Parrot®

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Paris trade and company register: 394 149 496
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Reference Document

2017

AMF | AUTORITÉ DES MARCHÉS FINANCIERS

This document is a free translation of the French language reference document that was filed with the French securities regulator (Autorité des marchés financiers, AMF) on April 30, 2018 under number D.18-0450, in accordance with Article 212-13 of the AMF's general regulations. This English version has not been approved by the AMF. This translation has been prepared solely for the information and convenience of English speaking readers. No assurances are given as to the accuracy or completeness of this translation, and Parrot assumes no responsibility with respect to this translation or any misstatement or omission that may be contained therein. In the event of any ambiguity or discrepancy between this translation and the French reference document, the French reference document shall prevail.

The French document is available on the AMF site (www.amf-france.org) and the Parrot site (www.parrot.com). The English document is only available on the Parrot site. A copy of this document may also be obtained free of charge by calling +33 1 48 03 60 60 or sending a letter to Parrot, Investor Relations, 174 quai de Jemmapes, 75010 Paris, France.

Note to readers

In connection with this Reference Document:

– The **"Company"** refers to Parrot S.A. and its subsidiaries Parrot Drones SAS (and its subsidiaries: Parrot Asia Pacific Ltd, Parrot Trading Shenzhen Ltd, Parrot Air Support, Parrot Inc, MicaSense Inc, Airinov SAS, senseFly SA, Pix4D SA), as well as its other subsidiaries Parrot Gmbh, Parrot UK Ltd, Parrot Iberia SL, Parrot Italia Srl, Parrot Anz Ltd Limited, Parrot Japan KK, Chez Parrot Sarl, Parrot Shmates SAS and Parrot Automotive SAS (and its subsidiaries: Parrot Automotive Asia Pacific Ltd, Parrot Automotive Shenzhen)

Certain figures are expressed in "millions of euros" (€M), "thousands of euros" (€K), "billions of U.S. dollars" ($bn), "millions of U.S. dollars" ($M) or "thousands of U.S. dollars" ($K), and have been rounded off to the nearest decimal.

Investors are invited to carefully review the risk factors presented in Section IV "Risk factors" of the reference document before taking their investment decision. If one or more of these risks were to occur, this could have an adverse effect on the Group's activities, condition and financial results, or its ability to achieve its objectives, as well as on the value or price of the Company's shares. Furthermore, other risks that have not yet been identified or are not currently considered to be significant by the Group, could have a similar adverse effect.

This reference document contains information concerning the Group's objectives, as well as forward-looking statements, particularly in Chapter VI "Group business" and Chapter XII "Information on trends". At times such indications are identified by the use of the future or conditional tenses or by forward-looking terminology, such as "consider", "envision", "think", "aim", "expect", "intend", "should", "ambition", "estimate", "believe", "would like", "may" or other similar terms. Such information is based on data, assumptions and estimates that the Group considers to be reasonable. It is liable to change or be modified as a result of various uncertainties relating in particular to changes in the economic, financial, competitive or regulatory environments. Moreover, if some of the risks described in Chapter IV "Risk factors" of the Reference Document were to materialize, this would be likely to impact the Group's activities in particular and its ability to achieve its objectives. Moreover, the achievement of these objectives is based on an assumption for the success of the strategy described in in Section VI of the reference document. The Group does not offer any commitments or any assurances that the objectives set out will be achieved.

This reference document also contains information relating to the markets and competitive positioning of the Group and its competitors, particularly in Chapter VI. This information is notably taken from research by external sources. However, the publicly available information that the Company considers to be reliable has not been verified by an independent expert and the Company cannot guarantee that a third party using different methods to collate, analyze or calculate market data would obtain the same results. The Group does not offer any commitments or any assurances concerning the accuracy of such information.

This reference document presents:

– The Company's corporate financial statements for the 12-month period ended December 31, 2017, prepared in accordance with French generally accepted accounting principles;
– The Group's consolidated financial statements for the 12-month period ended December 31, 2017, prepared in accordance with international financial reporting standards (IFRS and IAS) and their interpretations, which have been adopted by the European Union at December 31, 2017.

Historical financial information

In accordance with Article 28 of European Regulation 809/2004 of the European Commission of April 29, 2004 and with Article 212-11 of the AMF's general regulations, the present reference document includes references to the following information which readers are invited to refer to:

- The consolidated and annual financial statements for the year ended December 31, **2016** and the corresponding statutory auditors' reports presented on pages 107 to 165 of the Reference Document filed with the French Financial Markets Authority (AMF) on May 11, 2017 under number D.17-0511.
- For the year ended December 31, 2015: consolidated and corporate financial statements and the corresponding statutory auditors' reports presented on pages 124 to 179 of Parrot's reference document filed with the AMF on May 10, 2016 under number D.16-0472.

I. Responsibility for this document

1.1. Person responsible for the reference document

Henri Seydoux, Chairman and CEO

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1.2. Statement by the person responsible for the reference document

I certify that, having taken all reasonable measures to this effect, the information contained in the present reference document is, to the best of my knowledge, fair and accurate in all material respects and free from any omissions that could alter its substance.

I certify that, to the best of my knowledge, the financial statements have been drawn up in accordance with the accounting standards applicable and faithfully reflect the assets, liabilities, financial position and earnings of the Company and all of the companies included in the basis for consolidation, and that the management report, included in this reference document (with its contents indicated in the index of headings on Page 198), faithfully reflects the change in the business, earnings, and financial position of the Company and all the consolidated companies, as well as a description of the main risks and uncertainties faced by them.

I have received a completion letter from the statutory auditors, “Ernst & Young et Autres” and “KPMG AUDIT IS”, in which they indicate that they have verified the information relating to the financial position and financial statements given in this reference document and that they have reviewed the entire reference document.

Paris, April 30, 2018

Henri Seydoux

Chairman and Chief Executive Officer

II. Statutory auditors

2.1. Incumbent statutory auditors

KPMG AUDIT IS., represented by Mr Nicolas Priofret

Tour EQHO - 2, Avenue Gambetta - CS 60055 - 92066 Paris la Défense Cedex - France

KPMG AUDIT IS was appointed as the incumbent statutory auditor at the general shareholders' meeting of June 4, 2013 for six (6) financial years through to the Ordinary General Meeting convened to approve the financial statements for the year ending December 31, 2018.

ERNST & YOUNG et Autres, represented by Mr Pierre Jouanne

1/2 place des Saisons - Paris La Défense 1 - 92400 Courbevoie - France
Nanterre trade and company register 342 528 825

ERNST & YOUNG et Autres was appointed as the incumbent statutory auditor at the general shareholders' meeting on June 6, 2012, for six (6) financial years through to the Ordinary General Meeting convened to approve the financial statements for the year ending December 31, 2017.

2.2. Deputy statutory auditors

KPMG AUDIT ID

Tour EQHO - 2, Avenue Gambetta - CS 60055 - 92066 Paris la Défense Cedex - France

KPMG AUDIT ID was appointed as the deputy statutory auditor at the general shareholders' meeting of June 4, 2013 for six (6) financial years through to the Ordinary General Meeting convened to approve the financial statements for the year ending December 31, 2018.

AUDITEX SAS

1-2 place des Saisons - Paris Le Défense 1 - 92400 Courbevoie - France

Auditex SAS was appointed as the deputy statutory auditor at the general shareholders' meeting on June 6, 2012, for six (6) financial years through to the Ordinary General Meeting convened to approve the financial statements for the year ending December 31, 2017.

2.3. Statutory auditors' fees

Refer to 20.2.34 “Note 34 – Statutory auditors’ fees”.

III. Selected financial information

The historical financial information selected by the Group and presented hereafter is extracted from the Group's consolidated financial statements for the years ended December 31 prepared under IFRS and as set out in Section 20.2.3 under "Note 3 - Accounting rules and methods". This note details the methods retained for the preparation of these consolidated accounts.

Furthermore, as presented in section 20.2.2 "Note 2 – Significant events for the period", 2017 was marked in particular by:

Reorganization of the Drone business

On January 9, 2017, consulting with its employee representatives, and following the legal framework applicable, the Group put in place a project to reorganize and redeploy its business, notably reducing its workforce by 257 people. These reductions concerned employees both in France and internationally. The costs incurred in connection with this reorganization represent over 12 M€ at December 31, 2017.

Through this reorganization, Parrot has taken on board the changes in the consumer drone market, considering that the management of its development in this segment required it to adapt its range against a backdrop of cost reductions. The action plan rolled out has focused on four key areas:

- Focusing the capacity for innovation on a reduced number of new products with a view to making a significant technological leap forward;
- Redeploying the product offering, capitalizing in particular on the expertise built up in commercial drones;
- Realigning sales and marketing resources around the most profitable distribution channels and most promising markets;
- Adjusting support functions in line with the level of business.

Implementation of the partnership with Faurecia

At December 31, 2016, following the exclusive talks opened with Faurecia to set up the industrial partnership for Parrot's OEM Automotive business, all the conditions were met for the business to be classed as discontinued under IFRS, including the material nature of the business concerned and the highly probable nature of the operation. In accordance with IFRS 5, the corresponding assets and liabilities were isolated on dedicated lines, in the same way as income from the corresponding activities for the full year in 2016.

At December 31, 2017, the first stage was completed. Faurecia Investment subscribed for a capital increase in Parrot Automotive SAS for 20% for 27 M€ on March 31, 2017. As Faurecia acquired a 20% interest in the subsidiary Parrot Automotive SAS on March 31, 2017, earnings from the corresponding activities for the first quarter of 2017 have been isolated on a dedicated line "Income from discontinued operations, net of tax", in the same way as the dilution effect and the fair value remeasurement of interests held, net of costs and tax. This interest was acquired by subscribing for a 27 M€ capital increase, enabling Faurecia to hold a 20% stake in its subsidiaries Parrot Automotive SAS (now Parrot Faurecia Automotive SAS), Parrot Automotive Asia Pacific Ltd and Parrot Automotive Shenzhen, taking the Group's non-controlling interest in the companies to 80%. As Parrot has lost exclusive control of the OEM Automotive business, the subsidiaries Parrot Automotive SAS (now Parrot Faurecia Automotive SAS), Parrot Automotive Asia Pacific Ltd and Parrot Automotive Shenzhen have been consolidated on an equity basis for 80% since April 1, 2017. The impact of this loss of control has been recognized in profit and loss under "Income from discontinued operations, net of tax" for 43 M€.

In addition, Parrot SA issued convertible bonds based on existing shares in Parrot Automotive SAS (recently renamed Parrot Faurecia Automotive SAS) for 41 M€, subscribed for by Faurecia.

Further information is provided in section 22.5 "Investment agreement concerning Parrot Automotive".

3.1. Historical financial information

This financial information must be read alongside the information provided in section 6.2 "Exceptional events in 2017" and section 20.2.2 "Note 2 – Significant events for the period".

3.1.1. Condensed income statement

€'000	2015*	2016	2017
Revenues	**326,273**	**166,446**	**151,871**
Gross margin	**152,678**	**26,837**	**51,176**
% of revenues	*46.8%*	*16.1%*	*33.7%*
Income from ordinary operations	**-426**	**-131,191**	**-57,579**
% of revenues	*-0.13%*	*-78.8%*	*-37.9%*
Other operating revenue and expenses	2,494	-5,359	-11,724
EBIT	**2,068**	**-136,550**	**-69,303**
% of revenues	*0.6%*	*-82.0%*	*-45.6%*
Net income from discontinued operations	**-**	**5,245**	**43,483**
Net income (Group share)	**462**	**-137,907**	**-38,218**
% of revenues	*0.1%*	*-82.9%*	*-25.2%*
Non-controlling interests	1.095	-3.466	-700

* The 2015 accounts include the OEM Automotive business, which has been subject to a sales process since end-2016.

3.1.2. Quarterly revenues

N.B. The 2016 data are proforma (2016 standards excluding impact of IFRS 5).

€'000,000	1st quarter	2nd quarter	3rd quarter	4th quarter
2017 revenues	**28.6**	**35.1**	**39.2**	**49.0**
% of Group revenues	19%	23%	26%	32%
2016 revenues	**33.1**	**56.6**	**58.4**	**85.1**
% of Group revenues	14%	24%	25%	36%
2015 revenues*	**71.0**	**69.2**	**77.8**	**108.2**
% of Group revenues	22%	21%	24%	33%

* 2015 revenues include the OEM Automotive business, which has been subject to a sales process since end-2016.

Also see 4.1.6 "The Group's results are seasonal and strongly depend on sales recorded during the fourth quarter".

3.1.3. Revenues and EBIT for each business

Following the sale of the OEM Automotive business, the Group has reorganized its activities and reporting structure around a single operating segment (Drones), whereas its previous segmentation in 2016 differentiated between the Drones and OEM Automotive activities.

The following tables present the information concerning this operating segment that is used by the Chief Operating Decision Maker to assess segment performance and decide on the allocation of resources, i.e. revenues and income from ordinary operations.

