

# Parrot

174-178 quai de Jemmapes, 75010 Paris, France  
Paris trade and companies register: 394 149 496  
[www.parrot.com](http://www.parrot.com)

Annual financial statements

# 2019

# Contents

---

<b>ANNUAL FINANCIAL STATEMENTS</b> .....	3
1.1. Annual financial information for Parrot SA .....	3
1.2. Audit of historical financial information.....	27
1.3. Pro forma financial information.....	38
1.4. Dividend policy .....	38
1.5. Arbitration and legal proceedings .....	38
1.6. Significant change in the issuer's financial position since the last financial year-end .....	39

## 1.1. Annual financial information for Parrot SA

## 1.1.1. Balance sheet for the years ended December 31, 2019 and 2018

**BALANCE SHEET: ASSETS**

SECTIONS	GROSS	Depreciation and provisions	Net Dec 31, 2019	Net Dec 31, 2018
<b>INTANGIBLE ASSETS</b>				
Research and development costs	-	-	-	-
Concessions, patents and related	3,145,368	3,135,631	9,737	32,859
Goodwill	7,622	-	7,622	7,622
Other intangible assets	1,304,040	1,296,859	7,181	13,072
Current intangible assets	-	-	-	7,760
<b>TOTAL intangible assets</b>	<b>4,457,030</b>	<b>4,432,490</b>	<b>24,540</b>	<b>61,313</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
Technical facilities, plant and equipment	-	-	-	-
Other property, plant and equipment	8,835,323	8,373,418	461,905	763,164
Fixed assets under construction	-	-	-	-
<b>TOTAL property, plant and equipment</b>	<b>8,835,323</b>	<b>8,373,418</b>	<b>461,905</b>	<b>763,164</b>
<b>NON-CURRENT FINANCIAL ASSETS</b>				
Equity securities	192,427,363	189,818,874	2,608,490	2,608,490
Equity interest-related receivables	47,885,318	47,885,318	0	-
Other non-current financial assets	290,926	-	290,926	838,653
<b>TOTAL non-current financial assets</b>	<b>240,603,607</b>	<b>237,704,191</b>	<b>2,899,415</b>	<b>3,447,143</b>
<b>FIXED ASSETS</b>	<b>253,895,959</b>	<b>250,510,099</b>	<b>3,385,860</b>	<b>4,271,619</b>
<b>INVENTORIES AND WORK-IN-PROGRESS</b>				
Inventories of raw materials	-	-	-	-
Inventories of intermediate and finished products	-	-	-	-
<b>TOTAL inventories and work-in-progress</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>RECEIVABLES</b>				
Advances and deposits paid on orders	2,851	-	2,851	2,851
Trade receivables and related	1,422,877	-	1,422,877	7,787,420
Other receivables	238,618,358	164,157,908	74,460,449	9,518,099
<b>TOTAL receivables</b>	<b>240,044,086</b>	<b>164,157,908</b>	<b>75,886,178</b>	<b>17,308,370</b>
<b>CASH AND CASH EQUIVALENTS</b>				
Transferable securities	40,743,363	-	40,743,363	42,821,906
Cash at bank and in hand	19,861,694	-	19,861,694	81,342,807
Prepaid expenses	62,633	-	62,633	144,699
<b>TOTAL cash and cash equivalents</b>	<b>60,667,691</b>	<b>-</b>	<b>60,667,691</b>	<b>124,309,413</b>
<b>CURRENT ASSETS</b>	<b>300,711,777</b>	<b>164,157,908</b>	<b>136,553,868</b>	<b>141,617,782</b>
Deferred expenses over several years	-	-	-	-
Bond redemption premiums	-	-	-	-
Translation gains	2,563,071	-	2,563,071	7,058,600
<b>GENERAL TOTAL</b>	<b>557,170,807</b>	<b>414,668,007</b>	<b>142,502,798</b>	<b>152,948,001</b>

**BALANCE SHEET: LIABILITIES**

SECTIONS	Net Dec 31, 2019	Net Dec 31, 2018
NET POSITION		
Share capital, of which 4,599,258 paid	4,599,259	4,599,258
Issue, merger, contribution premiums	331,678,139	331,677,756
Revaluation differences	-	-
Legal reserve	203,512	203,512
Statutory or contractual reserves	-	-
Regulated reserves	-	-
Other reserves	-	-
Retained earnings	-227,476,830	-31,632,980
<b>Earnings for the year</b>	<b>4,218,430</b>	<b>-195,843,850</b>
Investment subsidies	-	-
<b>SHAREHOLDERS' EQUITY</b>	<b>113,222,511</b>	<b>109,003,696</b>
Income from issues of equity securities	-	-
Conditional advances	-	-
<b>OTHER EQUITY</b>	<b>-</b>	<b>-</b>
Provisions for liabilities	6,362,139	36,120,318
Provisions for charges	233,000	801,000
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>6,595,139</b>	<b>36,921,318</b>
FINANCIAL LIABILITIES		
Convertible bonds	-	-
Other bonds	-	-
Bank borrowings and debt	-	-
Sundry borrowings and financial debt	-	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>-</b>
ADVANCES AND DEPOSITS RECEIVED ON CURRENT ORDERS	2,501	-
SUNDRY LIABILITIES		
Trade payables and related	907,488	2,404,980
Tax and social security liabilities	1,647,334	2,264,339
Fixed asset payables and related	-	-
Other liabilities	19,774,142	2,350,185
<b>TOTAL SUNDRY LIABILITIES</b>	<b>22,328,964</b>	<b>7,019,503</b>
PREPAID INCOME	-	-
<b>LIABILITIES</b>	<b>22,331,465</b>	<b>7,019,503</b>
Translation losses	353,683	3,484
<b>GENERAL TOTAL</b>	<b>142,502,798</b>	<b>152,948,001</b>

