory or contractual reserves	-	-
Regulated reserves	-	-
Other reserves	-	-
Retained earnings	-31 632 980	7 528 879
Earnings for the year	-195 843 850	-39 161 859
Investment subsidies	-	-
SHAREHOLDERS' EQUITY	109 003 696	304 847 546
Income from issues of equity securities	-	-
Conditional advances	-	-
OTHER EQUITY	-	-
Provisions for contingencies	36 120 318	17 434 352
Provisions for liabilities	801 000	183 000
PROVISIONS FOR CONTINGENCIES AND LIABILITIES	36 921 318	17 617 352
FINANCIAL LIABILITIES		
Convertibles bonds	-	41 021 315
Other bonds	-	-
Bank borrowings and debt	-	615 320
Sundry borrowings and financial debt	-	1 513
TOTAL FINANCIAL LIABILITIES	-	41 638 147
ADVANCES AND DEPOSIT RECEIVED ON CURRENT ORDERS	-	-
SUNDRY LIABILITIES		
Trade payables and related	2 404 980	3 253 607
Tax and social security liabilities	2 264 339	2 433 759
Fixed asset payables and related	-	-
Other liabilities	2 350 185	3 674 547
TOTAL SUNDRY LIABILITIES	7 019 503	9 361 913
PREPAID INCOME	-	-
LIABILITIES	7 019 503	51 000 060
Translation losses	3 484	62 506
GENERAL TOTAL	152 948 001	373 527 465

2.2. Parrot SA Income statement

INCOME STATEMENT- Section 1

SECTIONS	France	Export	Dec 31, 2018	Dec 31, 2017
Sales of goods	-	-	-	-
Production sold: goods	-	-	-	-
Production sold: services	14 376 727	308 495	14 685 221	14 640 237
NET REVENUES	14 376 727	308 495	14 685 221	14 640 237
Stored production			-	-
Capitalized production			-	-
Operating subsidies			-	-
Reversal of depreciation and provisions, transferred expenses			1 508 087	1 277 552
Other income			2 622 186	3 514 165
OPERATING INCOME			18 815 494	19 431 954
EXTERNAL EXPENSES				
Purchases of goods			-	-
Change in inventories of goods			-	-
Purchases of raw materials and other supplies			-	-
Change in inventories (raw materials and suppliers)			-	-
Other purchases and external expenses			8 858 699	11 212 105
TOTAL EXTERNAL EXPENSES			8 858 699	11 212 105
TAX AND RELATED			439 497	685 827
STAFF COSTS				
Salaries and wages			7 137 394	5 660 489
Payroll taxes			1 817 418	1 675 566
TOTAL STAFF COSTS			8 954 812	7 336 054
OPERATING PROVISIONS				
Provisions for depreciation on fixed assets			773 595	1 177 260
Provisions on fixed assets			-	-
Provisions on current assets			-	-
Provisions for contingencies and liabilities			201 000	-
TOTAL OPERATING PROVISIONS			974 595	1 177 260
OTHER OPERATING EXPENSES			268 746	252 205
OPERATING EXPENSES			19 496 349	20 663 452
EBIT			-680 855	-1 231 498

INCOME STATEMENT- Section 2

SECTIONS	Dec 31, 2018	Dec 31, 2017
EBIT	-680 855	-1 231 498
Profit allocated or loss transferred		
Loss incurred or profit transferred		
Financial income from equity interests	-	8 669 425
Income from other marketable securities and fixed asset receivables	-	-
Other interest and related income	378 453	474 539
Reversal of provisions and transferred financial expenses	19 770 933	81 543 902
Foreign exchange gains	1 345 244	490 679
Net income from disposal of marketable securities	157 951	526 159
FINANCIAL INCOME	21 652 581	91 704 704
Financial depreciation and provisions	286 894 345	124 270 801
Interest and related expenses	769 202	1 024 812
Foreign exchange losses	257 497	2 617 146
Net expenses on sale of marketable securities	142 012	130 264
FINANCIAL EXPENSES	288 063 056	128 043 023
FINANCIAL INCOME / EXPENSE	-266 410 475	-36 338 319
INCOME FROM ORDINARY OPERATIONS BEFORE TAX	-267 091 330	-37 569 817
Non-recurring income on management transactions	-	468 061
Non-recurring income from previous year	-	-
Non-recurring income on capital transactions	108 532 190	990
Reversal of provisions and transferred non-recurring expenses	2 480 747	1 557 286
NON-RECURRING EXPENSES	111 012 937	2 026 337
Non-recurring expenses on management transactions	1 205 316	1 584 253
Non-recurring expenses on capital transactions	37 551 141	1 558 648
Non-recurring depreciation and provisions	1 009 000	475 477
NON-RECURRING EXPENSES	39 765 457	3 618 378
NON-RECURRING INCOME / EXPENSE	71 247 480	-1 592 041
Employee profit-sharing	-	-
Corporate income tax	-	-
TOTAL INCOME	151 481 012	113 162 995
TOTAL EXPENSES	347 324 862	152 324 854
PROFIT OR LOSS	-195 843 850	-39 161 859

2.3. Notes to Parrot SA's financial statements

The appended financial statements present the operations of Parrot SA.

Its registered office is located at 174 quai de Jemmapes, 75010 Paris, France.

These notes are intended to supplement and comment on the information provided by the balance sheet and income statement for the financial year from January 1, 2018 to December 31, 2018, with the overall disclosures providing an accurate picture of the company's assets, liabilities, financial position and earnings at the end of this financial year.

Unless indicated otherwise, the financial statements are presented in euros.

The financial statements for the year ended December 31, 2018 were approved by the Board of Directors on March 13, 2019.

2.3.1. Main events over the year

■ Parrot Faurecia agreement

In accordance with the agreement between Parrot SA and Faurecia announced on July 5, 2018, Parrot completed its full exit on September 30, 2018 from its subsidiary Parrot Faurecia Automotive, which was previously 80% owned by Parrot and 20% by Faurecia.

At the time of this exit, Parrot received 67.5 M€, taking the total proceeds from this operation up to 108.5 M€, taking into account the 41 M€ from the conversion of the bonds issued by Parrot SA in 2017 for Faurecia. The conversion took place at the same time as the exit.

Parrot Faurecia Automotive will continue to benefit from the "Parrot" brand license until the end of the agreed timeframe, i.e. end-2021, in return for royalties based on Parrot Faurecia Automotive's revenues.