€'000	Automotive OEM	Drones	IFRS 5	Dec, 2017
Revenues	18,009	151,871	(18,009)	151,871
% of Group revenues	0%	100%	0%	100%
EBIT	**(623)**	**(57,579)**	**623**	**(57,579)**

(€'000)	OEM Automotive	Drones	IFRS 5 reclassification	Dec 31, 2016
Revenues	66,751	166,446	(66,751)	166,446
% of Group revenues	0%	100%	0%	*100%*
Income from ordinary operations	6,269	(131,191)	(6,269)	(131,191)

In accordance with IFRS 5, the earnings generated by the OEM Automotive business in the first quarter of 2017 have been recorded under income from discontinued operations, net of tax and the dilution effect and fair value remeasurement of the OEM Automotive business.

Since the first quarter of 2017, the OEM Automotive business has been consolidated on an equity basis (see 20.2.15 "Note 15 – Associates").

3.1.4. Condensed balance sheet

€'000	2015*	2016	2017
Goodwill	58,149	43,652	41,749
Non-current assets (excluding goodwill)	66,436	17,554	119,201
Current assets	529,020	362,587	241,740
Assets held for sale	**-**	**82,848**	**-**
Total assets	**653,606**	**506,642**	**402,690**
Shareholders' equity	424,978	290,303	253,855
Non-controlling interests	613	-2,166	-2,662
Non-current liabilities	75,447	31,311	71,732
Of which long-term financial debt	17,039	1,161	42,199
Current liabilities	152,568	173,432	79,765
Of which short-term financial debt	2,345	42,032	-
Liabilities held for sale	-	13,761	-
Total liabilities	**653,606**	**506,642**	**402,690**

* The 2015 balance sheet includes the OEM Automotive business, which has been subject to a sales process since end-2016.

Detailed information is provided in section 20.1.3 “Statement of financial position”.

3.1.5. Condensed cash flow statement

€'000	2015*	2016*	2017
Cash and equivalents - year-start(1)	**70,338**	193,143	**216,348**
Cash flow from operations	**19,053**	(103,299)	**(67,703)**
Working capital	(32,173)	12,107	27,970
Net cash flow from operating activities	**(17,619)**	**(92,596)**	**(40,284)**
Cash flow from investment activities	**(21,146)**	**(32,743)**	**(40,394)**
Cash flow from financing activities	**158,283**	**147,692**	**13,664**
Cash and equivalents - year-end	193,143	**216,348**	**144,539**
Other current financial assets	158,000	28,000	13,018
Net cash	**351,143**	**228,043**	**157,557**

* The 2015 data include the OEM Automotive business, which has been subject to a sales process since end-2016. * The data for 2016 have been restated in relation to the data reported the previous year to incorporate flows from discontinued operations.

Detailed information is provided in section 20.1.4 “Consolidated cash-flow statement”.

IV. Risk factors

The Company has reviewed the risks that might have a material adverse impact on its business, financial position or earnings, as presented below.

4.1. Specific risks for the Group and its organization

4.1.1. The Group depends on subcontractors for the manufacturing and assembly of its products

The Group is organized around a “fabless” model and does not operate any manufacturing or logistics units. The manufacturing and assembly of the Group's products are performed by a limited number of subcontractors. If contractual relations are broken off or difficulties are encountered with one of these subcontractors in relation to meeting their contractual commitments, and more specifically product quality or deliveries within the timeframes agreed on, or satisfying further increases in the Group's manufacturing requirements in the future, this could notably lead to stock shortages or higher manufacturing costs for the Group and have an unfavorable impact on its business, development, earnings and financial position.

Based on the consolidated financial statements, the Group's purchases with its top 10 subcontractors represented 48% in 2017, compared with 56% in 2016 (excluding IFRS 5).

Partnerships between the Group and its manufacturing, assembly and logistics subcontractors are based on market-leading firms and/or have been developed over several years in order to accompany the Group and are subject to a contractual framework. To date, the Group has never experienced any significant difficulties with its subcontractors. However, the Group cannot guarantee that this will continue in the future. To limit this risk, the Group continuously works on double-sourcing its strategic components through a buffer stock policy implemented with the subcontractors to sustain superior responsiveness.

Furthermore, manufacturing and assembly operations are carried out for the majority of the Group's products by subcontractors based in China. The legal, economic, climatic, health, political or geopolitical context in this region could involve risks, particularly in terms of instability. The geographical distance involved with these production sites also results in longer transport times than if they were located in Europe. Within this context, the Group could experience difficulties meeting its customers' demands in the event of delays with deliveries or failings by any of its logistics providers.

4.1.2. The Group relies on resellers for the sale of its retail products. The problems affecting these resellers and the changes relating to their purchases or to the associated decisions may have a material impact on the Group's business as well as on its operating results.

The Group relies above all on resellers (retailers, wholesalers) in order to sell and to distribute its retail products, particularly for its Drones business. Pricing, quantities and volumes, frequency, shelving, advertising or special offers, among other things, are regularly subject to negotiations and modifications with each of these resellers. If one of these resellers were to reduce its purchases from the Group or to significantly change the terms of their relationship with the Group, this could have an adverse effect on the Group's business, situation, results or its ability to achieve its aims.

The overall economic situation or that of the Group's markets in particular, as well as other factors that could have an adverse effect on these resellers (such as trading difficulties, the restructuring of the resale sector, the closing of stores or financial difficulties), may have an adverse impact on the Group. If said resellers were to experience a downturn in their business for any given reason, this could have an adverse effect on the Group's business, situation, results or its ability to achieve its aims.

4.1.3. The Group could experience difficulties managing the risks linked to the international deployment of its activities and its growth on new international markets

79% of the Group's sales are generated outside of France. The international deployment of the Group's activities is likely to generate new risks and difficulties due in particular to:

- Group's lack of experience in certain regions where it could expand;
- Potentially unfavorable tax impacts;
- Quantitative and pricing restrictions on import-export operations and protectionist practices and regulations favoring local businesses in certain countries;
- A potential extension of terms of payment for sales made in certain foreign countries;
- More restrictive legislation and regulations applying to the Group's products;
- Limited intellectual property protection in certain countries; and
- Political and/or economic instability in certain countries where the Group does business.

If these factors were to materialize, this would have a significant unfavorable impact on the Group's business, development, earnings or financial position.

4.1.4. The Group may encounter difficulties in integrating the acquired companies and in implementing its external growth strategy in the Commercial Drones market

Within the framework of its development strategy, the Group implements an external growth policy by acquiring companies.

Since 2012, the Group has acquired the following interests in particular: (i) 100% of the capital of senseFly, (ii) 95% of the capital of Pix4D (end-June 2017), (iii) 99.27% of the capital of Airinov (end-July 2017), (iv) 56.33% of the capital of MicaSense and six minority investments (activities described in section 6.1.3.2.4 "Group's specialized commercial drone business units and products" and the interests detailed in section VII "Structure"), with all of these companies specialized in commercial drones.

The Group plans to continue with its external growth strategy on the Commercial Drone market and could also be required to define priorities for its investments depending on how the different companies acquired develop.

There is no guaranteeing that the Group will be able to successfully integrate the companies acquired, or acquire and generate the planned synergies, revenues or other benefits, or that the Group will not incur unanticipated costs or liabilities related to these acquisitions. In addition, there is no guaranteeing that the Group will be able to identify or complete the acquisition of new companies. The failure to integrate the companies acquired or difficulties in identifying and acquiring new targets may have an adverse effect on the Group's business, situation, results or its ability to achieve its aims.

4.1.5. The Group's consumer activities are seasonal and strongly depend on sales recorded during the fourth quarter

The Group generates a significant percentage of its revenues during the fourth quarter of each year, linked to the high level of sales of the Group's consumer products during the end-of-year holiday period, particularly from the "Black Friday" commercial operations to the Christmas period. Illustrating this, the Group's revenues for the fourth quarter of 2017 represented 32% of the Group's total revenues for this same year. As a consequence, a decline in the Group's revenues during the fourth quarter of a financial year may have an adverse effect on the Group's business, situation, results or its ability to achieve its aims for the entire financial year in question.

In particular, the occurrence, during this period, of unforeseen events with an adverse effect on the purchasing patterns of the Group's clients or resellers, the demand for its products or the Group's ability to serve its clients or resellers, could have such an adverse effect.

It is specified that, as the end-of-year holiday period approaches, the Group carries out an extensive review of all the events under its control that may have an impact on its ability to distribute its products to its clients or resellers.

4.1.6. The Group's success depends to a great extent on the development of Parrot's brand awareness

The Group's sales growth and global brand recognition show that the Parrot brand is today well considered and recognized on these key markets. The Group is also forging ahead with efforts to raise Parrot's brand awareness with consumers.

The development of this brand awareness is dependent more specifically on the Group's ability to offer end customers innovative products that are in line with their expectations, in terms of the quality of its products and its after-sales service, as well as its ability to develop attractive commercial operations in appropriate distribution channels. However, the Group cannot provide any guarantee that the efforts made to achieve this will succeed. If the Group is unable to defend and further strengthen the Parrot brand, it could notably result in a reduction in its market shares, which could have a significant unfavorable impact on the Group's business, development, earnings or financial position.

4.1.7. The Group is dependent on certain key executives, engineers and sales managers whose departure could adversely affect its development

The Group's success depends on the quality and experience of the members of the Company's management team, including Henri Seydoux, Chairman and Chief Executive Officer and the Company's main shareholder on the filing date for this reference document. The Company's management team has vast experience of the market in which the Group operates and the majority of the management team have been with Parrot for several years. In addition, Company bonus share and/or stock option plans are set up for employees to contribute to their loyalty. However, the Group cannot provide any guarantee that its key members of staff will continue to work within the Group.

Furthermore, the Group's success is linked to the expertise of its research and development team and its sales team. To ensure the long-term viability of its business, the Group more specifically ensures that the engineers in its research and development team have a range of skills. The Group's future success will depend in particular on its ability to attract, train, retain and motivate highly qualified staff and executives, but there is no guarantee that the Group will be able to achieve this.

The departure of one or more key members of staff or executives or the Group's inability to attract highly qualified people could have a significant unfavorable impact on the Group's business, development, earnings or financial position.

4.1.8. The Company's main shareholder has the power to influence the Company's corporate decisions

On the date when this reference document was published, Henri Seydoux, through Horizon, the holding company which he controls, held 36.1% of the Company's capital and voting rights (see 18.1.1 "Breakdown of the share capital and voting rights").

In this way, with the Company's other shareholders not owning a very high interest, he could adopt all the resolutions submitted for approval by shareholders at general meetings. Henri Seydoux may in the future have a decisive influence over most of the Company's corporate decisions (e.g. payment of dividends, appointment of members of the Board of Directors, approval of financial statements or any decision to carry out significant operations for the Company). Note that the Company refused to introduce a double voting right as provided for under the French Florange Act in 2015

4.1.9. Future sales of Company shares could have an impact on the Company's stock price

If one of the Company's principal shareholders (see 18.1.1 "Breakdown of the share capital and voting rights"), and Henri Seydoux in particular (see 4.1.8 "The Company's principal shareholder has the power to influence the Company's corporate decisions"), were to sell off a significant number of Company shares on the market or the market were to perceive such a sale as imminent, this could result in a reduction in the Company's share price.

In 2017, Henri Seydoux, through his holding company Horizon, acquired 300,000 Parrot shares between August 3 and 4, 2017. Other acquisitions were made by people and parties with close links to the Executive Vice President. To the best of Parrot's knowledge, on the date when this reference document was filed, there were no other operations for acquisitions, sales, subscriptions or exchanges of securities on the stock market carried out by executives or people or parties closely linked to them.

4.1.10. The Company does not intend to pay out dividends to its shareholders in the near future

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

To date, the Company intends to use its operating 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. If the Company is considering the payment of dividends, the decision to pay such dividends and, in this case, the amount of such dividends will depend on the facts and circumstances at the time of this decision.

4.1.11. The company issues dilutive instruments which could have an impact on its capital

The total number of Company shares that may be issued further to the exercising of securities entitling holders to access the Company's capital at December 31, 2017 represents:

- BSA1 and BSA2 equity warrants issued for the capital increase in December 2015: 3,347,672 shares, representing a maximum potential dilution of 11.1% of the Company's capital which could occur if the equity warrants are exercised under the planned conditions from December 16, 2020 to December 15, 2022;
- Stock options: 409,006 shares, representing a potential dilution of approximately 1.4% of the Company's capital; traditionally, the Company offsets issues of stock options by cancelling treasury shares;
- Bonus shares: 407,593 shares, with no potential dilution: traditionally the company acquires its own shares on the financial market through its share buyback program authorized at the General Shareholders meetings.

4.1.12. The Group's earnings are subject to fluctuations which make them difficult to forecast

The Group's earnings may vary significantly from one quarter to the next, particularly since the Group is developing its products on new markets or is likely to receive significant orders from its Key Account customers. This fluctuation can make it difficult to use quarterly earnings as indicators for possible future trends, and could have an unfavorable impact on the Group's business, development, earnings or financial position.