## 1.1.2. Income statement for the years ended December 31, 2019 and 2018

**INCOME STATEMENT- Section 1**

SECTIONS	France	Export	Dec 31, 2019	Dec 31, 2018
Sales of goods	-	-	-	-
Production sold: goods	-	-	-	-
Production sold: services	10,027,038	193,728	10,220,766	14,685,221
<b>NET REVENUES</b>	<b>10,027,038</b>	<b>193,728</b>	<b>10,220,766</b>	<b>14,685,221</b>
Stored production			-	-
Capitalized production			-	-
Operating subsidies			-	-
Reversal of depreciation and provisions, transferred expenses			722,166	1,508,087
Other income			1,862,079	2,622,186
<b>OPERATING INCOME</b>			<b>12,805,010</b>	<b>18,815,494</b>
EXTERNAL EXPENSES				
Purchases of goods			-	-
Change in inventories of goods			-	-
Purchases of raw materials and other supplies			-	-
Change in inventories (raw materials and supplies)			-	-
Other purchases and external expenses			5,245,226	8,858,699
<b>TOTAL EXTERNAL EXPENSES</b>			<b>5,245,226</b>	<b>8,858,699</b>
TAX AND RELATED			423,491	439,497
STAFF COSTS				
Salaries and wages			6,204,200	7,137,394
Payroll taxes			1,472,158	1,817,418
<b>TOTAL STAFF COSTS</b>			<b>7,676,358</b>	<b>8,954,812</b>
OPERATING PROVISIONS				
Provisions for depreciation on fixed assets			395,281	773,595
Provisions on fixed assets			-	-
Provisions on current assets			-	-
Provisions for liabilities and charges			72,000	201,000
<b>TOTAL OPERATING PROVISIONS</b>			<b>467,281</b>	<b>974,595</b>
OTHER OPERATING EXPENSES			443,785	268,746
<b>OPERATING EXPENSES</b>			<b>14,256,141</b>	<b>19,496,349</b>
<b>EBIT</b>			<b>-1,451,131</b>	<b>-680,855</b>

INCOME STATEMENT - Section 2

SECTIONS	Dec 31, 2019	Dec 31, 2018
<b>EBIT</b>	<b>-1,451,131</b>	<b>-680,855</b>
Profit allocated or loss transferred		
Loss incurred or profit transferred		
Financial income from equity interests	-	-
Income from other transferable securities and fixed asset receivables	-	-
Other interest and related income	446,326	378,453
Reversal of provisions and transferred financial expenses	34,995,506	19,770,933
Foreign exchange gains	127,099	1,345,244
Net income from disposal of transferable securities	38,642	157,951
<b>FINANCIAL INCOME</b>	<b>35,607,574</b>	<b>21,652,581</b>
Financial depreciation and provisions	29,960,341	286,894,345
Interest and related expenses	64,529	769,202
Foreign exchange losses	97,603	257,497
Net expenses on sale of transferable securities	8,678	142,012
<b>FINANCIAL EXPENSES</b>	<b>30,131,151</b>	<b>288,063,056</b>
<b>FINANCIAL INCOME / EXPENSE</b>	<b>5,476,423</b>	<b>-266,410,475</b>
<b>INCOME FROM ORDINARY OPERATIONS BEFORE TAX</b>	<b>4,025,292</b>	<b>-267,091,330</b>
Non-recurring income on management transactions	3,697	-
Non-recurring income from previous year	-	-
Non-recurring income on capital transactions	50,710	108,532,190
Reversal of provisions and transferred non-recurring expenses	4,078,879	2,480,747
<b>NON-RECURRING INCOME</b>	<b>4,133,286</b>	<b>111,012,937</b>
Non-recurring expenses on management transactions	731,944	1,205,316
Non-recurring expenses on capital transactions	3,208,203	37,551,141
Non-recurring depreciation and provisions	-	1,009,000
<b>NON-RECURRING EXPENSES</b>	<b>3,940,147</b>	<b>39,765,457</b>
<b>NON-RECURRING INCOME / EXPENSE</b>	<b>193,138</b>	<b>71,247,480</b>
Employee profit-sharing	-	-
Corporate income tax	-	-
<b>TOTAL INCOME</b>	<b>52,545,869</b>	<b>151,481,012</b>
<b>TOTAL EXPENSES</b>	<b>48,327,439</b>	<b>347,324,862</b>
<b>PROFIT OR LOSS</b>	<b>4,218,430</b>	<b>-195,843,850</b>

### 1.1.3. 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, 2019 to December 31, 2019, 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, 2019 were approved by the Board of Directors on April 22, 2020.

#### 1.1.3.1. Main events over the year

##### ■ Finalization of Horizon SAS' public tender offer for Parrot's securities

Following the acquisition of a 9.59% block of Parrot's capital by Horizon SAS, a company controlled by Henri Seydoux, Parrot's founder, Chairman and CEO, from funds managed by Amiral Gestion at a price of 3.20 € per share, Horizon filed a proposed mandatory public tender offer on January 29, 2019 with the French Financial Markets Authority (AMF) for Parrot's shares at the same price of 3.20 € per share, as well as an offer for the warrants<sup>(1)</sup> issued by Parrot (the "warrants") at a price of 0.01 € per warrant (the "Offer"). The Offer was carried out based on the standard procedure, in accordance with the terms of Articles 232-1 *et seq* of the AMF's general regulations.

The AMF issued its decision concerning the Offer's compliance on March 5, 2019, and the Offer was opened for the first time from March 7 to April 10, then for the second time from April 23 to May 7. Following these two periods, the Offer was closed definitively and Horizon SAS holds:

- 18,866,332 PARROT shares representing the same number of voting rights<sup>(2)</sup>, i.e. 62.52% of the capital and voting rights<sup>(3)</sup>,
- 14,942,157 Class 1 warrants representing 85.02% of the existing Class 1 warrants,
- 15,095,319 Class 2 warrants representing 85.89% of the existing Class 2 warrants.

##### ■ 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 4.9 M€ at December 31, 2019.

##### ■ Airinov activity shut down

At the end of the first half of the year, the decision was taken to temporarily shut down Airinov, the French company specialized in drone-based agronomy services.

---

(1) The Class 1 warrants and Class 2 warrants became eligible for exercising immediately following the AMF's publication of the submission notice for the tender offer, on January 29, 2019, and until December 15, 2022 inclusive, and were admitted for trading on Euronext Paris, on February 6, 2019, as requested by PARROT. 24 Class 1 warrants entitling holders to subscribe for two PARROT shares at a price of 32.66 € per share. To date, there are 17,575,230 Class 1 warrants. 28 Class 2 warrants entitling holders to subscribe for three PARROT shares at a price of 42.34 € per share. To date, there are 17,575,222 Class 2 warrants.

(2) Excluding the 612,179 treasury shares held by Parrot, representing 2.03% of its capital.

(3) Based on a capital 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.

### 1.1.3.2. *Significant post-balance sheet events*

Most of the countries around the world are currently being affected by the health crisis linked to the coronavirus. Developments with the health situation in certain regions where the Group is present will also impact the economic situation in these regions. More specifically, on the date when this document was published, it is impossible to forecast the impact, duration or scale of the damage caused by the current coronavirus epidemic.