■ Shmates sale

The company Parrot Shmates, 80%-owned by Parrot SA, was sold to Horizon SAS based on the nominal value of its securities, i.e. €8,000, following the Board of Directors' approval on May 17, 2018. Horizon also repaid Parrot for the full amount held in the partner current account for Shmates for 2.7 M€.

■ Public tender offer

On November 27, 2018, the company Horizon S.A.S. (the Offeror) announced its intention to submit a public tender offer (the Offer) for the Company's securities to the French financial markets authority (AMF).

The Offeror is the Company's controlling shareholder and the Offeror is controlled by Mr Henri Seydoux, the Company's Chairman, CEO and founder.

This Offer follows the Offeror's acquisition of all the shares held by funds managed by the company Amiral Gestion, i.e. 2,893,294 Shares representing 9.59% of the Company's capital and voting rights at a price of €3.20 per share (the Acquisition of the Block). As a result of the Acquisition of the Block, the Offeror's interest was increased from 10,893,751 Shares representing 36.10% of the Company's capital and voting rights to 13,787,045 Shares representing 45.69% of the Company's capital and voting rights. Since the Offeror, which held between 30% and 50% of the Company's capital and voting rights before the Acquisition of the Block, has increased its interest by at least 1% of the Company's capital and voting rights in less than twelve consecutive months as a result of the Acquisition of the Block, the Offer is compulsory under the terms of Article L.433-3, I of the French monetary and financial code (Code monétaire et financier) and Article 234-5 of the AMF's general regulations.

The Offer concerns all the Company shares and all the warrants not already held directly or indirectly by the Offeror.

The Offeror does not intend to ask the AMF, in connection with the Offer, to apply a squeeze-out for the Company shares and warrants, or to ask Euronext to delist the Company shares and warrants from the regulated market Euronext.

The Offer is being carried out based on the standard procedure, in accordance with the terms of Articles 232-1 *et seq* of the AMF's general regulations, and is subject to the minimum acceptance threshold set by Article 231-9 I of the AMF's general regulations.

The AMF issued its opinion concerning the Offer's compliance on March 5, 2019. Following the initial Offer period, from March 7 to April 10, 2019, Horizon held, on the Offer's settlement-delivery date of April 16, 2019:

- 17,277,158 Parrot shares representing the same number of voting rights, i.e. 57.26% of Parrot's capital and voting rights,
- 14,927,810 Class 1 Parrot warrants (the "Class 1 Warrants"),
- 15,079,114 Class 2 Parrot warrants (the "Class 2 Warrants").

As a result, the public tender offer for the PARROT securities will be reopened from April 23 to May 7, 2019 inclusive, in accordance with Article 232-4 of the general regulations.

On the date of this Reference Document, the Offer is underway and the detailed information relating to it is available on corporate.parrot.com, under "Public tender offer".

■ Reorganization of the Drone business

The Group announced a plan for departures at the end of November 2018; it has been implemented with a view to reducing the resources used by the marketing and production structures, in line with current market capacity. This plan concerns around 100 people, and primarily the international subsidiaries, particularly in the US and China, as well as the main French subsidiary Parrot Drones.

The total costs incurred by the Parrot Group in connection with the reorganization represent nearly 8.3 M€ at December 31, 2018, with 4.2 M€ of this total concerning staff.

2.3.2. Post-balance sheet events

See "Public tender offer" above.

2.3.3. Accounting methods and rules

The financial statements for the year ended December 31, 2018 have been prepared and presented in accordance with French accounting principles and rules (French general chart of accounts), including the French accounting standards board's (Comité de règlementations comptable) new accounting rules.

They are presented in accordance with the French general chart of accounts (Plan comptable général), approved by French accounting standards board (ANC) Regulation 2014-03, in addition to the subsequent regulations (2015-06 and 2016-07) amending certain articles.

Generally accepted accounting principles have been applied in accordance with the fundamental accounting principles and core assumptions:

- Continuous operations,
- Consistent accounting methods from one year to the next,
- Independent financial years.

And in accordance with the general rules applicable for drawing up and presenting annual financial statements.

The main methods used are presented hereafter:

2.3.3.1. Intangible assets

Fully-owned software and user rights are capitalized and depreciated on a straight-line basis over their useful life, i.e.:

- Patents, licenses, brands 1 to 3 years
- Software 1 to 3 years

2.3.3.2. Property, plant and equipment

Property, plant and equipment are recorded under assets on the balance sheet at their historical cost.

Subsequent expenditure (spending to replace assets and ensure their compliance) is capitalized and depreciated over the remaining useful life for the corresponding fixed asset. Regular upkeep and maintenance costs are booked as expenses when they are incurred.

Depreciation is calculated on a straight-line basis in view of the estimated useful life of the various categories of fixed assets. It is calculated based on the acquisition price less any residual value.

Fixed assets are depreciated based on their useful life as follows:

- | | |
|--|---------------|
| • Fixtures and fittings and technical facilities | 3 to 10 years |
| • Plant and equipment | 3 years |
| • Office equipment and IT | 2 to 3 years |
| • Transport equipment | 3 years |
| • Furniture | |

Capital gains or losses are the result of differences between the sales price and the net book value of assets sold.

2.3.3.3. Long-term financial investments, related receivables and partner current accounts

Equity securities are recognized based on the following approach:

- For Parrot Drones S.A.S. based on the value of the net assets transferred through the partial transfers;
- For the other subsidiaries based on their acquisition cost, which comprises their purchase cost and related expenses.

These values have been increased by the amount of the subsequent capital increases.

If the inventory value of equity securities and receivables relating to equity interests and current accounts is lower than their book value, a provision for impairment is recorded.

The inventory value corresponds to the value in use of securities. The value in use is assessed, depending on the investments concerned, based on the portion of shareholders' equity held or the future prospects.

On each reporting date, they are depreciated based on their value in use when their net book value is higher than their value in use.

The value in use of securities and related receivables and current accounts is estimated, depending on the securities concerned, based on the value of their portion of shareholders' equity held or their future prospects.

If this is less than the net book value, an impairment is recognized such that the equity securities and related receivables cannot be recorded on the balance sheet for more than their present value.

For securities measured based on their portion of shareholders' equity, a provision for financial risks is recorded if the company is committed to covering a subsidiary's losses in addition to its financing.

2.3.3.4. Receivables

Trade receivables are subject to a provision for depreciation, estimated in line with the risk of non-collection based on a case-by-case analysis and taking any credit insurance facilities into consideration.