In addition to general economic factors and factors affecting companies in general, a certain number of factors which are specific to the Group and its business sector may result in quarterly variations, and more specifically:

- Fluctuations in the US dollar ($) in relation to the euro (€), and more specifically the Group's exposure to the US dollar (see 4.3.1. "Foreign exchange risk");
- The relative weighting of each one of the products that the Group may offer, particularly due to the variable nature of the margins achieved on its various products;
- The changes in its markets and sales prices and particularly the competitive environment for its consumer activities (see 4.2.3 "The Group cannot anticipate the development or the positioning of its current or future competitors, and may be unable to compete with them");
- The Group's ability to reduce manufacturing costs for its products in order to maintain its margins.

4.1.13. Goodwill impairment which could have a material impact on the Group's earnings could be recognized

The Company recorded goodwill of 41.7 M€ in its consolidated accounts further to the acquisitions of:

– A 100% stake in Inpro Tecnologià SL. in 2006;
– A 100% stake in Waveblue LLC in 2007;
– An external growth operation in 2012, resulting in the recognition of 2 M€ of goodwill in relation to senseFly;
– An operation to acquire a 24.67% interest on January 29, 2014, following the 31% acquired on September 18, 2012, with 1.6 M€ in goodwill for Pix4D;
– Two external growth operations carried out in 2015, recognized as business combinations, with 5.8 M€ in goodwill recorded for Airinov and 12.1 M€ for MicaSense Inc.

With IFRS, goodwill is not depreciated, but subject to an annual impairment test under IAS 36. If the recoverable value is lower than the book value of the goodwill, an impairment in the value of the goodwill is recognized, particularly further to events or circumstances with lasting and significant unfavorable changes affecting the economic environment or the assumptions or objectives retained on the acquisition date.

The Company cannot guarantee that there will not be any unfavorable events or circumstances in the future which might result in it reviewing the book value of goodwill and recording significant impairments, which could have a significant unfavorable impact on the Group's earnings.

Furthermore, in connection with the annual impairment test, the goodwill is allocated to the cash generating unit (CGU) identified within the Group. The Group has reorganized its activities and reporting structure around a single operating segment, representative of its cash generating unit (CGU). The operating segment represents the level at which goodwill is monitored by the Group's management. The CGU identified by the Group is now exclusively the Drones CGU.

As a result of these tests, the Group did not recognize any impairments in 2017 on its CGU (no impairments recorded in 2016). Any subsequent changes in the Group's organization or changes to IFRS could also result in the Group recording impairments and have a significant negative impact on the Group's earnings.

Detailed information is provided in section 20.2.10 "Note 10 – Goodwill".

4.2. Risks relating to the Group's business sectors

4.2.1. The Group is dependent on the context of the markets in which it operates, economic conditions and the pace of adoption of new technologies by the different audiences the Group is targeting

The Group is a new technology firm. The level of sales of products and technology solutions is influenced by the economic situation of the principal markets in which the Group operates, particularly by the economic situation in Europe and the United States, where the Group generates most of its sales. Indeed, in periods of economic downturn, the purchasing decisions of consumers or investment decisions in professional new technology may be dictated by specific considerations and are likely to be revised downwards. More specifically, consumers may decide to devote more of their spending on necessities or goods and products considered as priorities, and defer or cancel purchases of innovative technological products such as those sold by the Group.

The level and pace of sales growth for the Group's products and solutions, whether for Consumer Drones (51% of Group revenues in 2017), Commercial Drones (27%), Consumer Automotive products and Connected Devices (21%), also depend on the pace of adoption and penetration of the technologies offered by the Group, as well as the sales prices for these products and solutions, all of which can be negatively impacted by an adverse economic environment.

Adverse economic conditions in the Group's principal markets or a lower than expected pace of adoption or penetration for the technologies offered by the Group could adversely affect the Group's business, position, results or ability to achieve its aims. In this respect, the Group believes that its diversified positions, in terms of both its offer and the different geographical markets on which it operates, makes it possible to distribute these risks to some extent and limit their effects.

4.2.2. There is no guaranteeing that the Consumer Drones or the Commercial Drones business will develop as expected, or that the Group will take these new market opportunities

The Group currently intends to devote significant resources and efforts in order to capitalize on its technology and further penetrate and develop the Consumer Drone and Commercial Drone markets. The Group considers that these markets offer significant opportunities for development. However, these markets are still emerging and evolving (including with regard to potential customers and their expectations). As a result, the Group's efforts to benefit from these markets' development opportunities may prove to be inconclusive or fail to meet expectations, in particular if the markets were not to develop as planned, which could have an adverse effect on its business, situation, results or ability to achieve its aims.

In addition, the development process for new products and services for these markets involves, by its very nature, significant risks and uncertainties, including:

(i) Risks related to competition and the entry of new players on these markets, (ii) risks resulting from the Group's products not achieving the expected success with customers or resellers, or being considered less satisfactory or less efficient than those of current or future competitors of the Group, (iii) risks resulting from the Group being unable to develop or maintain adapted distribution channels for its products, or (iv) risks resulting from the Group being unable to develop new products to meet the new requirements of customers or resellers. The materialization of the risks outlined above may have an adverse impact on the Group's business, situation, results or ability to achieve its aims.

4.2.3. The Group cannot anticipate the development or the positioning of its current or future competitors, and may be unable to compete with them

Due to the emerging nature and potential for development of the Consumer Drone and Commercial Drone markets, the competitive environment within these markets is increasingly important, and the Group cannot anticipate the development or positioning of its current or future competitors.

Furthermore, since the Consumer and Commercial Drone markets are currently characterized by low barriers to entry, new entrants (e.g. firms with a popular product idea) may access these markets and rapidly become an important source of competition for the Group's products.

A certain number of stakeholders of different sizes have already committed to marketing products that are either directly competing with those of the Group, or products that could compete with the Group's products in the future on the Consumer Drone and Commercial Drone market segments. More specifically, the Group already faces direct competition from other global players on the Consumer Drone and Commercial Drone markets, including Da-Jiang Innovations Science and Technology Co (DJI), a market-leading Chinese firm, and Yuneec, another Chinese company present on the Consumer Drone and Commercial Drone markets, as well as other smaller operators in the Commercial Drone sector (e.g. Precision Hawk, Drone Deploy or Airware).

These current or future competitors may possess more advanced technologies or greater financial resources than those of the Group, which the Group may choose to use or invest, in the short-term, in developing Consumer and Commercial Drones. These competitors may also be able to respond to changes in consumer preferences or be more successful than the Group when launching their new products.

If the Group were unable to compete with its current or future competitors on the Consumer or Commercial Drone markets, this could have an adverse effect on the Group's business, situation, results or its ability to achieve its aims.

4.2.4. The marketing of the Group's products may be impacted if wireless communications operators do not provide the required wireless services

The Group's success partly depends on the capacity, the accessibility, the reliability and the frequency of the wireless data networks provided by wireless communications operators on which its products operate. The growth in demand for wireless data access may be limited if, for example, wireless communications operators were to cease or significantly reduce their activities, and were unable to provide services that customers consider necessary or useful at reasonable prices, were unable to maintain an appropriate capacity to meet the demand for wireless data access, were to delay the development of their wireless networks and services, or were unable to offer and maintain reliable services. In particular, the Group's future growth depends on the successful deployment of next generation wireless data networks provided by third parties, including networks for which the Group is currently developing products. If these next generation networks were not deployed or widely accepted, or if their deployment were delayed, there would be no market for the products that the Group is developing to be used on these networks. The materialization of the risks mentioned above may have an adverse effect on the Group's business, situation, results or its ability to achieve its aims.

4.2.5. The Group's business depends on the electronic components market

Components account for the majority of costs for finished products. The Group cannot guarantee that the price of certain basic electronic components will not increase significantly. Neither can the Group guarantee that all the components will always be available under similar conditions in terms of lead-times and volumes to those seen today.

To address the sourcing risk, the Group (i) has several subcontractors for several main components and (ii) may sometimes buy phases in advance and store items at its component assemblers' sites. However, if these risks were to occur, particularly for components subject to strong levels of demand, this could have an unfavorable impact on the Group's business, development, earnings or financial position.

4.2.6. The Group's products are based on specific technical standards and all types of connectivity, requiring choices to be made in terms of strategic technological platforms

The Group currently covers Bluetooth, Wifi and NFC connectivity, and more generally traditional radio connections, which are the recognized connectivity standards used in new technologies. However, the Group cannot guarantee that a new more effective, technology will not emerge and establish itself as a new standard and could experience delays with designing products or quality issues relating to design errors.

4.2.7. The Group may face risks relating to adverse legislative and regulatory developments regarding the civil drones sector

Following a phase to draw up legislation, many countries that the Group is positioned on have moved into a phase to apply and refine their legislation. In any case, due to the emerging nature of the civil drone market and the new nature of the legal issues relating to this market, the regulations applicable (even when they exist) are still characterized by elements of uncertainty.

In France, Law 2016-1428 governing security for civil drone use, which was adopted in October 2016 and defines new requirements for registration, identification, audio and light signals for drones weighing up to 800g (maximum possible weight), is still waiting for its implementing decrees: the application of the provisions is therefore expected to be deferred from July 1, 2018 to January 1, 2019. If the decrees are not published on time, this could force the Group to make unplanned changes on future products. The Group is working closely with the authorities through the French Civil Drone Council to minimize the impacts of the various measures considered. On the date when this report was issued (February 2018), the legislation is therefore still limited to the two decrees from December 17, 2015 relating to the navigation and integration of drones within airspace.

For its part, the European Union has adopted a draft regulation that entrusts the European Aviation Safety Agency (EASA) with regulations for drones weighing less than 25 kg and would require drones over 80 joules to be registered. Alongside the vote on this legislation, the EASA is working on its application with prototype rules, which Parrot is being consulted on through its European Alliance (Drone Manufacturers Alliance Europe, DMAE). The prototype rules cover a vast scope, including: rules for integration within airspace, categorization of drones by weight, identification of drones, registration of drones and flight scenarios for simple uses (depending on the drone's weight) and more complex uses. These rules are expected to be known at the start of 2018 and not be subject to changes for many years, allowing the Group to limit the uncertainty faced in all EU member countries. A first part of these rules, concerning operations, could be applicable from the first quarter of 2019, which could require an adaptation time in the member states and delay certain missions while they are put in place. The second section, concerning technical requirements, is expected to be applicable from early 2021.

In the United States, regulations governing the flying of drones ("Unmanned Aircraft Systems") have applied a regulatory framework since summer 2016 set out by the Federal Aviation Administration (FAA) in Title 14 of the Code of Federal Regulation (14 CFR) Part 107. With regard to drones for commercial use, the legislative framework includes provisions requiring pilots, with a minimum age of 16, to be qualified with a drone operator certificate and verified by the Transportation Security Administration (TSA). Within this framework, flights of commercial drones weighing less than 55 lbs (24.9 kg) must be carried out in G Class airspace (uncontrolled space), within the pilot's visual line of sight, during daytime, up to a maximum altitude of 400 feet (121.9 m.) and a maximum speed of 100 mph (160.9 km/h). Drone registration, planned from 250g (0.55lbs), has been subject to a number of legal proceedings and is in place again. Drones must always give priority to piloted aircraft and are not permitted to fly above people or close to moving vehicles. Flights of drones that are heavier or do not fulfil some of these conditions may be subject to exemptions, reviewed on a case-by-case basis.

Lastly, in October 2017, the US authorities launched a program facilitating tests for complex flights (nighttime, beyond line of sight), which is expected to develop drone activities throughout 2018.

The entry into force of new regulations, particularly in the states mentioned above, may require:

- For the Group, changes in its products, which could generate an increase in manufacturing costs or sales prices, or limit the opportunities for innovation. The Group may also be required to obtain new regulatory approvals for the launch of new products. In this context, it is difficult to predict the authorizations that may be required in the future, the time needed and the costs associated with obtaining said approvals, and there is no guaranteeing that the Group will obtain them; and
- For users, new requirements, for example regarding training, registration or insurance, which could reduce the demand for the Group's products.

The repeated misuse of civil drones may also entail regulatory changes imposing new restrictions on the characteristics of the drones that may be marketed or their possible uses.

Although the Group endeavors to respond to the consultation processes and participate in the main working groups relating to civil drone regulations, the entry into force of regulations imposing changes to the characteristics of current or future Group products, the obligations for obtaining approvals, or additional restrictions on the terms of use of the drones marketed by the Group may have an adverse effect on the Group's business, situation, results or its ability to achieve its aims.

4.2.8. The Group may face commercial returns in the Consumer Drone sector that are hard to predict

In the Consumer Drone sector (51% of the Group’s revenues in 2017), the Group faces commercial returns not arising from quality issues in certain countries (including certain of its main markets), due to local commercial practices. Given the emerging nature of this market, said returns remain hard to predict, as far as their volume or their frequency is concerned, particularly with the launch of new product ranges or the establishment of business relations with new resellers.

The Group closely and regularly monitors the functioning of the various markets on which it sells its Consumer Drones in order to assess this risk and the ways in which it could be limited. More specifically, the Group made a commitment to monitor stock levels among its retailers and further strengthen its procedures to ensure this in 2017.