From the start of March 2020, the Group rolled out various health measures and set up the majority of staff to work from home, with all the infrastructures and systems in place, ensuring the continuity of the business, while protecting the teams. Furlough measures were introduced from April focused on support staff and have not affected research and development capabilities. They concern less than 20 staff for Parrot Drones SAS.

This health crisis involves risks to the health of employees and their ability to travel, which could have a negative impact on the Group's projects in 2020, notably slowing down their progress and delaying their implementation, which could have an adverse impact on the Group's activities and results. The Group remains focused on moving forward with its projects in 2020, and no delays have been recorded to date.

### 1.1.3.3. *Accounting methods and rules*

The financial statements for the year ended December 31, 2019 have been prepared in accordance with French accounting principles and rules, including the French accounting standards board's (CRC) new accounting rules.

They are presented in accordance with the French general chart of accounts (PCG), approved by French accounting standards authority (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:

#### 1.1.3.3.1. *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 |

#### 1.1.3.3.2. *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 5 years

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

#### *1.1.3.3.3. Non-current financial assets, related receivables and partner current accounts*

Equity securities are recognized based on the following approach:

- For Parrot Drones SAS 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.

#### **Impairment principles**

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 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.

#### **Application**

Management referred to the stock price to carry out work to value the equity securities at December 31, 2019.

Various methods based on future prospects were applied to the subsidiaries' securities, valuing the equity securities on a consistent basis with the stock market value adjusted for a minority discount.

The reference stock market value was measured from September 3, 2019 to March 2, 2020 – as such, it does not include the recent impact of the uncertainty linked to the Covid-19 epidemic on the financial markets.

Parrot SA's net position represents 113 M€, with an approximate valuation of 3.8 € per Parrot share.

#### *1.1.3.3.4. 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.

#### *1.1.3.3.5. 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 reporting date are converted at the exchange rate in force on the reporting 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.

#### *1.1.3.3.6. Cash and cash equivalents and transferable securities*

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

Transferable 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.

#### *1.1.3.3.7. Provisions for liabilities and charges*

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 recorded in line with a depreciation schedule spread over two from the allocation date decided on by the Board of Directors.

#### **Provisions for restructuring**

In connection with the restructuring, Parrot SA recorded a reversal of provisions for liabilities for 920 K€, corresponding primarily to the compensation, support measures and associated management costs. No new provisions were recorded during the year.

#### **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
- Retirement age for non-executives: 63
- Rate of wage growth: 3.10%
- Discount rate: 0.9%
- Payroll tax rate: 45%

These provisions totaled 233 K€ at December 31, 2019, compared with 201 K€ in 2018.

1.1.3.3.8. *Revenues*

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

- 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 1,844 K€.

1.1.3.3.9. *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.

1.1.3.3.10. *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.

1.1.3.4. *Assets*1.1.3.4.1. *Fixed assets*

SECTIONS	Gross value at year-start	Acquisitions, mergers, creations, transfers	Reduction through disposals and retirements	Transfers	Gross value at year-end
<b>INTANGIBLE ASSETS</b>					
Patents and related rights	3,145,368	-	-	-	3,145,368
Goodwill	7,622	-	-	-	7,622
Other intangible assets	1,296,280	-	-	7,760	1,304,040
Current intangible assets	7,760	-	-	7,760	-
<b>Total intangible assets</b>	<b>4,457,030</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,457,030</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>					
Technical facilities, plant and equipment	-	-	-	-	-
Other property, plant and equipment	6,014,600	15,384	-	-	6,029,984
Transport equipment	-	-	-	-	-
Office equipment and furniture	3,014,017	84,324	-293,003	-	2,805,339
Fixed assets under construction	-	-	-	-	-
<b>Total property, plant and equipment</b>	<b>9,028,617</b>	<b>99,708</b>	<b>-293,003</b>	<b>-</b>	<b>8,835,323</b>
<b>NON-CURRENT FINANCIAL ASSETS</b>					
Equity securities	192,427,363	-	-	-	192,427,363
Equity interest-related receivables	46,981,979	903,339	-	-	47,885,318
Other non-current financial assets	1,628,251	40,231	-1,377,556	-	290,926
<b>Total non-current financial assets</b>	<b>241,037,593</b>	<b>943,570</b>	<b>-1,377,556</b>	<b>-</b>	<b>240,603,607</b>
<b>General total</b>	<b>254,523,240</b>	<b>1,043,278</b>	<b>-1,670,559</b>	<b>-</b>	<b>253,895,959</b>

## 1.1.3.4.2.

*Depreciation and amortization*

The provisions for the impairment of securities primarily concern the depreciation of Parrot Drones securities for 169 M€ and Parrot Iberia securities for 21 M€.

The impairment of receivables relating to equity interests concerns Parrot Drones for a total of 48 M€.

During the year, the treasury shares being allocated were subject to a reversal of provisions for 790 K€ for a total of 79,771 securities.

SECTIONS	Value at year-start	Provisions	Reversals	Value at year-end	Straight-line
<b>INTANGIBLE ASSETS</b>					
Concessions, patents and related rights	3,112,509	23.122	-	3,135,631	23.122
Goodwill	-	-	-	-	-
Other intangible assets	1,283,208	13.651	-	1,296,859	13.651
<b>Total intangible assets</b>	<b>4,395,717</b>	<b>36.773</b>	<b>-</b>	<b>4,432,490</b>	<b>36.773</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>					
Technical facilities, plant and equipment	-	-	-	-	-
Other property, plant and equipment	5,725,906	132.806	-	5,858,712	132.806
Transport equipment	-	-	-	-	-
Office equipment and furniture	2,539,548	225,702	250.544	2,514,706	225.702
Fixed assets under construction	-	-	-	-	-
<b>Total property, plant and equipment</b>	<b>8,265,454</b>	<b>358.508</b>	<b>250.544</b>	<b>8,373,418</b>	<b>358.508</b>
<b>NON-CURRENT FINANCIAL ASSETS</b>					
Equity securities	189,818,874	-	-	189,818,874	-
Equity interest-related receivables	46,981,979	-	-	46,981,979	-
Other non-current financial assets	789.598	-	789.598	-	-
<b>Total non-current financial assets</b>	<b>237,590,451</b>	<b>-</b>	<b>789.598</b>	<b>236,800,853</b>	<b>-</b>
<b>General total</b>	<b>250,251,621</b>	<b>395.281</b>	<b>1,040,142</b>	<b>249,606,760</b>	<b>395.281</b>

1.1.3.4.3. *Subsidiaries and equity interests*

The table is presented on the following page.