2.3.3.5. Foreign currency transactions

Transactions in foreign currencies are converted into euros based on the exchange rate in force on the date of the transaction. Assets and liabilities denominated in foreign currencies on the closing date are converted at the exchange rate in force on the closing date. Any exchange differences resulting from such operations are recorded under translation gains for unrealized exchange losses and translation liabilities for unrealized exchange gains. A provision for contingencies and liabilities is booked for translation gains.

Under ANC Regulation 2015-05 §3.1.3, foreign currency translation differences linked to trade receivables and payables are recorded in the accounts under other expenses or other operating income. A provision for foreign exchange losses must be recorded in operating provisions if this concerns a commercial operation.

2.3.3.6. Cash and cash equivalents and marketable securities

Cash and cash equivalents comprise cash in hand and demand deposits.

Marketable securities are valued at their acquisition cost. When the inventory value is lower than the gross value, a provision for depreciation is recorded for the amount of any difference.

2.3.3.7. Provisions for contingencies and liabilities

A provision is recorded on the balance sheet when the Group has a current legal or implied legal obligation resulting from a past event and when it is likely that an outflow of resources representative of economic benefits will be necessary in order to fulfill the obligation.

Provisions for bonus shares awarded:

Bonus shares are only definitively vested after the end of a two-year period and provided that beneficiaries are still employed by the Parrot Group on this date. The fair value retained for bonus shares is the Parrot stock price on the day they are awarded to staff as decided by the Appointments and Compensation Committee.

A provision for bonus shares awarded is booked in line with a depreciation schedule spread over two from the allocation date decided on by the Board of Directors.

Provisions for restructuring

Parrot SA has recorded 1,020 K€ of provisions for liabilities in connection with the restructuring, which correspond primarily to the compensation, support measures and associated management costs.

Provisions for retirement benefits

Provisions for retirement benefits are recorded in the corporate accounts, with commitments valued in line with the national wage bargaining agreement for the metalworking industry, based on the following assumptions:

- | | |
|--|----------|
| • Retirement age for executive status staff: | 65 years |
| • Retirement age for non-executives: | 63 years |
| • Rate of wage growth: | 3% |
| • Discount rate: | 2% |
| • Payroll tax rate: | 45% |

The provision came to 201K€ at December 31, 2017, compared with 183 K€ in 2017.

2.3.3.8. Revenues

Management fee income comes from billing for the Group's shared expenses, common to Parrot SA and its French subsidiaries, covered by Parrot S.A.:

- IT services
- Multi-service support
- Rent – exclusively for the subsidiaries sharing their premises with Parrot SA
- Other expenses

The transfer pricing agreement is based on a “cost plus 5%” approach, except for the transfer costing of rent, facilities management services and bonus shares.

Other income primarily concerns transfer costing for brand royalties for 2 622 K€.

2.3.3.9. Related-party transactions

Transactions carried out with related parties have been subject to an analysis making it possible to conclude that they are consistent with normal market operations.

During the first half of 2018, and after the decision was approved by the Board of Directors on May 17, 2018, the Group sold the securities it held in Shmates to Horizon S.A.S.

At June 30, 2018, 80% of Shmates' share capital was sold to a related party - Horizon SAS - based on the nominal value of the securities.

At the same time, Horizon S.A.S. repaid Parrot S.A. for the full amount of the partner current account held in relation to Shmates. An earnout will be paid after four years if two combined criteria for revenue and EBIT targets are respected by 2022.

The proceeds from this sale represent 2.1 M€.

2.3.3.10. Taxation

During the year, the company recorded a tax loss at the common law rate, with no corporate income tax recorded.

The Company has opted for the tax consolidation system within the Parrot Group, based on the agreement signed on April 21, 2015.

Airinov, whose capital is indirectly 100% owned by Parrot SA, has given its approval to the tax consolidated group of Parrot SA since January 1, 2018.

As recommended by the French accounting standards board (ANC), the income corresponding to the tax credit promoting competitiveness and employment (CICE) has been credited to the "Staff costs - CICE" account.

The income from this tax credit aims to improve competitiveness, particularly through initiatives focused on investment, innovation, research, training, recruitment and prospecting for new markets. The amount recorded in the accounts for the year represents 41K€.

2.3.4. Assets

2.3.4.1. Fixed assets

	Gross value at year-start	Acquisitions, mergers, creations, transfers	Reduction through disposals and retirements	Transfers	Gross value at year-end
SECTIONS					
INTANGIBLE ASSETS					
Patents and related rights	3 145 368	-	-	-	3 145 368
Goodwill	7 622	-	-	-	7 622
Other intangible assets	1 286 765	9 514	-	-	1 296 280
Intangible assets under construction	-	7 760	-	-	7 760
Total intangible assets	4 439 756	17 274	-	-	4 457 030
PROPERTY, PLANT AND EQUIPMENT					
Technical facilities, plant and equipment	-	-	-	-	-
Other property, plant and equipment	5 946 465	68 135	-	-	6 014 600
Transport equipment	-	-	-	-	-
Office equipment and furniture	2 675 298	341 687	-2 968	-	3 014 017
Fixed assets under construction	-	-	-	-	-
Total property, plant and equipment	8 621 763	409 822	-2 968	-	9 028 617
LONG-TERM FINANCIAL INVESTMENTS					
Equity securities	227 959 776	-	-35 532 413	-	192 427 363

PARROT

Equity interest-related receivables	48 432 051	-	-1 450 072	-	46 981 979
Other long-term financial investments	3 002 242	1 070 930	-2 444 921	-	1 628 251
Total long-term financial investments	279 394 069	1 070 930	-39 427 406	-	241 037 593
General total	292 455 588	1 498 026	-39 430 374	-	254 523 240

2.3.4.2. Depreciation and amortization

SECTIONS	Value at year-start	Provisions	Reversals	Value at year-end	Straight-line
INTANGIBLE ASSETS					
Concessions, patents and related rights	3 023 652	88 857	-	3 112 508	88 857
Goodwill	-	-	-	-	-
Other intangible assets	1 248 142	35 066	-	1 283 208	35 066
Total intangible assets	4 271 794	123 922	-	4 395 716	123 922
PROPERTY, PLANT AND EQUIPMENT					
Technical facilities, plant and equipment	-	-	-	-	-
Other property, plant and equipment	5 491 678	234 229	-	5 725 907	234 229
Transport equipment	-	-	-	-	-
Office equipment and furniture	2 124 196	415 444	- 93	2 539 548	415 444
Fixed assets under construction	-	-	-	-	-
Total property, plant and equipment	7 615 874	649 673	- 93	8 265 454	649 673
LONG-TERM FINANCIAL INVESTMENTS					
Equity securities	126 058 550	63 784 824	24 500	189 818 874	-
Equity interest-related receivables	-	46 981 979	-	46 981 979	-
Other long-term financial investments	-	789 598	-	789 598	-
Total long-term financial investments	126 058 550	111 556 401	24 500	237 590 451	-
General total	137 946 218	112 329 996	24 407	250 251 621	773 595

The provisions for the impairment of Parrot Drones securities represented 105 M€ at the start of the year; they were subject to a further 64 M€ impairment in the accounts in 2018, with the securities written down in full for a total of 169 M€.