However, if the Group was to incur a larger number of such product returns than expected, this could generate significant additional costs (in particular regarding customer support, logistics for product recalls or changes to product characteristics) or an unanticipated decrease in expected revenues, which could have an adverse impact on its business, situation, results or ability to achieve its aims.

4.2.9. The Group may face faults in its products that are difficult to forecast

Despite the tests that they are subject to, the Group's products could not work correctly or involve errors or faults, particularly when launching a new range of products or improved products. Such errors and defects could cause physical injuries and/or material damages. Such accidents could result in liability proceedings due to the products, loss of income, warranty actions, market withdrawal costs, disputes, delays with products being accepted on the market or even damage to the Group's reputation for safety and quality.

Moreover, Parrot cannot guarantee that it will not in the future be exposed to significant liability proceedings relating to its products or obligations to withdraw products from the market, or that it will be able to successfully resolve such proceedings, or complete such withdrawals of products from the market for acceptable costs. Furthermore, any liability proceedings relating to products or any withdrawal of products from the market, even in the event of a favorable outcome for a symbolic cost, could adversely affect the Group's reputation, business, situation, results or ability to achieve its aims.

4.2.10. Any significant disruption of its information systems may affect the Group

The Group increasingly depends on its information systems to operate its websites, offer its services and sell its products, process its transactions, respond to the demands of customers and users, manage its supply chain and its stocks and ship its products. As a result, any significant failure or disruption (including following malicious acts) of the Group's information systems may cause delays in its supply chain, losses or delays in the collection, transmission and the processing of information relating to orders from customers or resellers, as well as delays in delivering the Group's products to resellers or clients.

In addition, if changes in technology were to render the Group's information systems obsolete or if said information systems proved to be insufficient to manage the expected growth in the Group's activities, the risk of the failures or disruptions mentioned above occurring may grow.

In the event of a failure or a disruption of this nature occurring, in particular during the end-of-year holidays during which the Group generates an important part of its revenues, the Group may experience an increase in costs, claims from clients or resellers, a loss of earnings in the event of not achieving the relevant sales or said sales being cancelled, and overall, a decrease in demand for its products, which could have an adverse effect on the Group's business, situation, results or its ability to achieve its aims.

4.2.11. The Group may not be in a position to cope with growth in the markets

Considering the specific features of the market for Consumer Drones and Commercial Devices, effective management of inventories and the whole supply chain is essential to the Group's commercial success. In addition, growth in activities requires the Group to organize itself in order to meet demand and manage supplies, manufacturing and sales networks.

The complexity of the management of sourcing and logistics flows could be heightened by the increase in the number of models, products and customers. In view of the seasonal nature of some of its products, particularly during the 4th quarter each year, and the supply cycle of around 4 to 5 months, the Group is constantly looking to ensure that its inventory levels are appropriate. However, risks of stock shortages cannot be ruled out.

Furthermore, the Group must ensure that suitable sales teams are put in place in line with demand. These teams may be managed directly by the Group or indirectly by distributors abroad. In this way, the Group may not be able to recruit or train teams in sufficient numbers to meet the level of demand from its customers, which could have a significant unfavorable impact on its business, development, earnings or financial position.

4.2.12. The Group's target markets are subject to rapid technological change and frequent launches of new products

The market for the Group's products is characterized by accelerated technological change, increasingly demanding customers, frequent launches of new products and technological improvements. New products based on new or improved technologies or new communications standards could make the Group's existing products less appealing or harder to sell.

To maintain its competitive position, the Group constantly seeks to improve its existing products and develop new products in order to anticipate technological developments and satisfy the demands of its customers. If the Group does not succeed, its products could become hard to sell, which could have an unfavorable impact on its business, development, earnings or financial position.

The Group's product development process is highly complex and requires continuous development efforts. Any delay with the development and marketing of new or higher performance products, or any delay with adapting to technological changes could have an unfavorable impact on the Group's business, development, earnings or financial position. It seems particularly difficult to quantify and would also contribute to the disclosure of sensitive information concerning the competitive environment (see VIII “Information on trends and financial outlook”).

4.2.13. Some of the Group's activities are dependent on regulations governing cellphone use while driving

In the Automotive sector, the Group continues to sell Parrot brand handsfree kits to consumers and this product line represented 25.3 M€ of revenues in 2017. Road safety legislation in the countries in which the Company sells its products, which more specifically forbids the use of hand-held telephones while driving, may be subject to future changes that could be unfavorable. Indeed, no guarantees can be given that any rapid or major changes to such legislation may occur, particularly with regard to forbidding any in-car phone use, even with a handsfree kit. However, the trends during the last few years have tended to encourage the use of products and solutions notably including voice recognition features and steering wheel-mounted centralized controls.

4.3. Financial risks

4.3.1. Foreign exchange risk

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

For 2017, around one third of the Group's revenues, almost all of its sales costs and around 20% of operating expenditure are denominated in US dollars or associated currencies, such that the Group is exposed to fluctuations in this currency against the euro. The Group has not hedged its net exposure to changes in the US dollar.

In order to limit the impact of fluctuations in the US dollar on its profitability, the Group has been developing its sales denominated in this currency since 2006.

At end-December 2017, 21% of the Group's cash and other current financial assets are in US dollars or associated currencies.

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

€'000	December 31, 2017			
	P&L impact	Equity impact	P&L impact	Equity impact
	10% appreciation of currencies against the euro		10% appreciation of the euro against other currencies	
Trade receivables	890	-	-728	-
Other receivables attached to equity interests	-	3,160	-	-2,585
Current account	-	22	-	-18
Trade payables	-2,315	-	1,894	-
Financial derivatives	-	-	-	-

4.3.2. Interest rate risk

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

The impact of a 1% change in the average rate of return would represent a 2,162 K€ loss on the level of consolidated financial income.

4.3.3. Risk relating to treasury stock and equity interests

The Company holds treasury shares in accordance with the stock buyback program authorized by the General Shareholders' Meeting.

The Company's share price has historically been subject to significant fluctuations, both up and down. These fluctuations, which may continue to occur, depend on many factors, such as the Group's financial performance, the sector's financial performance, technological innovations and, more generally, stock market fluctuations.

At December 31, 2017, the value of treasury stock reclassified as equity capital represented 9,889 K€, for 721,062 shares, with an average price of 13.71 euros. Shareholders' equity would be impacted by fluctuations in the share price.

The Group also holds the following equity interests:

- 45.00% of Iconem;
- 49.00% of Planck Aerosystems Inc (through Parrot Inc.);
- 23.00% of BioCarbon Engineering Ltd.;
- 33.34% of Sky Hero;
- 23.02% of Chouette SAS.

The Group also holds 49.05% of the capital of EOS Innovation, which has been subject to compulsory liquidation proceedings since March 6, 2017.

4.3.4. Liquidity and counterparty risk

Liquidity risk management is centralized by the Finance Division. This global cash management approach for the Group makes it possible to offset internal cash requirements and surpluses.

The Group's financing policy seeks to guarantee the liquidity required to finance the Group's assets at all times, to meet its short-term cash requirements and to enable its development, in terms of both duration and amounts, at the lowest possible cost.

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

Financial assets at December 31, 2017

The counterparty risk represents the risk of a financial loss for the Group in the event of a customer or counterparty for a financial instrument failing to uphold its contractual obligations. For the Group, this risk is linked primarily to trade receivables.

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

- Trade receivables: 40.2 M€
- Other receivables: 20.7 M€
- Other current financial assets: 13.0 M€
- Cash and cash equivalents: 144.5 M€

In 2017, the Group's policy was to diversify the management of its counterparty risk by distributing investments across leading banks and different maturities, while ensuring regular monitoring.

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

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

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

A Coface policy guarantees the non-recovery of receivables from certain French and foreign customers of the Company situated in zones “1” and “2” (respectively covering OECD countries and the rest of the world, in accordance with the criteria set by COFACE) for the Company’s product sales, as well as sales by the subsidiaries Parrot Automotive, Parrot Drones, Parrot Inc., Parrot Asia Pacific Ltd. and Parrot Automotive Asia Pacific Ltd. The amount of the cover represents 90% of the net debt covered excluding VAT.

Financial liabilities at December 31, 2017

- Bank loans and debts

On February 20, 2017, Parrot SA made an early repayment covering all the outstanding sums due under the external growth credit agreement set up on July 24, 2015 for a total of 41.3 M€.

As a result, the company secured the release of the agreement pledging financial securities as collateral for 35.5 M€, signed on July 24, 2015 between Parrot SA and the banks involved in the syndicated credit facility for external growth.

Parrot Faurecia Automotive convertible bonds

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

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

To hedge this exposure, the Parrot Group decided to take out a 0% capped swap rate agreement to protect itself against interest rate fluctuations.

This is a hybrid instrument made up of a bond liability and a derivative instrument. The bond liability is valued at its amortized cost, while the derivative instrument must be measured at fair value. This fair value will be adjusted through profit or loss, depending on changes in the value of Parrot Faurecia Automotive.

At December 31, 2017, Parrot Faurecia Automotive’s value is not significantly different from that determined for the recent transaction. As a result, the derivative’s value is considered to be equal to 0 at December 31, 2017, while the bond liability with Faurecia can be broken down as follows:

- Liability: 41,021 K€ maturing on December 31, 2021;
- Rate swap fair value: 2 K€.

Sundry borrowings and financial debt

At December 31, 2017, an interest-free repayable advance from BPIfrance was also recorded for Parrot Drones in connection with the FELIN future integrated LTE equipment with virtualization project, aiming to develop next-generation integrated circuits and equipment for 4G connected devices, particularly for the automotive market, for a total of 1,162 K€. This advance will be repayable in four installments from June 2018 to June 2021.

Other liabilities

At December 31, 2016, the Group recorded a liability relating to its reciprocal put and call agreements for securities of Pix4D, Airinov and MicaSense in its consolidated accounts against its equity capital. The reciprocal put and call agreements for Pix4D securities matured and were subject to a payment in 2017, while the agreements for Airinov were redeemed early on July 12, 2017 and the MicaSense agreements will mature in 2019.

4.3.5. Risks relating to off-balance sheet commitments

The Group's main off-balance sheet commitments at December 31, 2017 are as follows:

- At December 31, the amount of firm orders placed with our main suppliers came to a total of 10.4 M€;
- Future payment commitments relating to operating lease agreements (staggered from 2015 to 2021) for 1.1 M€;
- On July 20, 2012, the company Parrot SA granted a joint and several guarantee to the company Jade SAS for a maximum of 500 K€ for the effective fulfillment by its subsidiary Chez Parrot SARL of its commitments in relation to its lease for the premises at 30 rue du Quatre-Septembre in Paris 75002;
- A parent company guarantee for USD 2,770,049 was signed on January 29, 2016 with the company Matrix Partners Management Services LP, guaranteeing rental commitments for the American subsidiary Parrot Inc.
- For the first half of 2017, an agreement pledging securities accounts as collateral was signed on March 31, 2017, under which Parrot SA pledges to grant Faurecia Investments SAS the 35,507,913 ordinary shares it holds in Parrot Automotive SAS (renamed Parrot Faurecia Automotive SAS) with a par value of 1 €.
- Under the terms of the partners agreement entered into on March 31, 2017, Parrot and Faurecia have signed cross put and call option agreements. In this way, Faurecia could buy (first, second and third call option) and Parrot could sell (first, second and third put option) the shares held by Parrot in Parrot Faurecia Automotive.

4.4. Legal risks

4.4.1. Risks related to the Group's intellectual property

4.4.1.1. Potential lack of protection in terms of intellectual property

The Group's success depends to some extent on its ability to obtain, maintain and protect its patents and other intellectual property rights. The Company cannot be certain that it will be able to develop new patentable inventions, that the patent requests underway will result in patents being issued, that the patents or other intellectual property rights granted to it or awarded under a license will not be disputed or that other parties will not claim rights to the patents and other intellectual property rights it holds or even the technologies it uses.

Furthermore, the Company, which has trademarks protecting the Company's name and the names of some of its products in many countries, as well as licenses to use the trademarks of its trading partners, cannot be certain that the validity of these trademarks will not be disputed by third parties or that it will be in a position to register new trademarks in all the countries where it would like to sell its products.

This risk could have a significant unfavorable impact on the Group's business, financial position, earnings or development.

4.4.1.2. Potential unauthorized use of technologies developed by the Company

Third parties, particularly competitors of the Company, could infringe its patents and other intellectual and industrial property rights for the technologies it has developed. To oppose this, the Company could sue for infringement, leading to lengthy and costly proceedings.

The issuing of a patent on an invention does not guarantee either the validity of this patent or the extent of protection it may offer. Similarly, the legal effectiveness of copyright protection for software remains uncertain as long as its original nature has not been discussed during court proceedings. As such, the Company cannot be certain of the protection provided for its patents and other intellectual property rights if it attempts to cite them in legal proceedings during which their validity or scope may be challenged. Moreover, the Company could become involved in objection proceedings with national intellectual property offices with a view to preventing third parties from filing patents in infringement of its previous rights, or even the filing of patents for technologies that it considers to be non-patentable and whose appropriation would hinder its activities. The costs associated with such administrative and legal proceedings could be significant even if the Company wins the case, and the Company could find itself at a disadvantage faced with rivals which are in a better position to cover the cost of such proceedings thanks to their greater financial resources.