Under loans and advances, the amount of 259 M€ includes 48 M€ of receivables relating to equity interests and 211 M€ of current account receivables.

During 2019, 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.

Parrot SA subsidiaries & equity interests SIREN 394 149 496	Capital	Shareholders' equity excl. earnings for year	Capital stake (%)	Net book value of securities	
<b>Detailed information concerning subs</b>					
				Gross	Provisions
CHEZ PARROT	10,000	- 482,656	100%	771,050	771,050
PARROT GmbH (Germany)	25,000	1,304,543	100%	25,000	
PARROT SRL (Italy)	10,000	411,370	100%	10,000	
PARROT UK Ltd (UK)	118	1,092,069	100%	145	
PARROT IBERIA (Inpro)	63,036	2,873,228	100%	22,996,160	20,510,000
PARROT JAPAN (KK)	82,010	333,953	100%	77,950	
PARROT AUSTRALIA	6,252	555,532	100%	8,236	
PARROT DRONES	60,627,825	-141,758,899	100%	168,537,824	168,537,824
PARROT INVEST 4	1,000	- 1,107	100%	1,000	
<b>Total</b>				<b>192,427,365</b>	<b>189,818,874</b>

## 1.1.3.4.4.

## Change in transferable securities

	Number	Unit price	Unrealized gain/loss	Total
CIC Tempo 3 mois à préavis	2	12,500,000	11,806	25,000,000
CIC Tempo 3 mois à préavis	1	10,000,000	4,722	10,000,000
LCL CAT Trésorerie Libre	1	1,027,881	64	1,027,881
SG Monétaire plus	1	37,168	4,717	37,168
<b>Sub-total: Investments</b>			<b>21,309</b>	<b>36,065,048</b>

	Number	Buyback value	Depreciation	Net value
Treasury shares awarded	397,789	4,678,315	-	4,678,315
Treasury shares to be awarded	-	-	-	-
Liquidity agreement	-	-	-	-
<b>Sub-total: Treasury shares</b>		<b>397,789</b>	<b>4,678,315</b>	<b>-</b>
				<b>4,678,315</b>

Transaction date	Quantity	Capital gains	Acquisition /sale price
No. of securities Dec 31, 2018	43,234		127,037
Purchases during year	14,031		46,343
Sales during year	57,265		173,380
<b>Sub-total: Liquidity agreement</b>		<b>-</b>	<b>-</b>

<b>TOTAL transferable securities</b>			<b>40,743,363</b>
--------------------------------------	--	--	-------------------

## 1.1.3.4.5.

## Share buyback program

	Remaining shares at Dec 31, 18	Value €	Shares cancelled in 2019	Value €	Shares awarded served in 2019	Value €	Share buyback	Value €	Share award unserv
Share buyback program no. 6	1,464	26,684			- 1,464	- 26,684			
Share buyback program no. 10	42,473	767,209			- 42,473	- 767,209			
Share buyback program no. 11	75,270	1,200,120			- 75,270	-1,200,120			
Share buyback program no. 12	38,228	579,034			- 21,057	- 318,947			
Share buyback program no. 13	411,510	5,168,373			- 67,386	- 846,337			
Share buyback program no. 14							36,494	96,192	
<b>TOTAL</b>	<b>568,945</b>	<b>7,741,420</b>	<b>-</b>	<b>-</b>	<b>-207,650</b>	<b>-3,159,297</b>	<b>36,494</b>	<b>96,192</b>	

1.1.3.4.6. *Liquidity agreement*

Transaction date	Quantity	Acquisition /sale price
No. of securities Dec 31, 2018	43,234	127,037
Purchases during year	14,031	46,343
Sales during year	57,265	173,380
<b>No. of securities Dec 31, 2019</b>	-	-

1.1.3.4.7. *Accounts receivable*

AMOUNT OF ACCRUED RECEIVABLES INCLUDED IN BALANCE SHEET ITEMS	Amount
<b>Non-current financial assets</b>	-
Equity interest-related receivables	
Other non-current financial assets	
<b>Receivables</b>	<b>2,702,897</b>
Trade receivables and related	520,114
Staff & social organizations	
State	953,900
Sundry receivables & other receivables	1,228,883
<b>Transferable securities</b>	-
<b>Cash and cash equivalents</b>	-
Accrued interest receivable	
<b>TOTAL</b>	<b>2,702,897</b>

1.1.3.4.8. *Prepaid income and expenses*

	Expenses	Income
Operating income or expenses	62,633	
Financial income or expenses		
Non-recurring income or expenses		
<b>TOTAL</b>	<b>62,633</b>	-



1.1.3.5. *Liabilities*1.1.3.5.1. *Change in shareholders' equity*

	N-1		Change		N
Capital	4,599,258		2		4,599,259
Issue premium	331,677,756		383		331,678,139
Legal reserve	203,512				203,512
Retained earnings	- 31,632,980	-	195,843,850	-	227,476,830
N-1 earnings	- 195,843,850		195,843,850		-
N earnings		-	4,218,430		4,218,430
<b>TOTAL</b>	<b>109,003,696</b>		<b>4,218,815</b>		<b>113,222,511</b>

The changes in shareholders' equity during 2019 reflect the allocation of the loss for the year ended December 31, 2018 to retained earnings and the recognition of earnings for 2019.

1.1.3.5.2. *Share capital*

	Number	Par value (€)
1-Shares or rights comprising the capital at year-start	30,174,671	0.1524
2-Shares or rights issued during the year	10	0.1524
3-Shares or rights cancelled during the year	-	0.1524
<b>4-Shares or rights comprising the capital at year-end</b>	<b>30,174,681</b>	<b>0.1524</b>

1.1.3.5.3. *Stock options and bonus shares*

STOCK OPTIONS						
Board of Directors decision date	Situation at end-2018	Quantity exercised in 2019	Quantity expired in 2019	New plans in 2019	Situation at end-2019	Exercise limit date
BM 10/02/11	-				-	Feb-09-16
BM 12/05/11	-				-	May-11-16
BM 28/07/11	4,318		4,318		-	Jul-27-18
BM 10/11/11	68,092		68,092		-	Nov-29-18
BM 15/02/12	249,670		249,670		-	Mar-01-19
BM 12/05/12	24,178		24,178		-	May-25-19
BM 10/11/12	31,086		31,086		-	Dec-03-19
BM 20/02/13	8,635		4,318		4,317	Mar-08-20
BM 15/05/13	23,027		11,515		11,512	May-31-20
	<b>409,006</b>		<b>393,177</b>		<b>15,829</b>	