In addition, we recorded a provision for the impairment of receivables relating to Parrot Drones' equity interests for 47 M€, as well as an impairment of current accounts for 140 M€ and 25 M€ of provisions for liabilities.

During the year, the treasury shares being allocated were written down for 790 K€ for a total of 79,771 securities.

The sale of the subsidiary Parrot Shmates involves the reversal in full of the writedown of securities for €24,500. The provisions on the current account advance for 1.9 M€ were also reversed in full.

2.3.4.3. Subsidiaries and equity interests

See table next page.

Subsidiaries and equity interests Parrot SA SIREN 394 149 496	Capital	Shareholders' equity excl. Earnings for year	Capital stake %	Net book value of securities		Loans and advances			Revenues	Earnings	Dividends received
				Detailed information concerning subsidiaries and equity interests in euros							
				Gross	Provisions	Net	Gross	Provisions			
CHEZ PARROT	10 000	- 168 136	100%	771 050	771 050	-			423 913	- 314 520	
PARROT GmbH (Germany)	25 000	1 218 405	100%	25 000		25 000	554		1 181 735	82 608	
PARROT SRL (Italy)	10 000	483 753	100%	10 000		10 000	320 513		747 832	- 72 383	
PARROT UK Ltd (UK)	112	1 389 336	100%	145		145			1 087 330	- 354 547	
PARROT IBERIA (Inpro)	63 036	2 611 572	100%	22 996 160	20 510 000	2 486 160			647 239	122 881	
PARROT JAPAN (KK)	79 460	281 642	100%	77 950		77 950			309 176	40 465	
PARROT AUSTRALIA	6 165	457 925	100%	8 236		8 236			604 982	73 319	
PARROT DRONES	60 627 824	- 48 691 888	100%	168 537 824	168 537 824	-	186 916 561**	186 916 561	51 789 259	- 93 067 011	
PARROT INVEST 4	1 000	- 363	100%	1 000		1 000	3 868		-	- 744	
total				192 427 365	189 818 874	2 608 491	187 241 496	186 916 561	56 791 466	- 93 489 932	-

** Under loans and advances, the amount of 187 M€ includes 47 M€ of receivables attached to equity interests and 140 M€ of current account receivables.

PARROT

The securities and the loans and advances net of the current account for Parrot Drones were written down in full during the year.

The provisions for the impairment of Parrot Shmates securities were reversed in full for 25 K€ after the securities were removed from Parrot SA's accounts.

During 2018, Parrot SA did not receive any dividends from its subsidiaries.

The figures from the various subsidiaries are expressed in foreign currencies and converted into euros using the year-end exchange rate, with the exception of income and expenses, which are converted into euros based on an average rate for the year.

2.3.4.4. Change in marketable securities

	Number	Unit price	Unrealized gain/loss	Total
CIC Tempo 3 mois à préavis	2	12 500 000	1 354	25 000 000
CIC Tempo 3 mois à préavis	1	10 000 000	542	10 000 000
LCL CAT Trésorerie Libre	1	1 026 341	64	1 026 341
SG Monétaire plus	1	37 168	4 872	37 168
Sub-total: Investments			6 832	36 063 509

	Number	Buyback value	Depreciation	Net value
Treasury shares allocated	482 350	6 609 400	-	6 609 400
Treasury shared to be allocated	6 824	85 706	- 63 746	21 960
Treasury shares to be cancelled	43 234	127 037		127 037
Sub-total: Treasury shares		532 408	6 822 143	- 63 746
				6 758 397

Transaction date	Quantity	Capital gains	Acquisition/ sale price
Nb of securities 31/12/17	14 909		131 435
Purchases in year N	394 837		2 157 193
Sales in year N	366 512		2 161 591
Sub-total: Liquidity agreement		43 234	127 037
TOTAL marketable securities			42 821 906

2.3.4.5. Share buyback program

	Remaining shares at 31/12/17	Value €	Shares cancelled in 2018	Value €	Shares awarded served in 2018	Value €	Shares bought back	Value €	Shares awarded unserved	Shares remaining	Shares to be cancelled in 2018	Value €
Share buyback program n° 6	2 200	40 098	- 736	- 13 415						1 464		26 684
Share buyback program n° 10	42 473	767 209								42 473		767 209
Share buyback program n° 11	75 270	1 200 120								75 270		1 200 120
Share buyback program n° 12	149 700	2 267 483			-111 472	-1 688 449				38 228	17 171	579 034
Share buyback program n° 13	436 510	5 482 361			- 25 000	- 313 988				411 510	62 600	5 168 373
TOTAL	706 153	9 757 271	- 736	- 13 415	-136 472	-2 002 437	-	-	-	568 945	79 771	7 741 420

2.3.4.5.1. Liquidity agreement

Transaction date	Quantity	Acquisition/sale price
Nb of securities at 31/12/17	14 909	131 435
Purchases in year N	394 837	2 157 193
Sales in year N	366 512	2 161 591
Nb of securities at 31/12/18	43 234	127 037

2.3.4.6. Accounts receivable

AMOUNT OF ACCRUED RECEIVABLES INCLUDED IN THE FOLLOWING BALANCE SHEET ITEMS	Amount
Long-term financial investments	-
Equity interest-related receivables	
Other long-term financial investments	
Receivables	6 545 949
Trade receivables and related	2 840 675
Staff and social organizations	
State	2 017 633
Sundry receivables and other receivables	1 687 641
Marketable securities	-
Cash and cash equivalents	-
Accrued interest receivable	
TOTAL	6 545 949

2.3.4.7. Prepaid expenses and income

	Expenses	Income
Operating income or expenses	144 699	-
Financial income or expenses		
Non-recurring income or expenses		
TOTAL	144 699	-

2.3.5. Liabilities
2.3.5.1. Change in shareholders' equity

	N-1	Change	N
Capital	4 599 258	-	4 599 258
Issue premium	331 677 756	-	331 677 756
Legal reserve	203 512		203 512
Retained earnings	7 528 879	- 39 161 859	- 31 632 980
N-1 earnings	- 39 161 859	39 161 859	-
N earnings	-	- 195 843 850	- 195 843 850
TOTAL	304 847 546	-195 843 850	109 003 696

The changes in shareholders' equity during 2018 reflect the allocation of the loss for the year ended December 31, 2017 to retained earnings and recognition of earnings 2018.