It is difficult to control the unauthorized use of patents or other intellectual property rights and the Company may not be in a position to prevent the unlawful appropriation or use of its patents or other intellectual property rights by third parties. Furthermore, certain jurisdictions in which the Company develops its activities may not offer intellectual property right protection that is as effective an in the European Union or the United States, and these jurisdictions may not have appropriate proceedings to enable the Company to effectively defend its rights.

If the aforementioned risks were to occur, this could have a significant unfavorable impact on the Group's business, financial position, earnings or development.

4.4.1.3. Potential shortcomings concerning confidentiality protection for certain information relating to its technology

In addition to patented technologies, the Group's business is based to a great extent on unregistered know-how, techniques, specifications, technical data and information which are only protected as long they remain secret. As a result of the "fabless" model implemented by the Group, its products are manufactured and assembled by external subcontractors which must be provided with some of this confidential information.

Although the Company protects such information through confidentiality agreements with its various partners and their staff, these agreements may not be respected and result in the Company having to take legal steps to obtain compensation for its damages. More specifically, the disclosure of such confidential information could facilitate the unlawful appropriation of the Company's technologies by a competitor, result in the loss of a monopoly on protected know-how further to its disclosure, or even destroy the novelty of an invention and prevent the Company from protecting it by filing a patent.

4.4.1.4. Claims from third parties considering to hold rights over certain technologies or data operated by the Group

The Group's success mainly depends on strong and dynamic research and development activities, enabling it to develop new technologies (particularly inventions and new software). However, the Group cannot guarantee that certain technologies do not infringe intellectual property rights held by third parties, such as patents or copyright licenses for software, despite the fact that said technologies are developed internally.

Furthermore, the Group integrates a number of technologies for which the industrial property rights are held by its commercial partners, who grant the Group operating licenses for said technologies and which way also infringe the intellectual property rights of third parties.

Within the framework of the activities it develops, the Group may also come to hold and use certain information and data collected during the use of its drones.

In the event of a claim by a customer, a user, a partner or any other party purporting to hold rights over a technology, information or data collected or used by the Group, the latter, if said claim is made on valid grounds, may have to sign a license and, as the case may be, pay license fees. If the Group was unable to conclude a license agreement allowing it to exercise these rights, or if no license can be obtained within reasonable trade conditions, the Group may be required to modify its products or its type of services to no longer use the technology, the information or the data in question, failing which it would face legal claims.

The Group is regularly contacted by third parties claiming to hold intellectual property rights over the technologies or the data that the Group uses.

The company Parrot S.A. and its subsidiaries Parrot Drones S.A.S. and Parrot Inc. are currently subject to several patent infringement proceedings in the United States.

Within the framework of the legal proceedings brought against the Company and/or certain of its subsidiaries, if the Group (i) were unable to defend itself in satisfactory conditions, or were to incur significant costs for its defense, or (ii) were forced to conclude a license agreement for the use of intellectual property rights, or (iii) were forced to modify its technology and its products in question, or (iv) should cease to trade the products in question, this could have an adverse effect on the Group's business, situation, results or its ability to achieve its aims.

4.4.1.5. The Company could encounter difficulties linked to the use of "freeware"

To develop its products, the Company uses various operating systems, which are all based on the use of "free" software or freeware. "Freeware" is available to users on a fee or free basis and is governed by three main types of licenses making it possible to modify and reuse this software's source codes, provided that they comply with the requirements set out by the licenses. "Free" licenses require access to the source codes of spin-off developments or codes linked to "freeware" and their use by the entire community of developers under the same conditions as the initial "freeware". They are also characterized by their contaminant effect, which means that all the software programs - whether or not they are proprietary - linked to them pass under the "free" license system. "Freeware" is used without the standard contractual guarantees provided under proprietary software licenses. As such, the risks linked to a fault with "freeware" or potential infringement proceedings by third parties claiming to hold intellectual property rights on such software remain the full responsibility of the Company. If such risks were to occur, this could have a significant unfavorable impact on the Group's business, development, earnings and financial position. To protect itself against such risks, the Company ensures that the research and development teams are aware of the issues relating to the use of "freeware", and has put in place an "open source" policy.

4.4.2. Risks related to the Group's products

4.4.2.1. The Group may be subject to product liability or guarantee claims that could entail significant costs

The Group generally grants a 12 to 24-month guarantee period for all of its products (excluding certain automotive products: period of up to 36 or 44 months, sometimes with a vehicle mileage cap). The Group's guarantee provides for certain restrictions, including the fact that in principle, it only covers product repairs and returns.

If the Group were to experience a higher number of guarantee activations or product returns, this may generate significant additional costs (in particular regarding customer support, logistics for the recall of products or changes to the characteristics of products).

Furthermore, in the event of a defect in the Group's products, the latter cannot exclude the possibility that users, resellers or other parties having suffered damages might challenge the restrictions of the Group's guarantee and/or seek to engage its liability, for example by claiming that the Group is responsible for omissions or inaccuracies within the content of the operating instructions for its products, or for failing in its duty of advice. Such claims may lead to litigation.

In the event of there being serious defects in the Group's products that cause damage to property or personal injury, the Group may also have to face the resellers' refusal to sell, a decrease in demand from its clients, a product recall ordered by a consumer protection or supervisory authority, and more generally sustainable damage to the reputation of the Group and to that of its products.

As a result, the materialization of the abovementioned risks may have an adverse impact on the Group's business, situation, results or its ability to achieve its aims.

4.4.2.2. The protection of the personal data collected by the Group may be affected

In the context of its activities, the Group collects personal data relating to the users and customers of its products, notably through the applications used to implement the products that it sells (e.g. when users download the applications required to use their products or share their flight data). Access security, confidentiality and the protection of personal data could be affected by malicious activities (hacking, intrusion or sabotage) or defects (hardware, human errors, supplier issues). The Group could then be exposed to claims from users or customers, injunctions or fines from the authorities in charge of the protection of personal data, which could have a negative effect on the Group's business, situation, results or its ability to achieve its aims. The Group's image and level of sales could be affected if the level of cybersecurity for products sold by the Group was subject to any negative public evaluations by consumer organizations, public authorities or the media. In 2017, the Group launched various initiatives to ensure its compliance with the new requirements introduced by the European General Data Protection Regulation (GDPR), in force from May 25, 2018. The GDPR will significantly reinforce the penalties applicable in the event of non-compliance with the rules (fines of up to 20 M€ or 4% of global annual turnover).

4.4.2.3. Fraudulent use of Group data

Malicious people could gain access to the Group's information systems and fraudulently extract or destroy data. Technical, financial, legal or commercial information could be copied or destroyed, which would be likely to have a negative impact on the Group's business, situation, results or its ability to achieve its aims.

4.5. Insurance and risk coverage

4.5.1. The Group's insurance policies may not entirely cover the damages resulting from the risks to which the Group is exposed and the Group may not be covered regarding certain risks

The Group has put in place a policy to cover the main risks related to its business and that may be insured at reasonable prices, subject to exclusions, guarantee limitations and deductibles usually imposed by insurance companies on the market. However, there is no certainty that the amount of the damages incurred will not exceed the thresholds of the Group's insurance policies.

The Group's insurance level may be insufficient to fully cover all of the losses it may experience as part of its business, and the insurance policies covering these risks may no longer be available in the future. Due to its fabless model, the Group may experience uninsured financial losses following material damages to the facilities of its subcontractors.

Given the uncertain regulatory context, "terrestrial" insurers are reluctant to insure civil drones with standard "civil liability" insurance policies, which limits the Group's ability to negotiate under favorable conditions. A specific aviation policy, with terms that tend to be less favorable than those of a terrestrial policy, may have to be implemented for certain drones due to their technical characteristics and/or their use. In addition, the Group may be unable to obtain insurance cover under comparable conditions in the future.

The Group may be significantly affected if it were to experience losses that are not fully covered by its insurance policies and said policies may have a significant adverse impact on the Group's business, financial situation or results.

4.5.2. Insurance policies in 2017

The Company has not had to make any major claims and only used its policies on an isolated and insignificant basis in 2017. The Company considers that the insurance policies and protection procedures described below provide reasonable cover for all the major risks inherent in its business in France and internationally.

The Company has taken out the following insurance policies:

Civil liability

More specifically, this policy covers the Company's liability resulting from damages caused to third parties and occurring before the delivery of products or the completion of work, as well as the Company's liability resulting from damages caused to third parties after the delivery of products or the completion of work.

Parrot Inc., in accordance with American legislation, is also covered by a local policy. Certain legislation also requires local policies to be taken out, with the master policy covering any differences in terms of the conditions or limits.

Comprehensive office liability

The Company has taken out a comprehensive insurance policy for all the premises and assets located in the building in which the Company has its headquarters, covering more specifically fire, water damage, theft and glass breakage risks.

Comprehensive retail activities liability cover

The Company has taken out a “comprehensive retail activities” insurance policy to cover the activity of its store, which opened in August 2012 and is located in Paris’ Opéra district. This policy includes a “business interruption” component.

Executive liability

The Company has taken out insurance cover for the liability of its executives and corporate officers. It covers the personal liability which the insured parties may incur individually or jointly with regard to third parties in the event of any professional negligence during the performance of their functions, whatever the jurisdiction concerned (civil, criminal or administrative), the defense costs which executives may incur in the event of claims against their civil liability, and, as relevant, any damages which they may be required to pay. Furthermore, an extension of this policy makes it possible to cover any costs incurred in the event of a crisis arising within the Company further to the disappearance of a key person for instance.

Export debt liability: COFACE

This policy guarantees the non-collection of debt from some of the Company's French and foreign customers located in Regions “1” and “2” (covering respectively OECD countries and the rest of the world, based on criteria defined by COFACE) concerning sales of Parrot Automotive SAS, Parrot Drones, Parrot Inc., Parrot Asia Pacific Ltd and Parrot Automotive Asia Pacific products. The amount of the cover represents 90% of the net debt covered excluding VAT.

Transported goods liability

The Company has taken out insurance to cover the inherent risks associated with the main flows for transporting components and products for customers or distribution subsidiaries.

Storage liability

The Company has set up specific insurance to notably cover the risks of theft or destruction in the main warehouse where components and products are stored in France.

V. Information concerning Parrot

5.1. Company history and development

5.1.1. Corporate name and registered office

The Company's corporate name is “Parrot”.

The registered office is located at 174-178, quai de Jemmapes, 75010 Paris, France (Tel: +33 1 48 03 60 60).

5.1.2. Trade and company register, APE activity code

The Company is registered in the Paris trade and company register under number 394 149 496. The APE code (main activity) is 2630Z.

5.1.3. Incorporation and life of the Company

The Company was incorporated on February 28, 1994 for a 99-year period ending on February 28, 2093.

5.1.4. Legal form and governing legislation

The Company is a French-law limited company (*société anonyme*) with a Board of Directors, notably governed by the provisions of Book II of the French commercial code and Decree 67-236 of March 23, 1967.

5.1.5. History

Year	Events
1994	Company created by Henri Seydoux Voice recognition technologies developed (including signal processing algorithms)
1995	First voice recognition-enabled electronic diary launched
1997	Parrot+ launched, successor to the initial voice diary, specifically designed for the visually impaired
1998	Acoustic-related technologies developed (noise reduction, echo cancellation)
1999	First wire-based handsfree kit launched for vehicles (Parrot CK28) Company joins the Bluetooth SIG Parrot VoiceMate launched, new generation of electronic diaries for the visually impaired
2001	Parrot CK3000 Bluetooth in-vehicle handsfree kit launched
2002	Parrot CK4000 developed (OEM)
2003	Parrot DRIVEBLUE launched, first plug-and-play Bluetooth handsfree system (no installation required)
2004	Parrot CK3100 and Parrot CK3300 launched US subsidiary created (Parrot, Inc.)
2005	Parrot EASYDRIVE, Parrot CK3000 EVOLUTION, Parrot 3200 LS COLOR, Parrot 3400 LS-GPS and Parrot RHYTHM N'BLUE launched Parrot CK5000 launched (OEM) Subsidiaries created in Germany (Parrot GmbH), the UK (Parrot UK Ltd), Italy (Parrot Italia S.r.l.) and Hong Kong (Parrot Asia Pacific Ltd) Manufacturing of voice-recognition electronic diaries (VoiceMate) stopped
2006	Company floated 100% stake acquired in the Spanish company Inpro Tecnologiá, S.L., which became Parrot Iberia, S.L. Parrot DRIVER HEADSET and Parrot MINIKIT (1st version) launched Parrot PHOTO VIEWER and Parrot SOUND SYSTEM launched, first wireless devices designed by the Group to accompany new mobile phone uses (music, photos) Parrot MK6000 launched
2007	Parrot CONFERENCE launched (Plug & Play range) Parrot PHOTO VIEWER 7 and Parrot BOOMBOX launched (Multimedia range) Parrot 3200LS-COLOR PLUS launched (installed handsfree kit range) Parrot MK6100, Parrot PMK5800 and Parrot SK4000 launched (Plug & Play range) Parrot RK8200 launched (handsfree kit range) Parrot DS3120, Parrot DS7220 and Parrot DF1120 launched (Multimedia range) Distribution agreement sealed with BestBuy and CircuitCity in the US OEM contracts signed with Navigon and Navman First MMS photo frame launched in partnership with Bouygues Telecom

