
2017 business and earnings

- **2017 Group revenues: -9%, global growth for Drones: +5%**
 - **Commercial Drone revenues: +36%**
 - **Gross margin: +91%**
 - **Consolidated operating expenditure: -31%**
 - **Net cash at December 31, 2017: €115.4m**
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- **Parrot, Europe's leading drone group, is effectively positioned to move forward in 2018 with a determined and engaged approach**

Henri Seydoux, Chairman and CEO and Parrot's main shareholder: *"In 2017, we experienced a delicate period, but one which will be beneficial for the Parrot Group's future. We completely rethought our R&D, suspended our consumer product launches, carried out an in-depth review of our distribution strategy, and supported the ramping up of our Business Solutions. After significantly scaling back our costs, we have also recruited new talents to accelerate the development of our Business Solutions and further strengthen our brand image.*

Parrot is now an end-to-end drone group and the leading European: from consumers to professionals, from hardware to software and services, across three vertical markets: Precision Farming, 3D Mapping, Geomatics and Inspection, and lastly Security.

With this more competitive, dynamic and solid configuration, we will be innovating over the coming months and will continue to develop both of our activities."

2017 highlights

- **Consumer Drones (51% of revenues): offer and organization fully rethought**

At the start of 2017, Parrot reviewed its R&D roadmap from top to bottom with a view to optimizing its capacity for innovation over the long term, particularly with the development of a new technological platform to serve the next generations of drones. Parrot has reconfigured its consumer organization, enabling it to reduce operating expenditure by over 40%, while continuing to invest in Business Solutions.

Parrot has managed the evolution of its product portfolio to ensure the continued competitiveness of its flagship products since 2016 and secure sales for end-of-life products. Alongside this, the selective distribution strategy has been initiated to support the competitiveness of the products and manage margin and stock levels more effectively. To develop its online sales, Parrot.com has been fully overhauled and the Sales & Marketing department brought new expert capabilities on board at the end of the year.

- **Drone Business Solutions (27% of revenues): solid positions in three strongly-developing vertical markets**

Parrot has launched four multi-capability drone solutions designed to meet the needs of small and medium-sized businesses in these three core vertical markets: (i) Precision Farming, (ii) 3D Mapping, Geomatics and Inspection, and (iii) Security.

Parrot has further strengthened the leading positions established by its subsidiaries (senseFly, Pix4D) for high precision drone-based data collection and analysis and put in place additional services and guarantees that are aligned with the needs of key accounts, which are now incorporating drones into their day-to-day operations.

Parrot has also developed its service activities: Parrot Air Support provides professional drone, data engineering and consulting services covering all infrastructure lifecycle phases. Parrot Airinov has continued to develop its business covering agronomy services and advanced data analysis for precision farming. This subsidiary is the market leader in France and has launched its international development, through various missions in Africa.

- **Equity interests, governance and investments**

The agreement for the partnership between Parrot Automotive SAS⁽¹⁾ and Faurecia was signed in the first quarter, with an initial interest acquired, through a capital increase carried out by Faurecia for Parrot Automotive, valuing this company at €100m. In 2017, Faurecia held 20% of Parrot Automotive and the company is equity-accounted in Parrot's consolidated accounts. Parrot has issued €40m of convertible bonds, which will be able to be redeemed for Parrot Automotive shares from 2019. If they were converted, Faurecia would hold 50.01% of Parrot Automotive based on the entry value. In addition, if initiated by either of the parties – through an option mechanism – Faurecia could hold Parrot Automotive's entire capital in 2022, on a basis reflecting this company's economic value when the options are exercised. In 2017, Parrot Automotive and Faurecia capitalized on their joint work aiming to develop interior solutions for the cockpit of the future, which will be connected, adaptive and predictive.

In May 2017, the Group made governance changes: Gilles Labossière, Parrot's Chief Financial Officer since 2008, was appointed as the Parrot Group's Executive Vice President and COO. At the end of the year, new talents from diverse technology, consumer marketing and business development backgrounds took on managerial positions within the Group to consolidate Parrot's development in the drone sector, covering both consumer and business solutions.

Since summer 2017, the Group has resumed its investments in business solutions and drones, with a total of €7.1m for the year:

Parrot acquired a further 9.4% stake in the UK-based Biocarbon Engineering, taking its interest up to 23%. This company is specialized in reforestation and researching carbon impacts on the atmosphere.