Share capital

	NUMBER	Par value in €
1- Shares or rights comprising the capital at year-start	30 174 671	0,1524
2-Shares or rights issued during the year	-	0,1524
3-Shares or rights cancelled during the year	-	0,1524
4-Shares or rights comprising the capital at year-end	30 174 671	0,1524

2.3.5.2. Stock options and bonus shares

STOCK OPTIONS						
Board of Directors decision date	Situation at end 2017	Quantity exercised in 2018	Quantity expired in 2018	New schemes in 2018	Situation at end 2018	Exercise limit date
BM 10/02/11	-				-	Feb 9, 16
BM 12/05/11	-				-	May 11, 16
BM 28/07/11	4 318		- 4 318		-	Jul 27, 18
BM 10/11/11	68 092		- 44 494		23 598	Nov 9, 18
BM 15/02/12	249 670		- 91 766		157 904	Feb 14, 17
BM 12/05/12	24 178		- 18 708		5 470	May 9, 17
BM 10/11/12	31 086		- 26 769		4 317	Nov 15, 17
BM 20/02/13	8 635		- 4 318		4 317	Feb 19, 18
BM 15/05/13	23 027		- 11 515		11 512	May 14, 18
	409 006		- 201 888		- 207 118	

BONUS SHARES						
Board of Directors decision date	Situation at end 2017	Quantity exercised in 2018	Quantity expired in 2018	New schemes in 2018	Situation at end 2018	Exercise limit date
BM 01/08/13	-				-	July 31, 16
BM 15/11/13	-				-	Nov 14, 16
BM 15/01/14	-				-	Jan 14, 17
BM 01/03/14	-				-	Feb 28, 17
BM 01/10/14	-				-	Sep 30, 17
BM 01/03/15	20 869	-20 869			-	Feb 28, 18
BM 20/11/15	91 524	-85 914	-5 610		-	Nov 9, 19
BM 01/05/16	19 200	-4 689	-6 311		8 200	Apr 30, 19
BM 13/05/17	25 000	-25 000			-	May 13, 18
BM 24/05/17	215 750		-37 100		178 650	May 13, 19
BM 27/07/17	20 750		-2 750		18 000	July 27, 19
BM 09/11/17	14 500		-1 000		13 500	Nov 9, 19
BM 14/03/18			-27 000	247 500	220 500	Mar 30, 20
BM 24/05/18				16 500	16 500	May 24, 20
BM 31/07/18				27 000	27 000	Jul 31, 20
	407 593	- 136 472	- 79 771	291 000	482 350	

2.3.5.3. Provisions

Provisions	At year-start	Increase	Reversal of provisions used	Reversal of provisions unused	At year-end
For supplier commitments	-				-
For customer warranties	-				-
For commercial disputes	160 000			160 000	-
For exchange rate loss	14 291 865	7 058 600	-	14 291 865	7 058 600
For depreciation schedule on shares distributed	-				-
For depreciation schedule on shares distributed (unqualified)	295 397		295 397		-
For depreciation schedule on Macron Act shares	2 043 478	2 919 881	1 265 889	584 604	3 112 866
For financial risks for Chez Parrot	168 135	314 520			482 655
For financial risks for Parrot Shmates	-				-
Provision for financial risks Parrot Drones	-	25 046 615			25 046 615
Provision for retirement benefits	183 000	18 000			201 000
Provision for restructuration	475 477	1 009 000	464 895		1 019 582
For tax	-				-
PROVISIONS FOR CONTINGENCIES AND LIABILITIES	17 617 351	36 366 616	2 026 181	15 036 469	36 921 318
For intangible assets	-				-
For property, plant and equipment	-				-
For fixed assets: equity-consolidated securities	-				-
For equity securities	126 058 550	63 784 824		24 500	189 818 874
For other long-term financial investments	-	47 771 577			47 771 577
For current accounts	1 951 115	139 934 582		1 951 115	139 934 582
For inventories and work-in-progress	-				-
For trade receivables	-				-
For impairment of marketable securities	583 571	63 746		583 571	63 746
For impairment of Varioptic goodwill	-				-

PROVISIONS FOR DEPRECIATION	128 593 236	251 554 729	-	2 559 186	377 588 779
GENERAL TOTAL	146 210 587	287 921 345	2 026 181	17 595 655	414 510 097

2.3.5.4. Financial liabilities

FINANCIAL LIABILITIES	Dec 31, 2018	Dec 31, 2017
Convertible bonds	-	41 021 315
Borrowings and debt with credit institutions	-	-
Accrued interest payable	-	615 320
Cash pooling: Group advance / borrowings	-	1 513
GENERAL TOTAL	-	41 638 147

On February 28, 2017, Parrot SA issued 13,319,906 bonds with a nominal value of €3.0797, representing a total of 41 M€.

These bonds were due to mature on December 31, 2021, based on interest with a margin of 200 basis points over the 3-month Euribor quarterly rate (minimum rate of 0%).

Following the early exit from Parrot Faurecia Automotive, the bonds issued for Faurecia were converted on the same date as the sale of the Parrot Faurecia securities.

Cash pooling: Group advance / borrowings:

Lastly, the cash pooling system which has also been rolled out in order to optimize cash management within the Group, lending funds to or borrowing funds from subsidiaries as required, has made it possible to reduce the rate risks, repatriate surplus cash from certain subsidiaries and optimize the investment of free cash flow.