	Compatibility of products with Apple® Mac OS® X Leopard products 100% stake acquired in the US firm Waveblue, then integration into Parrot Inc
2008	OEM branch opened in Japan (Tokyo) Strategic partnership set up with HTC OEM contract signed with Kenwood “Parrot accredited fitter” program launched First NFC-compatible speakers launched: Parrot Party Black Edition (Multimedia range) New MINIKIT TM launched (Plug & Play range): “Slim” and “Chic” Parrot SK4000 launched (handsfree kit range), designed specifically for two wheels Extension of Parrot Bluetooth handsfree technologies supplied to PSA Peugeot-Citroën Parrot MKi9X000 launched (handsfree kit range): three new handsfree kits with integrated music features New digital photo frame launched (“Parrot By” collection): Parrot SPECCHIO by Martin Szekely OEM contract signed with Hyundai Kia Automotive Group Parrot receives the top award for the Paris Region and the national award for the electronics and hardware sector in the Deloitte Technology Fast 50 rankings “Parrot By” collection launched with a digital photo frame designed by Andrée Putman Multimedia range repositioned around products from the “Parrot By” collection Parrot by Starck speakers launched (“Parrot By” collection)
2009	Alliance between Parrot and Hyundai ramped up on two new vehicle models Entry-level products gradually phased out from the Multimedia segment range (Parrot Photoviewer, Parrot Party, etc.) Alliance with Renault ramped up (OEM, through Continental) Distribution network gradually put in place for Parrot Zikmu By Philippe Starck wireless speakers in 31 countries Parrot RKi8400 launched: car radio handsfree kit specially designed for the iPhone®, equipped with a removable front and iPhone/iPod®/iPod touch®, USB and jack connectors OEM contract signed with Pioneer One-off versions of the Minikit Slim released (special operations)
2010	First Parrot AR.Drone prototype unveiled at the CES: wifi-controlled quadricopter using an iPhone/iTouch Launch of the Grande Specchio in the Parrot By collection: new digital photo frame designed by Martin Szekely Minority interest (39.5%) acquired in Da Fact: French start-up specialized in digital music Parrot's OEM solutions are integrated into three new vehicle brands: Audi, BMW and Volkswagen Parrot AR.Drone launched in summer 2010 in six countries, then extended at the end of the year to include a further three countries Parrot Zikmu By Philippe Starck speakers released in four new colors Parrot Minikit SMART presented: dedicated Plug & Play product for smartphones
2011	Parrot ASTEROID presented at the CES: car radio with internet, voice recognition and handsfree telephony applications New digital photo frame launched, with the “Parrot By” collection: Parrot DIA, a frame developed with Jean-Louis Frechin, founder of the NoDesign agency OEM partnership established with e.Solutions GmbH Parrot Minikit SMART launched (Plug & Play) Varioptic acquired (Digital Lenses) DiBcom acquired (mobile digital TV and radio) Parrot Minikit+ launched (Plug & Play) Parrot joins GENIVI alliance (non-profit industry alliance committed to driving the broad adoption of an In-Vehicle Infotainment (IVI) open-source development platform)
2012	Parrot ASTEROID range of internet connected handsfree solutions presented at CES (installed car kit) Parrot Zik presented at CES (Multimedia) Parrot AR.Drone 2 presented at CES (Multimedia) Parrot ASTEROID products presented at CES (installed handsfree kit / infotainment) Ford Motor Company selects S1nn and Parrot for its multimedia handsfree solution Parrot AR.Drone 2.0’s commercial launch Parrot expands its business with a leading German car manufacturer Parrot Zik’s commercial launch Majority interest acquired in senseFly Minority interest acquired in Pix4D Parrot Zikmu’s commercial launch (Multimedia) Parrot store opened in Paris
2013	Parrot FLOWER POWER presented at CES (Multimedia) Parrot ASTEROID products’ commercial launch (installed handsfree kit / infotainment) Volvo Cars’ Sensus Connected Touch presented by Parrot, an open and connected infotainment solution Parrot ASTEROID Market now offers TomTom, Waze and navfree Parrot chosen by McLaren for its new connected infotainment system

	19.5% of the interest in Da Fact sold to its managers Parrot FLOWER POWER's commercial launch Parrot ends the year with five new key account automotive contracts in the infotainment sector
2014	CES 2014: Parrot presented the best technologies for playing (Parrot JUMPING SUMO, Parrot MINIDRONE), communicating (Parrot SOCA, Parrot MINIKIT), and flying (consumer and commercial drones) Progress made with commercial and civil drones: three new minority interests acquired Parrot's share eligible for SME share-based savings schemes New consumer drone presented: Parrot Bebop Parrot becomes a member of the AVNU Collaboration between Parrot and Renault Design Small UAV Coalition launched New commercial drone presented: senseFly albris (initially called eXom)
2015	2015 CES: Parrot unveils a new infotainment system (RNB 6), two new MiniDrone models (Parrot Rolling Spider and Parrot Jumping Sumo), demonstrates the senseFly ablris' capabilities (ultralight commercial quadricopter) and expands its range of connected devices (Audio: Parrot Zik Sport) and garden devices (Parrot Pot and Parrot H2O) Inmarsat certifies the Parrot Bebop drone for live use on its networks Porsche chooses Parrot for its Rear Seat Entertainment (RSE) infotainment solution Parrot's share eligible for SME share-based savings schemes Parrot Inc. sets up in San Francisco Parrot's Bebop Drone achieves French civil aviation authority approval for professional use Parrot MiniDrone: new generation of connected robots released from July 2015 Parrot further expands its commercial drone business: majority acquisition of Airinov and EOS Innovation Parrot Zik 3 headset launched Consumer Drones: major distribution agreements signed in the US (Target and ATT) Commercial Drones: stakes acquired in MicaSense and Iconem Flight Plan application launched for the Bebop Drone Parrot announces the conditions for the capital increase, with preferential subscription rights maintained, for around 300 M€ Parrot Bebop 2 consumer drone launched Parrot announces the success of its capital increase, with preferential subscription rights maintained, for around 300 M€
2016	CES 2016: Parrot unveils the Parrot Disco, a fixed-wing consumer drone, as well as commercial drone solutions for precision farming and an overhauling of connected devices for the garden (Parrot Pot and Flower Power 2.0). In the automotive sector, Parrot highlights the key account solution Parrot Simple Box, for a new generation of connected car radios, and Smart Antenna, an Ethernet deported multi-radio tuner. Parrot receives the Enternext award for 2015 financial operations from Euronext Arrival of a new Sales & Marketing Director for consumer drones and connected devices Parrot presents Sequoia, a high-precision sensor for agricultural drones Annual confirmation of eligibility for SME share-based savings schemes Parrot introduces DISCO, the first fixed-wing drone for immersive flight Two new high-tech and playful Minidrones enrich the Parrot drone family Parrot Bebop 2 now with FPV Parrot Pot: the smart pot that automatically waters your plants Parrot S.L.A.M.dunk: turn a drone into a smart robot Growth targets revised Pix4D Launches Mobile + Desktop + Cloud Solutions for Drone Mapping at InterGeo 2016 senseFly to Unveil new Mapping Drones at InterGeo 2016 Parrot presents Pix4Dmodel, a unique solution for Real Estate Parrot Air Support: Drones serving real estate and building industry professionals Parrot launches a 'follow me' in-app feature for Bebop 2 Parrot Air Support: two new services in partnership with Explorimmo Parrot Automotive: project for partnership with Faurecia Parrot launches Bebop2 real estate edition Parrot Automotive: new infotainment contract
2017	Preliminary results for the fourth quarter of 2016 - Reorganization of consumer drone operations senseFly: partnership with Agribotix Parrot Air Support and Bureau Veritas offer a turnkey drone-based inspection service for professionals Airinov: findings from the Ocealia study on drone efficiency in precision farming Pix4D: new supported devices and features for Pix4Dcapture senseFly and AirMap Partner to advance safety for commercial drones Parrot Air Support: new thermographic inspection tool Parrot Automotive: partnership wrapped up with Faurecia Parrot confirms its PEA-PME eligibility

Parrot develops its commercial drone offer with dedicated end-to-end solutions for small and medium businesses
U.S. patent case against Parrot dismissed
Parrot extends its education offer worldwide
Parrot presents the Parrot Mambo FPV and Parrot Bebop 2 Power
senseFly: new industry-specific solutions
Parrot presents two new business solutions: Parrot Bluegrass and Parrot Bebop Pro Thermal

5.2. Investments

5.2.1. Investments carried out

In 2017, the Group made the following investments:

– Intangible investments: 1,010 K€ (see 20.2.11 “Note 11 – Intangible assets”);
– Investments in property, plant and equipment: 1,159 K€ (see 20.2.13 “Note 13 – Property, plant and equipment”);
– Financial investments: 3,603 K€ (see 20.2.14 “Note 14 – Financial assets”).

5.2.2. Investments underway

The investments underway at April 30, 2018 are presented below:

– Intangible assets for 777 K€, excluding the capitalization of development efforts (IFRS);
– Property, plant and equipment for 497 K€.

5.2.3. Future investments

On the date when this reference document was published, no significant investment projects were underway, with the exception of the capitalization of development efforts and the investments planned in connection with the contracts detailed in XXII “Significant contracts”.

VI. Overview of the Group's activities

6.1. Main activities

6.1.1. Description of the Group's business

Founded in 1994 by Henri Seydoux, the Company is a French technology firm that has a strong international focus and has successfully adapted its business model over the years.

Headquartered in Paris, the Company employs nearly 600 people worldwide, with nearly half focused on research and development, and it generates the vast majority of its sales on international markets. Parrot has been listed on Euronext Paris (FR0004038263 – PARRO) since 2006.

Pioneering the identification of tomorrow's technologies, the Company initially developed its business around handsfree communication systems and infotainment solutions for the automotive industry.

After the Company's IPO in 2006, the Group has gradually diversified its activities, developing and selling retail products in the connected devices sector, focusing in particular on audio and gardening products with a view to exploring a range of innovative technologies. From 2009, the Group also started to design and sell drones, benefiting from the research work carried out by its Innovation Lab. Within this framework, it launched the first consumer drone in 2011.

Building on its positioning as a pioneer and Europe's leading drone group, Parrot has been developing its drone offering for commercial markets since 2012, combining a range of solutions around hardware (drones and sensors), software and services.

As a result of this gradual evolution, Parrot is now the leading European drone group and its Drone business generated 79% of the Group's revenues in 2017. The balance (other consumer products) concerns sales of the historical Retail Automotive and Connected Device products.

6.1.2. Group's development in 2017

2017 was a year of reorganization and redeployment for the Parrot Group. Following a year when revenues and margin levels for 2017 were significantly affected by the sharp drop in market prices for consumer drones in the second half of the year, the Group set itself a priority to meet this challenge in 2017. The action plan was based on adapting the range of solutions and reducing costs, covering four key areas:

- Focusing the capacity for innovation on a reduced number of new products with a view to making a significant technological leap forward;
- Redeploying the product offering, capitalizing in particular on the expertise built up in commercial drones;

Realigning sales and marketing resources around the most profitable distribution channels and most promising markets;

- Adjusting support functions in line with the level of business.

In this context, the main financial elements are summarized below:

IFRS (€m)	2016	2017	Change
Revenues	166.4	151.9	-9%
Gross margin	26.8	51.2	+91%
% of revenues	*16.1%*	*33.7%*	
Income from ordinary operations	-131.2	-57.6	+56%
% of revenues	*-78.8%*	*-37.9%*	
EBIT	-136.6	-69.3	+49%
% of revenues	*-82.0%*	*-45.6%*	
Net income (Group share)	-137.9	-38.2	+72%
% of revenues	*-82.9%*	*-25.2%*	

The following table presents recent changes in the Group's revenues from each activity:

IFRS (€m)	2016		2017		Change
- Consumer drones	83.3	50%	78.2	51%	-6%
- Business solutions	30.6	18%	41.6	27%	+36%
DRONE TOTAL	**114.0**	**68%**	**119.8**	**79%**	**+5%**
- Other consumer products*	52.5	32%	32.1	21%	-39%
Group total	**166.5**	**100%**	**151.9**	**100%**	**-9%**

* Retail Automotive, Connected Devices

The following table presents an analysis of the Group's consolidated revenues for each region:

€'000	2016	2017	Change
EMEA	84.6	73.8	-13%
AMERICAS	34.1	23.2	-32%
ASIA	12.7	10.6	-16%
Consumer products (1)	131.3	107.7	-18%
Key account products (2)	35.1	44.2	+26%
Total revenues	**166.5**	**151.9**	**-9%**

(1) Consumer products comprise Consumer Drone products and "Other consumer products": connected devices and automotive handsfree kits.