Parrot also further strengthened its interest in Planck Aerosystems, up from 23% to 49%. This US startup has advanced technologies that notably enable drones to operate from moving vehicles, including precision landing, automatically identifying and tracking objects on the ground or in water, and building new categories of drone data.

Lastly, Parrot also subscribed for a capital increase to hold 33.34% of a Belgian company's capital and acquired a 23.02% stake in a French company. These two operations in the commercial drone sector represent a total of €2.4m.

2017 full-year and fourth-quarter earnings

Following the partnership agreement between Parrot Automotive and Faurecia signed on March 24, 2017, the OEM Automotive business (Parrot Automotive SAS and its subsidiaries Parrot Automotive Asia Pacific and, indirectly, Parrot Automotive Shenzhen) is presented as income from operations held for sale for the first quarter of 2017, then as income from associates since the second quarter of 2017. The figures given below for the fourth quarter of 2016 have been restated to be comparable and have not been reviewed by the statutory auditors. The accounts were approved by the Board of Directors on March 14, 2018 and the audit of the annual financial statements is currently being finalized.

- **Breakdown of revenues:**

| IFRS, €M (details appended) | FY 2017 | FY 2016 | Change | Q4 2017 | Q4 2016 restated | Change |
|-----------------------------|--------------|--------------|------------|-------------|------------------|-------------|
| - Consumer drones | 78.2 | 83.3 | -6% | 27.8 | 45.0 | -38% |
| - Business solutions | 41.6 | 30.6 | +36% | 11.4 | 8.9 | +28% |
| DRONE TOTAL | 119.8 | 114.0 | +5% | 39.2 | 53.9 | -27% |
| - Other consumer products | 32.1 | 52.5 | -39% | 9.7 | 14.6 | -33% |
| GROUP TOTAL | 151.9 | 166.5 | -9% | 49.0 | 68.5 | -28% |

Consumer drones

The product portfolio's resizing and adjustments, the acceleration of sales of end-of-life products and the implementation of the selective distribution strategy at the end of the year are reflected in a €5.4m contraction in sales to €78.2m in 2017, slightly below the Group's targets. Parrot sold 604,000 consumer drone units in 2017: the drop in volume (-26%) compared with the contraction in revenues (-6%) reflects the good performance achieved with sales prices.

From a resource allocation perspective (R&D, Sales & Marketing), revenues include sales from the Parrot Professional range, combining consumer and commercial technologies, launched at the end of the first half of 2017 and contributing €2.3m in 2017.

Business Solutions (commercial drones)

Business Solutions made progress throughout the year, climbing €11m or +36% from 2016 to €41.6m.

Growth is being driven by the "expert" subsidiaries, senseFly and Pix4D, which represent 85.5% of Business Solutions revenues and delivered 44% and 38% growth respectively.

Revenues from services and consulting activities for Precision Farming and 3D Mapping, Geomatics and Inspection (Parrot Airinov, Micasense, Parrot Air Support) are up 29% to €6.3m.

(1) i.e. the OEM Automotive business. The Retail Automotive business is not concerned by this partnership.

Other consumer products

The contraction (-39%) in this historical business (connected devices and retail automotive handsfree kits) is in line with the strategy to realign the business around consumer and commercial civil drones. Commercial operations were rolled out at the end of the year to help clear stock for these products, in line with the seasonality for consumer product sales: all the connected devices have been sold and there is now only the automotive handsfree kits left.

• Condensed income statement: focus on the gross margin

| IFRS, €M (<i>details appended</i>) | FY 2017 | FY 2016 | Change | Q4 2017 | Q4 2016 restated | Change |
|--|---------------|---------------|-------------|---------------|------------------|---------------|
| Revenues | 151.9 | 166.4 | -9% | 49.0 | 68.5 | -28% |
| Gross margin | 51.2 | 26.8 | +91% | 10.6 | 10.8 | -1.8% |
| <i>% of revenues</i> | <i>33.7%</i> | <i>16.1%</i> | | <i>21.6%</i> | <i>15.8%</i> | |
| Income from ordinary operations | -57.6 | -131.2 | +56% | -16.3 | -32.2 | +49.3% |
| <i>% of revenues</i> | <i>-37.9%</i> | <i>-78.8%</i> | | <i>-33.2%</i> | <i>-214.3%</i> | |
| EBIT | -69.3 | -136.6 | +49% | -14.4 | na | na |
| <i>% of revenues</i> | <i>-45.6%</i> | <i>-82.0%</i> | | <i>-29.5%</i> | | |
| Net income (Group share) | -38.2 | -137.9 | +72% | -22.1 | na | na |
| <i>% of revenues</i> | <i>-25.2%</i> | <i>-82.9%</i> | | <i>-45.3%</i> | | |

The consolidated **gross margin** for 2017 came to 33.7% of revenues, up 91% year-on-year. In the fourth quarter, the gross margin represented 21.6%: in addition to the seasonality for promotional operations focused on the end of the year, at the end of December Parrot chose to finalize its sales of end-of-life drone ranges and connected products.