2.3.5.5. Accrued expenses

ACCRUED EXPENSES INCLUDED IN BALANCE SHEET ITEMS	Amount
Convertible bonds	
Other bonds	
Borrowings and debt with credit institutions	
Sundry borrowings and financial debt	-
Trade payables and related	1 874 474
Tax and social security liabilities	1 125 301
Liabilities on fixed assets and related	-
Accrued expenses	-
Other liabilities	67 500
TOTAL	3 067 275

2.3.5.6. Translation gains and losses

Type	Amount assets: unrealized loss	Difference offset through forex hedging	Provision for forex loss	Amount liabilities: unrealized gain
On non-financial fixed assets				
On long-term financial investments				
On trade receivables	-		-	1 799
On current account receivables	7 058 600		7 058 600	-
On financial liabilities				
On operating liabilities	-			1 685
On current account liabilities	-			-
On fixed asset-related liabilities				
TOTAL	7 058 600	-	7 058 600	-3 484

2.3.6. Information on the income statement

2.3.6.1. REVENUES

Breakdown by region	Amount
Europe excluding France	18 734
France	14 376 727
Other countries	289 761
Total	14 685 221

2.3.6.2. Other income

	Amount
Royalties billed to Parrot Drones	1 429 105
Royalties billed to Parrot Faurecia Automotive	1 171 292
Other	21 789
Total	2 622 186

2.3.6.3. Financial income and expenses

FINANCIAL INCOME	Amount	Allocated to
	-	Financial income from equity interests
378 453		Other interest and related income
18 996 942		Reprises de provisions
773 991		Transferred expenses
1 345 244		Foreign exchange gain
104 269		Capital gain on other marketable securities
53 682		Capital gain on treasury stock
TOTAL	21 652 581	

FINANCIAL EXPENSES	Amount	Allocated to
	7 058 600	Provisions for exchange gains and losses
	-	- Depreciation of shares distributed (unqualified)
	2 919 881	Depreciation of shares distributed under Macron Act
	63 746	Depreciation of marketable securities
	63 784 824	Depreciation of equity securities
	46 981 979	Depreciation of receivables from investments
	789 598	Depreciation of treasury shares being allocated
	139 934 582	Depreciation of the current accounts
	25 361 135	Depreciation for financial risk
	769 202	Interest
	257 497	Foreign exchange loss
	142 012	Capital loss on treasury stock
TOTAL	288 063 056	

Financial income and expenses show a 266,410 K€ loss, which primarily reflects the provisions recorded linked to the securities, the receivables attached to equity interests and the current accounts of Parrot Drones for a total of 250,701 K€, as well as 25,361 K€ of provisions for financial risks concerning the subsidiary Parrot Drones, 7,059 K€ of provisions for exchange rate differences on current accounts and a reversal of provisions for exchange rate losses for 14,292 K€.

2.3.6.4. Non-recurring income and expenses

NON-RECURRING INCOME	Amount	Allocated to
	108 532 190	Income from disposal of asset items
	-	- Non-recurring income from previous years
	-	- Misc. non-recurring income
	-	- Reversal of provisions for non-recurring expenses
	2 480 747	Transfer of non-recurring expenses
TOTAL	111 012 937	

NON-RECURRING EXPENSES	Amount
	421 Penalties
	1 204 895 Non-recurring expenses (linked to restructuring)
	35 535 289 Book value of assets divested
	2 015 852 Merger loss from the acquisition of shares issued by the Company
	1 009 000 Non-recurring depreciation and provisions
TOTAL	39 765 457

We observe an extraordinary positive result of 71 248 K€. It is mainly composed of the €73,013,000 capital gain on the sale of Parrot Faurecia Automotive shares to Faurecia.

2.3.6.5. Corporate income tax

BREAKDOWN	Pre-tax earnings	Tax
Income from ordinary operations	-267 091 330	
Common law tax		
Discount rate tax		
Withholding tax		
Tax credit		
Provisions for tax		
Non-recurring income / loss (excluding equity interest)	71 247 480	
Pre-tax earnings	-195 843 850	
Tax		-
Net income		-195 843 850

2.3.6.6. Unrealized taxes

	Base	Tax
Temporarily taxable transactions		
Losses carried forward	37 943 150	
Loss for the year		
Loss consumed during the year	-9 103 505	
ORGANIC (national fund for independent organization of old-age insurance for non-salaried industrial and commercial workers)		
Unrealized capital gains on UCITS		
Foreign exchange gains		
Provisions for retirement benefits	201 000	
Total	29 040 645	
Future tax savings (based on a rate of 33.33%)		9 679 247
Total	29 040 645	9 679 247

2.3.7. Other information

2.3.7.1. Payables and receivables

RECEIVABLES	Gross amount	Under 1 year	Over 1 year
FIXED ASSETS			
Equity interest-related receivables	46 981 979	-	46 981 979
Loans	-	-	
Other long-term financial investments	1 628 251	325 112	1 303 139
TOTAL	48 610 230	325 112	48 285 118
CURRENT ASSETS			
Bad or disputed receivables	-	-	
Other trade receivables	7 787 420	7 787 420	
Advances and deposits paid	2 851	2 851	
Receivables representative of loaned securities	-	-	

PARROT

Staff and related	1 315	1 315	
Social security and related	-	-	
State- corporate income tax	4 944 149	-	4 944 149
State – value-added tax	414 368	414 368	
State - other taxes, duties and related	2 017 633	2 017 633	
Group and related	141 947 159	-	141 947 159
Sundry receivables	128 056	128 056	
TOTAL	157 242 952	10 351 643	146 891 309
Prepaid expenses	144 699	144 699	
GENERAL TOTAL	205 997 881	10 821 455	195 176 427

The equity interest-related receivables exclusively concern loans granted to Parrot Drones.

The other long-term financial investments primarily concern rental security deposits for 582 K and treasury stock in the process of being cancelled for 1 046 K€.

The tax receivables (State – corporate income tax) primarily concern the research tax credit for the year for 3,772 K€, the corporate income tax instalments for 114 K€ and the portion of research tax credits not financed for previous years:

- 395K€ for 2015
- 480K€ for 2016
- 183K€ for 2017

The Group receivables primarily concern the current account receivables (net of current account payables) on Parrot Drones for 139 935 K€. This receivable is classified in more than one year due to the financial support granted to Parrot Drones.

PAYABLES	Gross amount	Under 1 year	1 to 5 years	Over 5 years
Convertible bonds	-		-	
Borrowings from credit institutions:	-	-		
Sundry borrowings and financial debt	-	-		
Trade payables and related	2 404 980	2 404 980		
Staff and related	727 224	727 224		
Social security and related	770 841	770 841		
Corporate income tax	-	-		
Value-added tax	642 625	642 625		
Surety bonds	-	-		
Other taxes and related	123 649	123 649		
Fixed asset payables and related	-	-		
Group and related	2 051 589	2 051 589		
Other payables	298 597	298 597		
Debt representative of borrowed securities	-	-		
Prepaid income	-	-		
GENERAL TOTAL	7 019 504	7 019 504	-	-

The Group liability primarily concerns the current account liability with Parrot Iberia for 1,903 K€.

2.3.7.2. Off-balance sheet commitments

The main off-balance sheet commitments at December 31, 2018 are as follows:

Future payment commitments relating to operating lease agreements amounts to 923 K€.