(2) Key Account products primarily concern Commercial Drone products.

6.1.3. Drone business

6.1.3.1. Consumer drones

6.1.3.1.1. Consumer drone market

Consumer drones represent a young and growing market. Parrot has been a pioneer, launching the Parrot AR.Drone in 2010, which marked the emergence of these flying, easy-to-use, lightweight devices, with photo and video capabilities, developed based on the ecosystem for mobile technologies.

Initially a market for hobbyists, model aircraft enthusiasts, the market's first growth phase was driven by the adoption of the use of flying video cameras by early adopters (e.g. tech fans, sports fans, adventurers, YouTubers). Like the majority of markets for new technologies, it is characterized by rapid innovation, significant pricing fluctuations during product lifecycles (currently generally 12 to 18 months), stronger penetration in developed countries and a strong but unpredictable rate of growth.

Today, following an initial conquest phase, the consumer drone market is continuing to expand, supported by an extended range of solutions, increasingly affordable prices for constantly improving technologies, and lower development costs, particularly for components. In the US, the world's leading consumer drone market, a survey carried out mid-2017 by Pew Research[1] found that 8% of Americans own a drone, while more than 60% of US households own a sports camera.

According to data compiled by the Group based on GFK and NPD research[2] at end-December 2017, the global consumer drone market is valued at 2.5 to 3 billion euros, with 2 to 3 million units. Compared with 2016, growth in value terms is outpacing growth in volumes, with this trend to be put into perspective considering the aggressive prices applied in 2016, driven by the Chinese firm DJI.

In 2017, the key players on the consumer drone market were DJI, GoPro, Parrot, Yuneec, Protocol and Autel Robotics. DJI is the market leader, with a global market share of around 75% in 2017; Parrot is positioned at around 10% to 30% depending on the countries, while the rest of the market is split between the other firms[3]. In early 2018, GoPro announced that it was stopping production for its drone launched at the end of 2016.

Various communications from market research firms can be consulted online[4] and they generally show an average annual growth rate of 16% to 24% for 2014-2024.

6.1.3.1.2. Consumer drones in 2017

In 2017, Parrot carried out an in-depth review of its consumer drone strategy aiming in priority to restore its gross margin and reduce its cost structure. This prepared the Group for a new phase of innovation and laid the foundations for a new sales and marketing strategy, which will be rolled out in 2018.

The product portfolio's resizing and adjustments, the acceleration of sales of end-of-life products and the rollout of the selective distribution strategy at the end of the year are reflected in a 5.4 M€ contraction in sales to 78.2 M€ 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 level of sales prices achieved.

6.1.3.1.3. Group consumer drones

Following its breakthrough in the consumer drone market, the Group has sought to develop drones that are easy-to-use, very light and linked to the smartphone ecosystem. These three key features of the Group's Consumer Drones reflect a strong industrial and commercial choice:

Ease-of-use is based on a dual approach. Firstly, Parrot's drones are controlled using a flagship technology for the 21st century: smartphones and tablets. In a world dominated by images - photos and videos - as illustrated by the success of social media, drones are opening up the field of vision, with selfies moving beyond arm's length (see strong interest in "selfie sticks"). Secondly, the control

[1] http://www.pewresearch.org/fact-tank/2017/12/19/8-of-americans-say-they-own-a-drone-while-more-than-half-have-seen-one-in-operation/

[2] http://www.gfk.com/ and https://www.npdgroup.fr provide market analysis and evaluation solutions.

[3] Internal estimates based on various press articles and research.

[4] For instance: https://globenewswire.com/news-release/2018/03/28/1454439/0/en/Consumer-Drone-Market-to-exceed-9bn-by-2024-Global-Market-Insights-Inc.html - https://www.statista.com/statistics/740454/global-consumer-drone-market-forecast/ -

interface and piloting actions are based on standard smartphone uses, and particularly the many videogames available, ensuring that they can be instantly understood and adopted by users.

Lastly, by sourcing its main components from the smartphone sector, the Group is able to benefit from two of this industry's specific features: its continued drive for increasingly miniaturized, lightweight end products and its focus on economies of scale. This enables the Group to sell products with low use-related risks for consumers and optimized cost prices. It is also able to take on board the market's rapid growth thanks to components that are very widely available.

In 2017, Parrot selected its products with the best potential for sales and margins, and carried out an in-depth review of its product portfolio. The main products sold in 2017 are described below. Readers will be able to find the most up-to-date product information online at www.parrot.com

- **Parrot Minidrones**

Parrot launched its first minidrones in 2014. Ultralight, very easy-to-use and very affordably priced (99 to 250 euros), the Parrot Minidrones are aimed primarily at children and teenagers.

In 2017, Parrot primarily sold two Minidrones, the Parrot Swing and Parrot Mambo, both launched at the end of 2016, and finished clearing stocks of older products.

The Parrot Mambo has been upgraded with new accessories, including first person view (FPV) capabilities, with an immersive headset-based piloting experience.

- **Parrot Bebop 2**

The Parrot Bebop 2 was launched at the end of 2015. It is one of the most popular mid-end consumer drones on the market. It is renowned for its easy piloting and HD 1080p filming capabilities, with digitally stabilized images as opposed to mechanically stabilized devices (gimbal). This patented proprietary technology, which is currently unique on the consumer drone market, requires graphic processing in the processor core itself.

In 2017, Parrot continued to sell the Parrot Bebop 2 and offered a range of packs and upgrades (Parrot Bebop2 Power and Parrot Bebop 2 Adventurer). Parrot also launched two professional versions: the Parrot Bebop 2 Pro Real Estate and the Parrot Bebop 2 Pro Thermal.

- **Parrot Disco**

The Parrot Disco has been released since summer 2016, with a public retail price of 1,299 euros, including FPV glasses and the Parrot Skycontroller. The Parrot Disco is the first fixed-wing consumer drone. Created through technological synergies with its commercial drone subsidiary senseFly, the Parrot Disco has a flight time of 45 minutes, with a top speed of 80 kmph, and weighs less than 700gr. It has a 14-megapixel camera with a very wide-angle lens and 3-axis digital stabilization.

In 2017, Parrot continued to sell the Parrot Disco at a lower price and launched a dedicated professional version for precision farming: the Parrot Disco Pro AG. At the end of 2017, Parrot decided to discontinue the consumer version of the Parrot Disco and cleared its stocks of products.

- **Parrot drone apps**

Parrot also offers a range of applications complementing the use of its consumer drones:

Parrot Freeflight Pro is the free application that makes it possible to pilot the Parrot Bebop (1, 2 and Power) and Parrot Disco drones. It offers various piloting modes (sport or video) and a range of features such as Touch & Fly, Point of Interest, Magic Dronies (asking the drone to take a selfie), Auto Shots (asking the drone to take specific shots), as well as various safe flight features: Radar, Geofence and Find my Drone.

Additional features are available as in-app purchases:

The Parrot Flight Plan app (20 euros) makes it possible to create autonomous flight plans and define all the parameters for flights: direction, altitude, speed, camera angle, etc. Thanks to its GNNS chipset, which combines data from GPS and Glonass systems, the Bebop benefits from extremely precise geopositioning (+/- 2 meters) and accurately follows the flight plans and actions defined.

The Parrot Follow Me app (20 euros) adds GPS and/or visual recognition tracking features. This technology accurately adapts the drone's position in real time to always keep the subject in the frame, thanks to precise framing with visual recognition, GPS-enabled horizontal positioning and altimeter vertical tracking.

6.1.3.2. Business solutions (commercial drones)

6.1.3.2.1. Verticalization strategy based around a diversified range

Since 2012, the Group has regularly consolidated and strengthened its position on the commercial drone market, and it is now a benchmark on this market. Directly or through subsidiaries, Parrot offers a range of dedicated solutions for commercial uses, including drones, sensors, software and services.

In the business segment, Parrot has chosen to focus on data acquisition and has identified three market segments with advanced technologies, varied commercial targets and complementary expansion cycles.

In this way, the Group is positioned around three "vertical markets" serving a range of industries and professionals:

- Precision farming
- 3D mapping, geomatics and inspection
- Public safety (since end-2017)

6.1.3.2.2. Commercial drone market

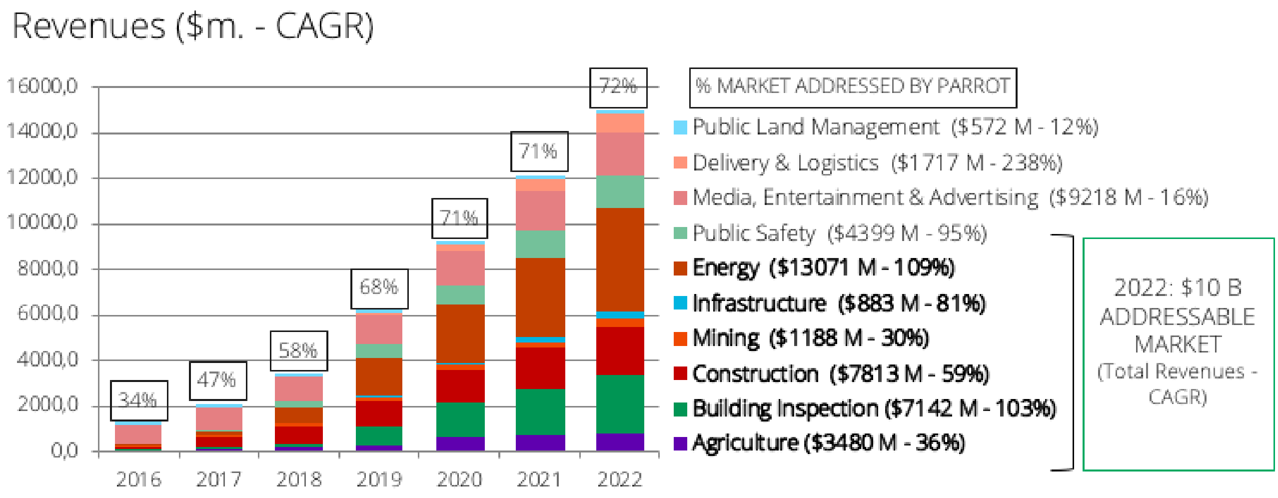
The commercial drone market is developing very quickly, driven by several key factors:

- Rapidly evolving technologies in line with professionals' expectations;
- Diverse uses;
- Productivity gains made possible by these products;
- Introduction of national legislative frameworks regulating the use of commercial civil drones.

The Commercial Drone market includes drones designed for professional use, as well as the prosumer segment (professional uses of drones acquired through consumer distribution channels).

The commercial drone market is dominated today by the use of drones for Cinema and Television, a segment that Parrot, which is focused on data acquisition, is not positioned.

The following chart presents revenue forecasts for each segment (source: The Commercial UAV Market – Aug. 2017 - Interact Analysis)



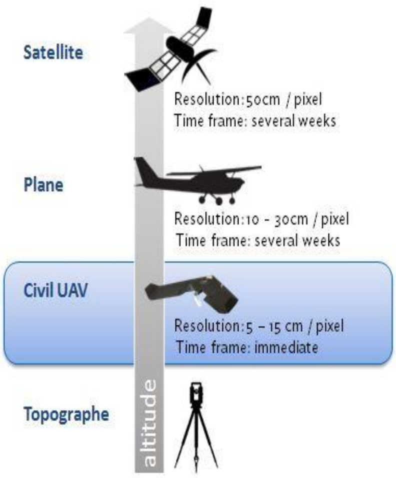
Leading players on commercial drone markets

Apart from the Chinese firm DJI, which is very strongly positioned on the Cinema and Television drone sector (Media, Entertainment & Advertising), other firms, particularly in the US (Precision Hawk, Drone Deploy, Airware, Agribotix), are present on the data acquisition segments. These firms are either civil drone specialists that are focused on a niche application and their product ranges are not as wide as the Group's, or they do not have an equivalent level of business (e.g. Precision Hawk), or they are firms whose core business is not civil drones (e.g. Aerovironment with military drones).

The Group's positioning, covering the entire ecosystem - drones, data sensors, software and professional services - is recognized by certain industry analysts, which consider Parrot to be the market leader for commercial drones.

6.1.3.2.3. Strategy focused on precision data acquisition

By looking at professionals' requirements and the technologies needed to meet them, the Group has identified innovative startups that were developing civil drones, as well as a whole ecosystem of related products, including software, sensors and services. The technologies developed by these companies were intended to fill the gap between satellite imaging (expensive and inaccurate), aerial imaging (expensive and unpredictable in terms of weather conditions) and surveying (slow and mechanical) to offer access to high-precision data.



Building on its industrial and commercial know-how (access to components, outstanding partnership with EMS, network of international subsidiaries, the Group has launched a selective external growth policy, acquiring some of these innovative young companies with a focus on verticalization, targeting three priority markets: mapping, precision farming, and lastly, inspection and surveillance.