Current operating expenditure totaled €108.7m in 2017, down €49.2m or -31%, in line with the Group's objective to reduce its operating expenditure by 30%. The resources allocated for consumer drones were reduced by 40%, while continuing to move forward with investments in Business Solutions.

At December 31, 2017, the Group's **workforce** (permanent and fixed-term contracts) represented 597 people (854 at December 31, 2016), in addition to 32 external contractors (17 at December 31, 2016). The Consumer business had 269 employees (534 at December 31, 2016), with 284 for Commercial Drones (255 at December 31, 2016). R&D operations covered a total of 249 employees and 23 contractors (376 and 10 at December 31, 2016), while the Sales & Marketing department had 161 employees and 5 contractors (221 and 4 at December 31, 2016).

Cash flow and balance sheet at December 31, 2017

Net cash represents €115.4m at end-2017 (versus €184.8m at end-2016), with the following breakdown: €144.5m of cash and cash equivalents, €13.0m of short-term investments, and €42.2m of financial liabilities (convertible bonds issued in connection with the Parrot Faurecia Automotive operation).

The change in net cash over the year came to -€69.4m: the Group's EBIT (-€69.3m), including €11.7m of non-recurring costs linked primarily to the restructuring plan, and €31.2m of investments (exercising of Pix4D put and acquisitions of equity interests) are partially offset by the €28.0m positive change in working capital, made possible by work to calibrate and optimize stock levels.

Parrot's shareholders' equity represents €253.8m (€290.3m at December 31, 2016), with a total balance sheet of €402.7m (€506.6m at December 31, 2016). At €23.3m (versus €46.4m at December 31, 2016), net inventories are in line with seasonal trends and the changes in the product portfolio. At end-2017, trade receivables totaled €40.2m (€59.8m at December 31, 2016), with €37.6m of trade payables (€52.1m at December 31, 2016).

Outlook for 2018

Parrot is the leading European drone group on a market that is seeing the emergence of a new industry with global strategic and economic stakes. With the completion of its reorganization and redeployment program, Parrot is positioned to resume its development plan for consumer drones and continue moving forward with its deployment of Business Solutions.

In the short term, the resizing of the consumer product portfolio around a scaled-back range of drones and the continued reduction in sales of Retail Automotive products will affect the Group's revenues.

In 2018, Parrot will introduce a new generation of consumer drones, roll out a new brand strategy and continue moving forward with its selective distribution policy. The Group will also continue to support the development of Business Solutions. The gross margin generated by the combination of its two offers is expected to continue improving and the cash consumption required for the development of drone activities is expected to be reduced.

Within a new high-growth industry, the Group believes that it has the resources and assets needed to develop its leadership, combined with its capabilities to help drive the expansion of the commercial drone market and the development of Business Solutions: in 2018, Parrot will continue rolling out its engaged growth strategy.

Next financial dates

- 2018 first-quarter earnings: May 28, 2018
- Parrot's general shareholders' meeting: June 12, 2018
- 2018 second-quarter earnings: August 2, 2018

ABOUT PARROT

Founded in 1994 by Henri Seydoux, Parrot is today the leading European group in the fast-growing industry of drones. Visionary, at the forefront of innovation, Parrot is a real 'End to End' drone group from hardware and software to services.

Parrot, the world's number 2 of the consumer drone market, designs drones known for their high performance and ease of use.

Parrot is also offering business solutions, covering drones, software and services mainly focusing on 3 major verticals: (i) Agriculture, (ii) 3D Mapping, Surveying and Inspection and (iii) Public safety.