Parrot SA has given financial support to its subsidiary Parrot Drones

On July 20, 2012, Parrot SA granted the company Jade a joint and several guarantee for up to 0.5 M€ for the effective fulfilment by its subsidiary Chez Parrot SARL of its commitments under its lease for the premises at 30 rue du Quatre-Septembre in Paris (75002).

A parent company guarantee for USD 2,236,736 was signed on January 29, 2016 with the company Matrix Partners Management Services LP, guaranteeing rental commitments for the American subsidiary Parrot Inc.

Parrot Faurecia Automotive will continue to benefit from the "Parrot" brand license until the end of the agreed timeframe, i.e. end-2021, in return for royalties based on Parrot Automotive's revenues, representing 2.1% of revenues.

2.3.7.3. Retirement benefits

Main assumptions	2018	
Discount rate	2,00%	
Inflation rate	2,00%	
Rate of wage growth	3,00%	
Mortality tables	INSEE TH/TF 12-14	
Retirement approach	Voluntary	
Retirement age	Executive-grade staff	Non-executives
	65 years	63 years
Turnover		
Aged 25 or less	27,00%	14,00%
25 - 29 years	18,00%	10,00%
30 - 34 years	11,75%	6,75%
35 - 39 years	6,50%	4,25%
40 - 44 years	3,00%	1,90%
45 - 49 years	1,50%	0,80%
Aged 50 and over	0,00%	0,00%
Employer payroll taxes rate	45,00%	45,00%
Valuation method	Projected unit credits with prorated entitlements at term	
Change in provisions at Dec 31, 2018		
(Provision)/ Amount paid in advance at start of period	183 000	
Income / expense for 2017	18 000	
Benefits paid by employer		
(Provision)/Amount paid in advance at Dec 31, 2018	201 000	

2.3.7.4. Headcount

Headcount at December 31	2018	2017
	48	48
Average headcount	2018	2017
	54	49

2.3.7.5. Executive compensation

The global compensation for administrative and management bodies totaled 718,669 euros.

2.3.7.6. Statutory auditors' fees

The breakdown of statutory auditors' fees is as follows:

In €	2018	
	KPMG SA	EY
Accounts certification	80 000	165 000
Services other than accounts certification		
Services other than accounts certification required by legislation and regulations		
Other services other than accounts certification		20 000
TOTAL	80 000	185 000

2.4. Statutory auditors' report on the annual financial statements for 2018

KPMG Audit IS
 Tour Egho
 2, avenue Gambetta
 CS 60055
 92066 Paris-La Défense cedex
 S.A.S. au capital de € 200.000
 512 802 653 R.C.S. Nanterre

ERNST & YOUNG et Autres
 Tour First
 TSA 14444
 92037 Paris-La Défense cedex
 S.A.S. à capital variable
 438 476 913 R.C.S. Nanterre

Statutory Auditors
 Member of the Compagnie Régionale de Versailles

Statutory Auditors
 Member of the Compagnie Régionale de Versailles

Dear Shareholders,

Opinion

- In accordance with the terms of our appointment by your general meetings, we have audited Parrot's annual financial statements for the year ended December 31, 2018, as appended to this report.
- We certify that the annual financial statements present fairly, in all material respects, the financial position of the company, its assets and liabilities, and the results of its operations for the year ended in accordance with the accounting rules and principles in force in France.

The opinion presented above is consistent with the content of our report for the Audit Committee.

Basis for our opinion

■ Audit standards

We conducted our audit in accordance with the industry standards applicable in France. We believe that we have collected sufficient and appropriate elements on which to base our opinion.

Our responsibilities under these standards are indicated in the section on "Statutory auditors' responsibilities relating to the auditing of the annual financial statements" in this report.

■ Independence

We conducted our audit in accordance with the rules governing us in terms of independence for the period from January 1, 2018 to the date of our report. More specifically, we have not provided any services forbidden by Article 5, Paragraph 1, of EU Regulation 537/2014 or by the professional code of conduct for statutory auditors.

Basis for our opinions – Key points from the audit

In accordance with Articles L. 823-9 and R. 823-7 of the French commercial code relating to the forming of our opinions, we would like to draw your attention to the key points from the audit relating to the risks of material misstatements which, in our professional judgement, were the most significant for the audit of the annual financial statements, as well as our responses to these risks.

The assessments made in this way are part of our audit of the annual financial statements in general and the formation of our opinion as expressed above. We are not expressing an opinion on the elements from these annual financial statements taken individually.

■ Valuation of equity securities and related receivables

Risk identified	Our response
<p>The equity securities presented on the balance sheet for a net total of 2.6 M€ are recorded on their entry date at the value of the net assets transferred through the assets contributed in 2015 for Parrot Drones and at the acquisition cost, which comprises the purchase cost and related expenses, for the other subsidiaries. These values have been increased by the amount of subsequent capital increases. The related receivables, presented on the balance sheet for a net amount of zero, are recorded at their nominal value. On each reporting date, they are depreciated based on their value in use when their net book value is higher than their value in use.</p>	<p>We checked that the estimated values determined by the management team are based on an appropriate justification of the valuation method and the quantitative elements used.</p> <p>For valuations based on the portion of shareholders' equity, we checked that the levels of shareholders' equity retained were consistent with the accounts of the entities concerned, subject to an audit or analytical procedures.</p> <p>For valuations based on future prospects, we obtained the group's valuation report prepared by the independent third party and we:</p>
<p>As indicated in Note 3.3.3 to the annual financial statements, the value in use of securities and related receivables is estimated, depending on the securities concerned, based on the value of their portion of shareholders' equity held or their future prospects.</p>	<ul style="list-style-type: none"> ▶ assessed the competence and independence of this third party;
<p>The estimation of the value-in-use therefore requires management to exercise its judgment concerning its choice of the elements to be considered depending on the securities concerned.</p>	<ul style="list-style-type: none"> ▶ assessed the valuation methodologies used by this independent third party;
<p>For equity securities valued based on future prospects, a poor assessment of cash flows and the assumptions retained would lead to a poor estimation of equity securities and related receivables.</p>	<ul style="list-style-type: none"> ▶ assessed the consistency of the estimates made by the independent third party with the amount retained for the valuation of the securities in the accounts;
<p>We considered that the correct valuation of equity securities and related receivables was a key point for the audit due to their significant amount and the fact that their value in use is dependent to a great extent on the management team's assumptions, estimates or assessments.</p>	<ul style="list-style-type: none"> ▶ reviewed, based on samples, the consistency of the budget forecasts retained in the independent third party's report with those presented by the board of directors for 2019 and 2020 and those estimated by management for subsequent years.
	<ul style="list-style-type: none"> ▶ assessed the recoverable nature of related receivables and current accounts based on the analyses carried out on the equity securities; ▶ reviewed the correct recognition of a provision for contingencies if the company is committed to covering the losses of a subsidiary in addition to its financing; ▶ reviewed the appropriate nature of the financial disclosures provided in Note 3.4.3 to the annual financial statements. <p>Our work was carried out with our firms' valuation experts.</p>

Specific verifications

In accordance with industry standards in France, we also carried out the specific verifications required under French legislation and regulations.