## BONUS SHARES

Board of Directors decision date	Situation at end-2018	Quantity exercised in 2019	Quantity expired in 2019	New plans in 2019	Situation at end-2019	Exercise limit date
BM 01/08/13	-				-	Jul-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	-				-	Feb-28-18
BM 20/11/15	-				-	Nov-19-18
BM 01/05/16	8,200	-6,500	-1,700		-	Apr-30-19
BM 13/05/17	-				-	May-13-18
BM 24/05/17	178,650	-171,650	-7,000		-	May-13-19
BM 27/07/17	18,000	-18,000			-	Jul-27-19
BM 09/11/17	13,500	-11,500	-2,000		-	Nov-09-19
BM 14/03/18	220,500		-41,000		179,500	Mar-30-20
BM 24/05/18	16,500		-6,000		10,500	May-24-20
BM 31/07/18	27,000		-4,000		23,000	Jul-31-20
BM 28/01/19			-20,000	235,000	215,000	Mar-01-21
BM 13/03/19				20,000	20,000	Mar-31-21
	<b>482,350</b>	<b>-</b>	<b>207,650</b>	<b>-</b>	<b>81,700</b>	<b>255,000</b>
					<b>448,000</b>	

## 2019 CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS

## 1.1.3.5.4.

## 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	-				-
For exchange rate loss	7,058,600	2,563,071	-	7,058,600	2,563,071
For depreciation schedule on shares distributed	-				-
For depreciation schedule on shares distributed (unqualified)	-				-
For depreciation schedule on Macron Act shares	3,112,866	2,036,947	1,875,479	331,578	2,942,756
For financial risks for Chez Parrot	482,655	233,658			716,313
For financial risks for Parrot Drones	25,046,615		25,046,615		-
For retirement benefits	201,000	32,000			233,000
For employment tribunal disputes	-	40,000			40,000
For restructuring	1,019,582	-	919,582		100,000
For tax	-				-
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>36,921,318</b>	<b>4,905,676</b>	<b>27,841,676</b>	<b>7,390,178</b>	<b>6,595,139</b>
For intangible assets	-				-
For property, plant and equipment	-				-
For fixed assets: equity-consolidated securities	-				-
For equity securities	189,818,874				189,818,874
For other non-current financial assets	47,771,577	903,339		789,598	47,885,318
For current accounts	139,934,582	24,223,326			164,157,908
For inventories and work-in-progress	-				-
For trade receivables	-				-
For impairment of transferable securities	63,746			63,746	-
For impairment of Varioptic goodwill	-				-
<b>PROVISIONS FOR DEPRECIATION</b>	<b>377,588,779</b>	<b>25,126,665</b>	<b>-</b>	<b>853,344</b>	<b>401,862,100</b>
<b>GENERAL TOTAL</b>	<b>414,510,097</b>	<b>30,032,341</b>	<b>27,841,676</b>	<b>8,243,522</b>	<b>408,457,239</b>

## 1.1.3.5.5.

## Financial liabilities

FINANCIAL LIABILITIES	Dec 31, 2019	Dec 31, 2018
Convertible bonds	-	-
Borrowings and debt with credit institutions	-	-
Accrued interest payable	-	-
Cash pooling: Group advance / borrowings	-	-
<b>GENERAL TOTAL</b>	<b>-</b>	<b>-</b>

## 1.1.3.5.6.

*Accrued expenses*

<b>ACCRUED EXPENSES INCLUDED IN BALANCE SHEET ITEMS</b>	<b>Amount</b>
Convertible bonds	
Other bonds	
Borrowings and debt with credit institutions	
Sundry borrowings and financial debt	-
Trade payables and related	803,360
Tax and social security liabilities	977,518
Liabilities on fixed assets and related	-
Accrued expenses	-
Other liabilities	63,750
<b>TOTAL</b>	<b>1,844,628</b>

## 1.1.3.5.7.

*Exchange gains or losses*

<b>Type</b>	<b>Assets: unrealized loss</b>	<b>Difference offset through forex hedging</b>	<b>Provision for forex loss</b>	<b>Liabilities: unrealized gain</b>
On non-financial fixed assets				
On non-current financial assets	546,733		546,733	
On trade receivables	-		-	3,623
On current account receivables	2,016,338		2,016,338	350,061
On financial liabilities				
On operating liabilities	-		-	-
On current account liabilities	-		-	-
On fixed asset-related liabilities				
<b>TOTAL</b>	<b>2,563,071</b>	<b>-</b>	<b>2,563,071</b>	<b>-353,683</b>

## 1.1.3.6.

*Information on the income statement*

## 1.1.3.6.1.

*Revenues*

<b>Breakdown by region</b>	<b>Amount</b>
France	10,027,038
Europe excluding France	2,552
Other countries	191,176
<b>Total</b>	<b>10,220,766</b>

1.1.3.6.2. *Other income*

	Amount
Royalties billed to Parrot Drones	514,047
Royalties billed to Parrot Faurecia Automotive	1,329,840
Other	18,192
<b>Total</b>	<b>1,862,079</b>

1.1.3.6.3. *Financial income and expenses*

FINANCIAL INCOME	Amount	Allocated to
	-	Financial income from equity interests
	446,326	Other interest and related income
	35,165,616	Reversal of provisions
	-170,110	Transferred expenses
	127,099	Foreign exchange gain
	36,827	Capital gain on other transferable securities
	1,815	Capital gain on treasury stock
<b>TOTAL</b>	<b>35,607,574</b>	

FINANCIAL EXPENSES	Amount	Allocated to
	2,563,071	Provisions for exchange gains and losses
	-	Depreciation of shares distributed (unqualified)
	2,036,947	Depreciation of shares distributed under Macron Act
	-	Depreciation of transferable securities
	25,046,615	Depreciation of equity securities
	-	Depreciation of receivables from investments
	-	Depreciation of treasury shares being allocated
	80,050	Depreciation of current accounts
	233,658	Depreciation for financial risk
	64,529	Interest
	97,603	Foreign exchange loss
	8,678	Capital loss on treasury stock
<b>TOTAL</b>	<b>30,131,151</b>	

1.1.3.6.4. *Non-recurring income (expense)*

NON-RECURRING INCOME	Amount	Allocated to
	50,710	Income from disposal of asset items
	-	Non-recurring income from previous years
	3,697	Misc. non-recurring income
	919,582	Reversal of provisions for non-recurring expenses
	3,159,296	Transfer of non-recurring expenses
<b>TOTAL</b>	<b>4,133,286</b>	

<b>NON-RECURRING EXPENSES</b>	<b>Amount</b>
	1,759 Penalties
	730,185 Non-recurring expenses (linked to restructuring)
	48,907 Book value of assets divested
	3,159,296 Merger loss from acquisition of shares issued by the Company
	0 Non-recurring depreciation and provisions
<b>TOTAL</b>	<b>3,940,147</b>

Non recurring income of 193 K€ was recorded. It primarily includes the difference between the reversal of provisions (920 K€) and the non-recurring costs recorded (730 K€) for a total of 189 K€.