The Parrot Group designs and engineers its products in Europe, mainly in France and Switzerland. It currently employs 600 people worldwide and makes the majority of its sales outside of France. Parrot, headquartered in Paris, has been listed since 2006 on Euronext Paris (FR0004038263 - PARRO). For more information: www.parrot.com

CONTACTS

Investors, analysts, financial media

Marie Calleux - T. : +33(0) 1 48 03 60 60
parrot@calyptus.net

Tech and consumer media

Vanessa Loury / Fabien Laxague - T. : +33(0) 1 48 03 60 60
vanessa.loury@parrot.com / fabien.laxague@parrot.com

APPENDICES

Following the partnership agreement between Parrot Automotive and Faurecia signed on March 24, 2017, the OEM Automotive business (Parrot Automotive SAS and its subsidiaries Parrot Automotive Asia Pacific and, indirectly, Parrot Automotive Shenzhen) is presented as income from operations held for sale for the first quarter of 2017, then as income from associates since the second quarter of 2017. The figures given below for Q4 2016 have been restated to be comparable and have not been reviewed by the statutory auditors. The accounts were approved by the Board of Directors on March 14, 2018 and the audit of the annual financial statements is currently being finalized.

Breakdown of revenues by business

| Consolidated accounts - IFRS (€M and % of Group revenues) | Q4 2017 | | Q4 2016 restated | | 2017 | | 2016 | |
|--|-------------|------------|---------------------|------------|--------------|------------|--------------|------------|
| Consumer drones and products | 37.5 | 77% | 57.3 | 84% | 109.7 | 72% | 131.0 | 79% |
| - Consumer drones ⁽¹⁾ | 28.1 | 57% | 45.0 | 66% | 78.2 | 51% | 83.3 | 50% |
| - Other consumer products ⁽²⁾ | 9.4 | 19% | 12.3 | 18% | 31.5 | 21% | 47.7 | 29% |
| Commercial drones and solutions | 11.4 | 23% | 8.9 | 13% | 41.6 | 27% | 30.6 | 18% |
| - Commercial equipment | 5.9 | 12% | 4.0 | 6% | 21.4 | 14% | 14.9 | 9% |
| - Software and services | 5.5 | 11% | 4.9 | 7% | 20.3 | 13% | 15.7 | 9% |
| Group total | 49.0 | | 68.5 | | 151.9 | | 166.5 | |

(1) Sequoia and Parrot Professional products are recorded in the “consumer drones” subcategory.

(2) Grouping together the Retail Automotive, Automotive Plug & Play and Connected Devices (audio and connected garden) product lines.

Consolidated income statement

| IFRS in €M and % of revenues | Q4 2017 | Q4 2016 restated | 2017 | 2016 |
|---|--------------|---------------------|--------------|---------------|
| Revenues | 49.0 | 68.5 | 151.9 | 166.4 |
| Gross margin | 10.6 | 10.8 | 51.2 | 26.8 |
| % of revenues | 21.6% | 15.8% | 33.7% | 16.1% |
| R&D costs | -9.6 | -13.3 | -36.9 | -52.7 |
| % of revenues | -19.6 | 19.5% | -24.3% | -31.7% |
| Sales and marketing costs | -12.8 | -9.8 | -44.8 | -68.4 |
| % of revenues | -26.2 | 14.4% | -29.5% | -21.6% |
| General and administrative costs | -2.3 | -1.5 | -16.6 | -20.4 |
| % of revenues | -4.6% | 2.2% | -11.0% | -12.2% |
| Production and quality costs | -2.1 | -5.0 | -10.4 | -16.5 |
| % of revenues | -4.4% | 7.3% | -6.8% | -9.9% |
| Income from ordinary operations | -16.3 | -32.2 | -57.6 | -131.2 |
| % of revenues | -33.3% | -47.0% | -37.9% | -78.8% |
| Other operating income and expenses | 1.9 | na | -11.7 | -5.4 |
| EBIT | -14.4 | na | -69.3 | -136.6 |
| % of revenues | -29.5% | | -45.6% | -82% |
| Financial income / expense | -2.5 | na | -5.3 | -2.0 |
| Income from associates | -4.2 | na | -6.7 | 0.1 |
| Income from discontinued operations, net of tax | NS | na | 43.5 | 5.3 |
| Corporate income tax | -0.8 | na | -1.1 | -8.1 |
| Net income | 22.3 | na | -39.3 | -141.4 |
| Minority interests | 0.2 | na | -0.7 | -3.5 |
| Net income (Group share) | -22.1 | na | -38.2 | -137.9 |
| % of revenues | -45.3% | | -25.2% | -82.9% |

na: not available; ns: not significant.