■ Information provided dans le rapport de gestion et in the autres documents concerning the financial position and annual financial statements for shareholders

We do not have any observations to make regarding the true and accurate nature of information given in the board of directors' management report and in the other documents provided to shareholders concerning the financial position and annual financial statements, or the application of such information for the annual financial statements.

■ Corporate governance report

We certify that the Board of Directors' corporate governance report contains the information required by Articles L. 225-37-3 and L. 225-37-4 of the French commercial code.

With regard to the information provided in accordance with Article L.225-37-3 of the French commercial code concerning the compensation and benefits paid to corporate officers, as well as the commitments made in relation to them, we have checked that it is consistent with the accounts or with the data used to prepare these accounts and, as relevant, with the elements collected by your company from companies controlling or controlled by your company. On the basis of this work, we certify that this information is true and accurate.

With regard to the disclosures concerning items that your Company considered likely to have an impact in the event of a public takeover or exchange offer, provided in accordance with Article L.225-37-5 of the French commercial code, we have checked their consistency with the underlying documents provided to us. On the basis of this work, we do not have any observations to make regarding this information.

■ Other information

In accordance with French law, we also ensured that the management report contained the various disclosures required concerning the acquisition of interests and control, as well as the identity of shareholders and voting rights.

Information resulting from other legal and regulatory requirements

■ Appointment of the statutory auditors

We were appointed as Parrot's statutory auditors at the general meeting on June 18, 1996, which acknowledged the merger-absorption on March 15, 1996 of the company François Kimmel – André Touati with KPMG and on June 6, 2012 for ERNST & YOUNG et Autres.

At December 31, 2018, KPMG was as a minimum in the 23rd year of its mission without interruption (including 13 years since the company's securities were admitted for trading on a regulated market), while ERNST & YOUNG et Autres was in its 7th year.

Responsibilities of management and corporate governance representatives in relation to the annual financial statements

Management is responsible for preparing annual financial statements that present a true and accurate image in accordance with French accounting principles and rules, in addition to putting in place the internal control arrangements that it considers necessary to prepare the annual accounts without any material misstatements, whether these result from fraud or errors.

When preparing the annual financial statements, management has a responsibility to assess the company's capacity to continue operating, to present the information required relating to the continuity of operations in these accounts, if applicable, and to apply the accounting conventions for continuous operations unless there are plans to liquidate the company or cease its activities.

The audit committee has a responsibility to monitor the process for preparing financial information and to monitor the efficiency and effectiveness of the internal control and risk management systems, in addition to, if applicable, the internal audit arrangements, with regard to the procedures for the preparation and processing of accounting and financial information.

The annual financial statements are the responsibility of your Board of Directors.

Statutory auditors' responsibilities relating to the auditing of the annual financial statements

■ Audit approach and objective

It is our responsibility to prepare a report on the annual financial statements. Our objective is to obtain reasonable assurance that the annual financial statements in general are free from any material misstatements. Reasonable assurance corresponds to a high level of assurance, without however guaranteeing that an audit carried out in line with industry standards might make it possible to systematically detect any material misstatements. Misstatements may be the result of fraud or errors and are considered to be

material when they can reasonably be expected, taken individually or collectively, to potentially influence the economic decisions taken by users of the accounts based on them.

As indicated in Article L. 823-10-1 of the French commercial code, our mission to certify the accounts does not involve guaranteeing the viability or quality of your company's management. Based on an audit carried out in accordance with the industry standards applicable in France, the statutory auditors exercise their professional judgement throughout this audit. In addition:

- ▶ They identify and assess the risks that the annual financial statements include material misstatements, that these are the result of fraud or errors, define and put in place audit procedures faced with these risks, and collect the elements that they consider sufficient and appropriate to form a basis for their opinion. The risk of a material misstatement resulting from fraud not being detected is higher than for a material misstatement resulting from an error, because fraud may imply collusion, falsification, voluntary omissions, misrepresentation or a bypassing of internal control arrangements;
- ▶ They review the relevant internal control arrangements for the audit in order to define audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- ▶ They assess the appropriate nature of the accounting methods applied and the reasonable nature of any accounting estimates made by management, in addition to the information concerning them provided in the annual financial statements;
- ▶ They assess the management team's appropriate application of the accounting convention for continuous operations and, depending on the elements collected, whether or not there is any significant uncertainty relating to events or circumstances that might call into question the company's capacity to continue operating. This assessment is based on the elements collected up until the date of their report, while noting however that subsequent circumstances or events might call into question the continuity of operations. If they conclude that there is any significant uncertainty, they draw the attention of readers of their report to the information provided in the annual financial statements relating to this uncertainty or, if this information is not provided or is not relevant, they issue their certification with reservations or refuse to certify the accounts;
- ▶ They assess the overall presentation of the annual financial statements and evaluate whether the annual financial statements accurately reflect the underlying events and operations.

■ **Report for the audit committee**

- We provide a report to the audit committee which notably presents the scope of the audit work and the program of work carried out, as well as the conclusions based on our work. If applicable, we also bring to the committee's attention any significant shortcomings with internal control that we have identified with the procedures applied for the preparation and processing of accounting and financial information. The elements provided in the report for the audit committee include the risks of material misstatements which we considered to be most significant for the audit of the annual financial statements and which therefore constitute the key points from the audit, which it is our responsibility to present in this report.
- We also provide the audit committee with the declaration required under Article 6 of EU Regulation 537-2014 confirming our independence, in accordance with the rules applicable in France as notably set by Articles L.822-10 to L.822-14 of the French commercial code and in the professional code of conduct for statutory auditors. If applicable, we conduct discussions with the audit committee to review the risks concerning our independence and any safeguard measures adopted.

Paris-La Défense, April 29, 2019

The statutory auditors

KPMG Audit IS

Nicolas Piofret

ERNST & YOUNG et Autres

Pierre Bourgeois