The 730 K€ of non-recurring costs linked to the restructuring comprise spending linked to the departure plans for 2017 and 2018 for 20 K€ and 187 K€ respectively (primarily payroll taxes), as well as costs linked to the public tender offer (primarily legal advisor, auditing and consulting fees).

The loss from the share buyback for 3,159 K€ corresponds to the expense for bonus shares awarded to employees during the year; it was transferred to staff costs thanks to a cost transfer for the same amount.

#### 1.1.3.6.5. Corporate income tax

<b>BREAKDOWN</b>	<b>Pre-tax earnings</b>	<b>Tax</b>
Income from ordinary operations	4,025,292	
Common law tax		
Discount rate tax		
Withholding tax		
Tax credit		
Provisions for tax		
Non-recurring income / loss (excluding equity interest)	193,138	
Pre-tax earnings	4,218,430	
Tax		-
<b>Net income</b>		<b>4,218,430</b>

1.1.3.6.6. *Unrealized taxes*

	Base	Tax
Temporarily taxable transactions		
Losses carried forward	28,960,593	
Loss for the year		
Loss consumed during the year	-3,291,665	
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	353,683	
Provisions for retirement benefits	233,000	
Total	26,255,612	
Future tax savings (based on a rate of 33.33%)		8,750,995
<b>Total</b>	<b>26,255,612</b>	<b>8,750,995</b>

1.1.3.7. *Other information*1.1.3.7.1. *Payables and receivables*

RECEIVABLES	Gross amount	Under 1 year	Over 1 year
FIXED ASSETS			
Equity interest-related receivables	-	-	-
Loans	-	-	
Other non-current financial assets	-	38,625	38,625
<b>TOTAL</b>	<b>-</b>	<b>38,625</b>	<b>38,625</b>
CURRENT ASSETS			
Advances and deposits paid on orders	2,851	2,851	
Bad or disputed receivables	-	-	
Other trade receivables	1,422,877	1,422,877	
Receivables representative of loaned securities	-	-	
Staff and related	1,841	1,841	
Social security and related	-	-	
State - corporate income tax	5,718,134	480,067	5,238,067
State - value-added tax	169,421	169,421	
State - other taxes, duties and related	988,398	988,398	
Group and related	230,303,903	-	230,303,903
Sundry receivables	207,777	207,777	
<b>TOTAL</b>	<b>238,815,203</b>	<b>3,273,233</b>	<b>235,541,970</b>
Prepaid expenses	-	-	
<b>GENERAL TOTAL</b>	<b>238,815,203</b>	<b>3,311,858</b>	<b>235,503,345</b>

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

Other non-current financial assets exclusively concern rental security deposits.

The tax receivables (State – corporate income tax) primarily concern the research tax credit for the year for 3,120 K€ and the portion of research tax credits not financed for previous years:

- 2016 for 480 K€
- 2017 for 183 K€
- 2018 for 1,935 K€

The Group receivables primarily concern the current account receivables on Parrot Drones for 230,217 K€. These receivables are classified as more than one year due to the financial support granted to Parrot Drones.

<b>PAYABLES</b>	<b>Gross amount</b>	<b>Under 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>
Convertible bonds	-	-		
Borrowings from credit institutions:	-	-		
Sundry borrowings and financial debt	-	-		
Advances and deposits received on current orders	2,501	2,501		
Trade payables and related	907,488	907,488		
Staff and related	699,097	699,097		
Social security and related	687,738	687,738		
Corporate income tax	-	-		
Value-added tax	230,359	230,359		
Surety bonds	-	-		
Other taxes and related	30,140	30,140		
Fixed asset payables and related	-	-		
Group and related	19,152,838	-	19,152,838	
Other payables	621,305	621,305		
Debt representative of borrowed securities	-	-		
Prepaid income	-	-		
<b>GENERAL TOTAL</b>	<b>22,331,466</b>	<b>3,178,627.90</b>	<b>19,152,838</b>	<b>-</b>

The Group liability concerns the current account liability with:

- Parrot Drones for 19,011 K€,
- Airinov for 130 K€,
- Parrot Air Support for 11 K€.

Other liabilities primarily concern the liability with Parrot Faurecia Automotive for 540 K€.

#### 1.1.3.7.2. *Off-balance sheet commitments*

The main off-balance sheet commitments at December 31, 2019 are as follows:

- Future payment commitments relating to operating lease agreements represent 821 K€.
- Parrot SA has given financial support to its subsidiary Parrot Drones.
- 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.



1.1.3.7.3. *Retirement benefits*

Main assumptions	2019	
Discount rate	0.90%	
Inflation rate	1.80%	
Rate of wage growth	3.10%	
Mortality tables	INSEE TH/TF 12-14	
Retirement approach	Voluntary	
Retirement age	Executive- grade staff	Non- executives
	65	63
<b>Turnover</b>		
Aged 25 or less	30.00%	26.00%
25 - 29 years old	24.00%	20.00%
30 - 34 years old	14.00%	13.00%
35 - 39 years old	8.00%	7.00%
40 - 44 years old	4.50%	4.50%
45 - 49 years old	2.00%	2.00%
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	
<b>Change in provisions at Dec 31, 2019</b>		
(Provision)/ Amount paid in advance at start of period	201,000	
Income / expense for 2019	32,000	
Benefits paid by employer		
<b>(Provision)/Amount paid in advance at Dec 31, 2019</b>	<b>233,000</b>	

1.1.3.7.4. *Headcount*

Headcount at December 31	2019	2018
	35	48
Average headcount	2019	2018
	42	54

1.1.3.7.5. *Executive compensation*

The total compensation awarded to the management bodies totaled 481,512 €.