Consolidated balance sheet

| ASSETS - IFRS, €M | Dec 31, 2017 | Dec 31, 2016 |
|---|--------------|--------------|
| Non-current assets | 160.9 | 61.2 |
| Goodwill | 41.7 | 43.6 |
| Other intangible assets | 1.5 | 3.9 |
| Property, plant and equipment | 4.1 | 8.1 |
| Investments in associates | 107.3 | 1.2 |
| Financial assets | 6.0 | 3.6 |
| Deferred tax assets | 0.3 | 0.7 |
| Current assets | 241.7 | 362.6 |
| Inventories | 23.3 | 46.4 |
| Trade receivables | 40.2 | 59.8 |
| Other receivables | 20.7 | 28.4 |
| Other current financial assets | 13.0 | 28.0 |
| Cash and cash equivalents | 144.5 | 200.0 |
| Assets held for sale | - | 82.8 |
| TOTAL ASSETS | 402.7 | 506.6 |
| Shareholders' equity | | |
| Share capital | 4.6 | 4.6 |
| Additional paid-in capital | 331.7 | 331.7 |
| Reserves excluding earnings for the period | -48.2 | 86.7 |
| Earnings for the period - Group share | -38.2 | -137.9 |
| Exchange gains or losses | 4.0 | 5.2 |
| Equity attributable to Parrot shareholders | 253.8 | 290.3 |
| Minority interests | -2.7 | -2.2 |
| Non-current liabilities | 71.7 | 31.3 |
| Non-current financial liabilities | 42.2 | 1.2 |
| Provisions for pensions and other employee benefits | 1.0 | 1.7 |
| Deferred tax liabilities | 1.7 | 0.5 |
| Other non-current provisions | - | 0.01 |
| Other non-current liabilities | 26.8 | 27.9 |
| Current liabilities | 79.8 | 173.4 |
| Current financial liabilities | - | 42.0 |
| Current provisions | 13.9 | 15.6 |
| Trade payables | 37.6 | 52.1 |
| Current tax liability | 0.2 | 2.4 |
| Other current liabilities | 27.9 | 61.2 |
| Liabilities held for sale | - | 13.8 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 402.7 | 506.6 |

Consolidated cash-flow statement

| IFRS, €M | Dec 31, 2017 | Dec 31, 2016 |
|---|--------------|---------------|
| Operating cash flow | | |
| Earnings for the period from continuing operations | -38.9 | -141.4 |
| Share in income from associates | 6.7 | -0.06 |
| Depreciation and amortization | 6.1 | 33.0 |
| Capital gains and losses on disposals | -44.7 | -10.8 |
| Tax charges | 1.1 | 9.1 |
| Cost of share-based payments | 1.7 | 6.2 |
| Net finance costs | 0.3 | 0.6 |
| Cash flow from operations before net finance costs and tax | -67.7 | -103.3 |
| Change in working capital requirements | 27.9 | 12.1 |
| Tax paid | -0.5 | -1.4 |
| Cash flow from operating activities (A) | -40.3 | -92.6 |
| Investing cash flow | | |
| Interest received | | |
| Acquisition of property, plant and equipment and intangible assets | -2.3 | -13.8 |
| Acquisition of subsidiaries, net of cash acquired ⁽²⁾ | -25.4 | -29.1 |
| Acquisition of long-term financial investments | -3.6 | -3.2 |
| Increase in other current financial assets | | |
| Disposal of property, plant and equipment and intangible assets | 0.09 | 9.9 |
| Disposal of subsidiaries, net of cash divested | -9.4 | - |
| Disposal of long-term financial investments | 0.2 | 3.5 |
| Cash flow from investment activities (B) | -40.4 | -32.7 |
| Financing cash flow | | |
| Equity contributions ⁽³⁾ | - | 0.5 |
| Dividends paid | - | - |
| Receipts linked to new loans | 41.1 | 25.3 |
| Cash invested for over 3 months | 14.9 | 130.0 |
| Net finance costs | -0.3 | -0.6 |
| Exchange hedging instruments | - | - |
| Repayment of short-term financial debt (net) | -42.0 | -1.8 |
| Repayment of other debt | - | - |
| Sales / (Purchases) of treasury stock ⁽⁴⁾ | -0.06 | -5.7 |
| Interest paid | - | - |
| Cash flow from financing activities (C) | 13.7 | 147.7 |
| Net change in cash position (D = A+B+C) | -67.0 | 22.3 |
| Net foreign exchange gain / loss | -4.8 | 0.8 |
| Cash and cash equivalents at start of period | 216.3 | 193.1 |
| Cash and cash equivalents at end of period | 144.5 | 216.3 |
| Cash and cash equivalents at end of period – discontinued operations (IFRS 5) | - | 16.3 |
| Cash and cash equivalents at end of period – continuing operations | 144.5 | 200.0 |