1.1.3.7.6. *Statutory auditors' fees*

The breakdown of statutory auditors' fees is as follows:

<i>In €</i>	<b>2019</b>	
	<b>BMA</b>	<b>EY</b>
Accounts certification	65,000	80,000
Services other than accounts certification:		
Services other than accounts certification required by legislation and regulations		
Other services other than accounts certification	15,000	
<b>TOTAL</b>	<b>80,000</b>	<b>80,000</b>

## 1.2. Audit of historical financial information

### 1.2.1. Statutory auditors' report on the financial statements for 2019

Following pages.

#### 1.2.1.1. *Statutory Auditors' report on the consolidated financial statements for 2019*

For Parrot's general meeting,

#### **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, 2019, as appended to this report. These financial statements were approved by the Board of Directors on April 22, 2020 based on the elements available on that date in the evolving context of the health crisis linked to Covid-19.

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, 2019 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 16 "Leases" at January 1, 2019.

#### **Basis for our opinions - Key audit matters**

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 audit matters 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, prepared and approved under the conditions indicated previously, 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.

## Depreciation of inventories

Risk identified	Our response
<p>Inventories of finished products are recorded on the consolidated balance sheet at December 31, 2019 for a gross total of 22.8 M€ and a net total of 13.3 M€.</p> <p>As indicated in Note 3 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 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> <p>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 of 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.</p> <p>We have therefore considered this to be a key audit matter 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.</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"> <li>▶ reviewed the procedures put in place to identify items whose realizable value would be lower than their weighted average unit cost;</li> <li>▶ taken note of the procedures and controls put in place by the logistics provider to identify damaged or malfunctioning items;</li> <li>▶ compared the methodology for calculating the slow-moving provision with the statistical method defined by the group;</li> <li>▶ compared, based on samples, the cost of inventory items based on the future net sales prices retained by management for the 2020 budget, approved by the Board of Directors on March 17, 2020, in order to assess the amount of the impairment;</li> <li>▶ 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.</li> </ul>

## Evaluation of credit notes to be issued

Risk identified	Our response
<p>As indicated in Note 3 to the consolidated financial statements, revenues from sales of goods are recorded when control of the goods has been transferred to the buyer.</p> <p><u>Provision for commercial returns</u></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>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"> <li>▶ analyzed the main commercial agreements and reviewed retailers' commercial practices with management;</li> </ul>

Provision for margin guarantees

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.

Provisions for commercial returns and margin guarantees represent 0.3 M€ and 0.8 M€ respectively at December 31, 2019 and are recorded in credit notes to be issued ("Other liabilities") and deducted from revenues.

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 matter because the use of judgement by the Group's management team to estimate these credit notes to be issued is 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 to estimate requests for commercial returns by retailers and the estimation of credit notes already issued for these requests;
- ▶ compared the actual returns in a subsequent period with the returns provisioned on the reporting date 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:

- ▶ reviewed the process for estimating retailer stock levels at year-end;
- ▶ 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 2020 budget, presented during the Board of Directors' meeting on March 17, 2020;
- ▶ assessed the accounting principles applied by the group for the recognition and classification of provisions for margin guarantees.

**Leases**

Risk identified	Our response
<p>As indicated in section 1.2.3 of the notes to the consolidated financial statements, the Group applied IFRS 16 "Leases" for the first time at January 1, 2019 with the simplified retrospective method.</p> <p>This standard notably modifies the accounting treatment of leases, with the recognition, from the lease's commencement, of a right-of-use asset concerning the leased asset, alongside a liability for the lease charges payable during the lease's term.</p> <p>The first application of the standard led to rights of use recorded at January 1, 2019 with a net value of 9.2 M€ and 2.1 M€ of lease receivables relating to subleases. On this same date, the lease liability represented 11.4 M€, with 8.8 M€ of non-current liabilities.</p> <p>We considered the application of the new standard for leases to be a key audit matter due to the significant nature of these leases in relation to the financial statements at the start of the reporting period, as well as the complexity of the process applied and the significant level of judgement to be used by the Group to determine the assumptions used (lease term, incremental borrowing rate).</p>	<p>We assessed the exhaustive nature of the IFRS 16 restatement by:</p> <ul style="list-style-type: none"> <li>▶ conducting a review based on an analysis of the scope for leases retained by the Group;</li> <li>▶ comparing the off-balance sheet commitments reported at December 31, 2018 with the IFRS 16 liability at the start of the reporting period;</li> <li>▶ analyzing the lease charges for 2019 compared with the restated charges under IFRS 16.</li> </ul> <p>Based on samples, we corroborated the information used to determine lease-related assets and liabilities with the underlying contractual documents and the information provided by the Parrot Group, particularly concerning the duration of leases.</p> <p>Based on samples, we analyzed the data used for choosing the discount rates for lease charges in relation to the structural elements of the leases (duration, type of asset and currency).</p> <p>We analyzed the consistency of the incremental borrowing rates used by the Group compared with market data.</p> <p>We recalculated the amount of the lease liability and the right of use, and compared the result obtained with the amounts valued and recorded by the Group.</p> <p>We also assessed the appropriate nature of the information given in Note 1.2.3 to the consolidated financial statements.</p>

## Specific verifications

In accordance with industry standards in France, we also carried out the specific procedures required under the legislation and regulations in force to verify the information relating to the Group, given in the Board of Directors' management report, approved on April 22, 2020. With regard to events occurring and elements known after the reporting date **relating to the effects of the crisis linked to Covid-19, management informed us that they will be communicated on during the general meeting convened to approve the accounts.**

**We do not have any observations to make regarding the true and accurate nature of this information or its application for the consolidated financial statements.**

We certify that the consolidated sustainability performance report 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 report 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 by your general meeting on June 6, 2012 for ERNST & YOUNG et Autres and your general meeting on June 13, 2019 for BM&A.

At December 31, 2019, BM&A was in the first year of its engagement, while ERNST & YOUNG et Autres was in its eighth 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 their 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 audit matters, 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 and Paris-La Défense, April 30, 2020

**The Statutory Auditors**

**BM&A**

**ERNST & YOUNG et Autres**

**Eric Seyvos Marie-Cécile Moinier**

**Pierre Bourgeois**



1.2.2. Statutory auditors' report on the corporate financial statements for 2019

**STATUTORY AUDITORS' REPORT**  
**ON THE ANNUAL FINANCIAL STATEMENTS**

**FINANCIAL YEAR ENDED DECEMBER 31, 2019**

For Parrot's general shareholders' meeting,

---

**1. 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, 2019, as appended to this report. These financial statements were approved by the Board of Directors on April 22, 2020 based on the elements available on that date in the evolving context of the health crisis linked to Covid-19.

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.

---

**2. 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 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, 2019 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.

## 5. BASIS FOR OUR OPINIONS – KEY AUDIT MATTERS

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 audit matters 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, prepared and approved under the conditions indicated previously, 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, related receivables and current accounts

Risk identified	Our audit approach
<p>The equity securities presented on the balance sheet for a gross total of 192 M€ and 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 and the current accounts, presented on the balance sheet for 47.1 M€ net, are recorded at their nominal value. On each reporting date, equity securities are depreciated based on their inventory value when their net book value is higher than their value in use.</p> <p>As indicated in Note 3.3.3 to the annual financial statements, the inventory value of the securities, related receivables and current accounts is estimated, depending on the securities concerned, based on the value of their portion of shareholders' equity held or with various methods based on future prospects which value the equity securities on a consistent basis with the stock market value adjusted for a minority discount.</p> <p>The estimation of the inventory value therefore requires management to exercise its judgment concerning its choice of the elements to be considered depending on the securities concerned.</p> <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>	<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>We obtained the management team's analyses for valuing securities and we assessed their consistency with the valuation based on the share price.</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 the valuation of securities based on future prospects, we:</p> <ul style="list-style-type: none"> <li>• assessed the relevance of the valuation methodologies used,</li> <li>• reviewed the consistency of the budget forecasts retained with those presented by the Board of Directors for 2020 and those estimated by management for subsequent years,</li> <li>• checked the arithmetical accuracy of the calculations.</li> </ul> <p>We assessed the recoverable nature of related receivables and current accounts based on the analyses carried out on the equity securities.</p> <p>We assessed the appropriate nature of the financial information provided in Note 3.3.3 to the annual financial statements concerning the share price used.</p> <p>Our work was carried out with our firms' valuation experts.</p>

<p>We considered that the correct valuation of equity securities, related receivables and current accounts was a key audit matter 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>	
---	--

## 6. SPECIFIC VERIFICATIONS

---

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

### ***Information provided in the management report and other documents concerning the financial position and annual financial statements for shareholders***

We do not have any observations to make regarding the accuracy of the information given in the Board of Directors' management report, approved on April 22, 2020, and in the other documents provided to shareholders concerning the financial position and annual financial statements, or its consistency with the annual financial statements. With regard to events occurring and elements known after the reporting date relating to the effects of the crisis linked to Covid-19, management informed us that they will be communicated on during the general meeting convened to approve the accounts.

We certify that the information provided concerning terms of payment in accordance with Article D. 441-4 of the French commercial code is accurate and consistent with 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 the consolidated companies that it controls. 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.

## 7. INFORMATION RESULTING FROM OTHER LEGAL AND REGULATORY REQUIREMENTS

---

### ***Appointment of the statutory auditors***

We were appointed as Parrot's statutory auditors by your general meeting on June 6, 2012 for ERNST & YOUNG et Autres and your general meeting on June 13, 2019 for BM&A.

At December 31, 2019, ERNST & YOUNG et Autres was in the eighth consecutive year of its engagement, while BM&A was in its first year.

## **8. 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 have been prepared under the responsibility of the Board of Directors.

## **9. 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 non-detection of a material misstatement due to fraud is higher than that of a material misstatement due to an error, since fraud may involve collusion, forgery, deliberate omissions, misrepresentation or the circumvention of internal control processes;
- 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 their 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 and Paris-La Défense, April 30, 2020

The Statutory Auditors

BM&A

ERNST & YOUNG et Autres

Eric Seyvos Marie-Cécile Moinier

Pierre Bourgeois

### 1.2.3. Other information audited by the statutory auditors

NA.

### 1.2.4. Information not audited by the statutory auditors

NA.

## 1.3. Pro forma financial information

NA.

## 1.4. Dividend policy

The Company has not paid out any dividends over the last three years.

On the date of this Document, the Company intends to use its operational cash flow to finance its business over the short and medium term. The Company does not intend to pay out any dividends to its shareholders in the near future.

## 1.5. Arbitration and legal proceedings

### ■ In the United States

The Company and its subsidiaries Parrot Drones SAS and Parrot Inc. are regularly involved in patent-related proceedings in the United States (see section III. "Risk factors"). Third parties may claim that certain Group products might reproduce all or part of any patent-protected elements that they hold. In general, the Group intends to vigorously defend itself against such allegations, on the one hand by challenging the validity of the patent claims against it, and on the other hand by challenging the infringing nature of its products. The US Patent and Trademark Office (USPTO) may be asked to conduct a new review of patents that it has issued previously, which may result in the patent being fully or partially invalidated (Inter Partes Review or Ex Parte Reexamination procedures).

The Group has been involved in litigation since 2016 with QFO Labs Inc. ("QFO Labs") with Delaware District Court concerning several patents for which the basic idea involves drones replicating printed directions under remote control. The Group is disputing the validity of these patents in connection with several proceedings, the full results of which are not yet known on the date of this document. Alongside the proceedings underway with the USPTO and Delaware District Court, QFO Labs opened proceedings with Minnesota District Court in 2017 against three of the Group's distributors for infringement. The three distributors have formally asked Parrot to compensate them in the event of any conviction. On August 17, 2018, Minnesota District Court decided to suspend the proceedings opened by QFO Labs against the Group's distributors pending the settlement of the dispute being handled by the Delaware Court. This dispute is not covered by an insurer.

### ■ In France

On January 10, 2019, the French financial markets authority (AMF) decided to open an investigation concerning the financial information and market for Parrot's securities (and any financial instruments whose price or value depends on the price or value of Parrot's securities) from January 1, 2018. This investigation is ongoing and the outcome is not yet known on the date of this document.

There are no other governmental, legal or arbitration proceedings that have in the past 12 months had a material impact or would be likely in the future to have a material impact on the financial position or profitability of the Company and/or the Group.

**1.6. Significant change in the issuer's financial position since the last financial year-end**

Independently from the current health crisis, for which it is not currently possible to determine accurate figures, no significant events have occurred since the year-end date of December 31, 2019 concerning the Group's financial position.

Further information is presented in chapter X. "Information on trends", and in sections 18.1.6.6. "Note 38 – Post-balance sheet events" and 18.2.3.2. "Significant post-balance sheet events".