6.1.3.2.4. Group's specialized commercial drone business units and products

The Group now has five subsidiaries and six minority investments in firms that sell equipment (drones and sensors), solutions (software and hardware) and services to serve three target markets in priority and a wide range of professionals. The quality of the equipment, software and services offered enable them to meet the needs of many different players within the drone ecosystem (manufacturers, distributors), while also developing integrated offers adapted for key accounts. Depending on the products or services concerned, sales prices may range from a few hundred euros to tens of thousands of euros.

- **senseFly**

Parrot Drones owns 100% of senseFly's capital (gradually acquired since 2012). senseFly has been fully consolidated since 2012. In 2017, senseFly and senseFly Inc. recorded revenues of 27.4 M€ (including intragroup).

Incorporated in November 2009, senseFly was set up through the Ecole Polytechnique Fédérale de Lausanne (EPFL) and has specialized in developing and selling self-piloting lightweight drones for mapping, precision farming and inspection.

Today, senseFly is the leading producer of fixed-wing drones in terms of the volumes distributed internationally. Its range was renewed in 2016 to deliver new flight and data precision performance levels. In 2017, complete solutions were launched (senseFly 360) targeting specific industries, with adapted services (senseFly Always On), aligned with the needs of key accounts.

- **Pix4D**

Parrot Drones owns 95.00% of Pix4D's capital (acquired gradually since 2012). Pix4D has been fully consolidated since 2014. In 2017, Pix4D and Pix4D Inc recorded revenues of 18.8 M€ (including intragroup).

Created following more than 10 years of research carried out within the Ecole Polytechnique Fédérale de Lausanne (EPFL) by Dr. Christoph Strecha, a world-renowned pioneer for computer vision 3D modelling and photogrammetry, Pix4D was founded in 2011. Today, this company is the global market leader for 3D digital mapping for low-altitude aerial image processing. Pix4D has developed software that automatically combine raw images (RAW) to produce three-dimensional orthomosaic models enabling extremely accurate views of environments, as well as distance and volume measurements.

The company offers a growing range of software (rental, sale, cloud, SaaS) which make it possible to analyze and retranscribe data captured by drones to address three priority segments.

- **Parrot Airinov**

Parrot Drones owns 99.27% of Airinov's capital (acquired gradually since 2012). Parrot Airinov has been fully consolidated since July 1, 2015. In 2017, Airinov and Airinov NL recorded revenues of 2.1 M€ (including intragroup).

Parrot Airinov is developing its business with dedicated solutions for precision farming, one of the Group's three target markets. Based on data processing algorithms and sensors, the company is developing a range of services to provide high-precision agronomic indicators enabling farmers to access strong value-added data concerning the health and needs of their crops, improving both quality and yields for their harvests.

Parrot Airinov is the French market leader for drone-based precision farming and has been gradually developing its business on international markets since 2016.

- **MicaSense, Inc.**

Parrot Drones owns 56.33% of MicaSense's capital (acquired for an 8.2 M€ investment in 2013). The investment agreements notably include cross put and call options that may be exercised in 2019 for the remaining capital, with a variable price based on the revenues and earnings achieved by MicaSense in 2017 and 2018. MicaSense has been fully consolidated since October 1, 2015. In 2017, MicaSense recorded revenues of 4.1 M€ (including intragroup).

MicaSense was founded in 2014 in Seattle (Washington, USA) and designs advanced data collection and processing solutions for precision farming in the US.

- **Parrot Air Support**

Parrot Air Support, a fully-owned subsidiary of Parrot Drones, launched its business at the end of 2016. In 2017, Parrot Air Support recorded revenues of 0.2 M€.

Parrot Air Support provides professional drone-based services, consulting and data engineering. These solutions help businesses to increase their operational efficiency thanks to aerial imaging. Parrot Air Support covers all the phases in infrastructure lifecycles, from development to design, construction, surveying and inspection.

Parrot Air Support has been developed by in-house Parrot teams and is today capitalizing on its first major partnerships (Explorimmo, BNP Paribas Real Estate, Bureau Veritas) to develop its range of services, initially in France, then internationally.

6.1.3.2.5. Group's minority interests in specialized commercial drone companies

Parrot also has minority interests in six firms. These investments, which may be increased or subject to trade-offs, are technological, financial or management-based. They are detailed in section "XXII. Significant contracts" and "7.2.2. Minority interests".

6.1.3.2.6. Business solutions in 2017

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

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 6.3 M€.

6.1.3.3. Other consumer products (Retail Automotive and Connected Devices)

Other consumer products concern the historical products - Retail Automotive and Connected Devices (audio products and other connected devices for plants) - sold to consumers through retail distribution channels and online.

- In 2017, revenues from Connected Devices totaled 32.1 M€, down 39%. This contraction is in line with the strategy to realign the business around consumer and commercial civil drones. Commercial operations to help clear stocks of these products were rolled out at the end of the year, in line with the seasonality of consumer product sales: all the connected devices have been sold and there are now only automotive handsfree kits left.

6.2. Exceptional events in 2017

6.2.1. Strategic and capital partnership established between Faurecia and Parrot Automotive

Following the exclusive talks announced by Parrot on December 6, 2016 for a proposed partnership between its subsidiary Parrot Automotive SAS and Faurecia, and after approval by the works council of the economic and social unit Parrot and approval from the regulators concerning the concentration of economic interests, the definitive documentation, setting out the conditions for Faurecia's investment and relations between the parties, was signed on March 24, 2017.

This partnership, built up around Parrot Automotive SAS (and its subsidiaries Parrot Automotive Asia Pacific and Parrot Automotive Shenzhen), will further strengthen the development potential of this longstanding business for Parrot. It will help drive the commercial deployment of connectivity and infotainment solutions for automotive applications worldwide by bringing together Parrot's automotive connectivity expertise, particularly its technologies, software and patents, with Faurecia's strong commercial positions and its foundations working alongside global auto manufacturers.

Under this partnership, Faurecia initially acquired a 20% interest in Parrot Automotive SAS through a 27.3 M€ reserved capital increase carried out on March 31, 2017. The price for the new shares has been set based on an enterprise value of 100 M€ for Parrot Automotive (excluding financial liabilities and cash and cash equivalents). The funds from the capital increase are being deployed for Parrot Automotive's business, notably focusing on further strengthening its R&D and its commercial operations through joint strategic projects.

Alongside this, Faurecia subscribed for 41.0 M€ of bonds issued by Parrot SA that will be able to be converted into existing Parrot Automotive SAS shares. These bonds, accruing interest with a margin of 200 basis points over the 3-month Euribor rate, will mature on December 31, 2021 and will be convertible from January 1, 2019. If these bonds are converted, Faurecia would hold 50.01% of the capital of Parrot Automotive SAS. The funds from the bond issue are available for Parrot's general needs.

In addition, Faurecia and Parrot SA are covered by call and put options which, if they were exercised, would allow Faurecia to acquire or Parrot to sell the remaining Parrot Automotive SAS shares still held by Parrot SA in 2022. The exercise price for these options would be set using an enterprise value determined based on consistent parameters with those applied for the acquisition of this first interest.

Further financial information is provided in the notes to the consolidated financial statements:

- 20.2.2 "Note 2 – Significant events for the period"

– 20.2.14 “Note 15 – Associates”
– 20.2.31 “Note 31 – Related parties”
– 20.2.32 “Note 32 – Commitments given or received”
– 20.2.33 “Note 33 – Assets and liabilities held for sale and discontinued operations”.

6.2.2. Reorganization and redeployment of Drone activities

At the end of 2016, the dynamic commercial performance by consumer drones was only possible thanks to margins that would be too low to deliver profitable growth for this business over the medium and long term. The Group set itself a priority to rapidly meet this challenge, with a strategy to reestablish its financial balances and safeguard its capacity for development on commercial drones.

At the start of 2017, consulting with its employee representatives, and following the legal framework applicable, Parrot therefore launched a plan that could reduce its workforce by around 257 people (out of a total of 840 staff at December 31, 2016) working in the Group’s Drone activities. These reductions concern employees both in France and internationally. In France, this initiative has seen around 125 positions cut, notably considering possible redeployments in the Group's other activities.

Detailed information is also provided in section 20.2.2 “Note 2 – Significant events for the period” and 20.4.3.1 “Main events over the year”.

6.3. Issuer's dependency on patents, licenses, industrial, commercial or financial contracts, or new manufacturing techniques

Readers are invited to refer to Section II “Risk factors” and more specifically the following sections:

– 4.1.1 The Group depends on subcontractors for the manufacturing and assembly of its products
– 4.1.2 The Group relies on resellers for the sale of its retail products. The problems affecting these resellers and the changes relating to their purchases or to the associated decisions may have a material impact on the Group's business as well as on its operating results.
– 4.1.5 The Group’s consumer activities are seasonal and strongly depend on sales recorded during the fourth quarter
– 4.1.6 The Group's success depends to a great extent on the development of Parrot's brand awareness
– 4.1.7 The Group is dependent on certain key executives, engineers and sales managers whose departure could adversely affect its development
– 4.1.8 The Company's main shareholder has the power to influence the Company's corporate decisions
– 4.1.9 Future sales of Company shares could have an impact on the Company's stock price
– 4.1.11 The Company issues dilutive instruments which could have an impact on its capital
– 4.1.13 Goodwill impairment which could have a material impact on the Group’s earnings could be recognized
– 4.2.1 The Group is dependent on the context of the markets in which it operates, economic conditions and the pace of adoption of new technologies by the different audiences the Group is targeting
– 4.2.5 The Group's business depends on the electronic components market
– 4.2.6 The Group's products are based on specific technical standards and all types of connectivity, requiring choices to be made in terms of strategic technological platforms
– 4.2.7 The Group may face risks relating to adverse legislative and regulatory developments regarding the civil drones sector
– 4.2.8 The Group may face commercial returns in the Consumer Drone sector that are hard to predict
– 4.2.9 The Group may face faults in its products that are difficult to forecast
– 4.2.10 Any significant disruption of its information systems may affect the Group
– 4.2.12 The Group's target markets are subject to rapid technological change and frequent launches of new products
– 4.2.13 Some of the Group’s activities are dependent on regulations governing cellphone use while driving
– 4.3.1 Foreign exchange risk
– 4.3.2 Interest rate risk
– 4.3.3 Risk relating to treasury stock and equity interests
– 4.3.4 Liquidity and counterparty risk
– 4.3.5 Risks relating to off-balance sheet commitments

6.4. Human resources and environmental data

6.4.1. Parrot's share included in the Gaia Index

Parrot has been included in the Gaia Index since 2010. Launched in October 2009 by IDMidCaps and EthiFinance, with support from the French financial analysts association (SFAF) and MiddleNext, the GAIA Index information system makes it possible to determine the commitment made by French mid-caps in terms of CSR criteria (Environment, Social, Governance).

In 2017, Parrot was ranked 67th out of 230 in the Gaïa index's[1] overall rankings and 16th out of 76 in the category for revenues of between 150 and 500 M€.

Preamble to the human resources and environmental data

In accordance with Articles L.225-102-1, R.225-105 and R.225-105-1 of the French commercial code, Parrot is presenting the actions taken and strategies adopted by the Company and its subsidiaries and controlled companies in order to take into consideration the impacts of its activities on its employees and the environment, in addition to meeting its societal commitments to support sustainable development.

When a company voluntarily complies with national or international social or environmental standards, the report may mention this, indicating the recommendations from these standards that have been retained and the arrangements for consulting them. The information primarily concerns Parrot S.A. Its subsidiaries and controlled companies, including those located outside of France, are mentioned when the Group scope is applied.

For the QHSE section, for organizational reasons, we have not been able to separate the data for the Automotive business from the data for the Drone business. The environmental data therefore include the data for Parrot Faurecia Automotive and its subsidiaries.

6.4.2. Methodology

Consolidation scope and methods

The environmental data are drawn up for the Group's head office in Paris and Parrot's products. They are extracted from the environmental management system. Parrot's head office includes the research and development department that designs Parrot products. It represents 48% of the Group's workforce at December 31, 2017.

Methodological procedures

Parrot's procedures comprise the following:

– For quantitative indicators: "indicator" files describing the consolidation method for these indicators and available on Parrot's Intranet network;
– For qualitative indicators: a glossary making it possible to have additional information, such as the frequency, scope and justified source.

Choice of indicators

The indicators have been selected with a view to focusing in priority on monitoring the environmental policy and commitments (environmental management system, environmental audits, etc.).

Methodology for quantitative indicators

With regard to waste management at the head office, Parrot consolidates its tonnage and recycling indicators based on waste monitoring forms provided by the various waste collection organizations. These waste monitoring forms indicate the tonnage, the type of waste and the final treatment. The indicator for the annual change in the tonnage of the different types of waste collected is consolidated based on the tonnage and type of waste. The final treatment makes it possible to determine whether the waste has been recycled and the percentage of each type of waste recycled.

The electricity consumption indicator, consolidated annually, is drawn up based on the electricity supplier's invoices (EDF) for the various meters located on the platforms for the Paris headquarters. The monthly invoices are available to the accounting department.

The indicator for the change in annual cold water consumption per person, consolidated annually, is based on data collected from the building's rental expenses statements, which are available to the accounting department.

The data concerning the human resources indicators are consolidated based on various monthly reports.

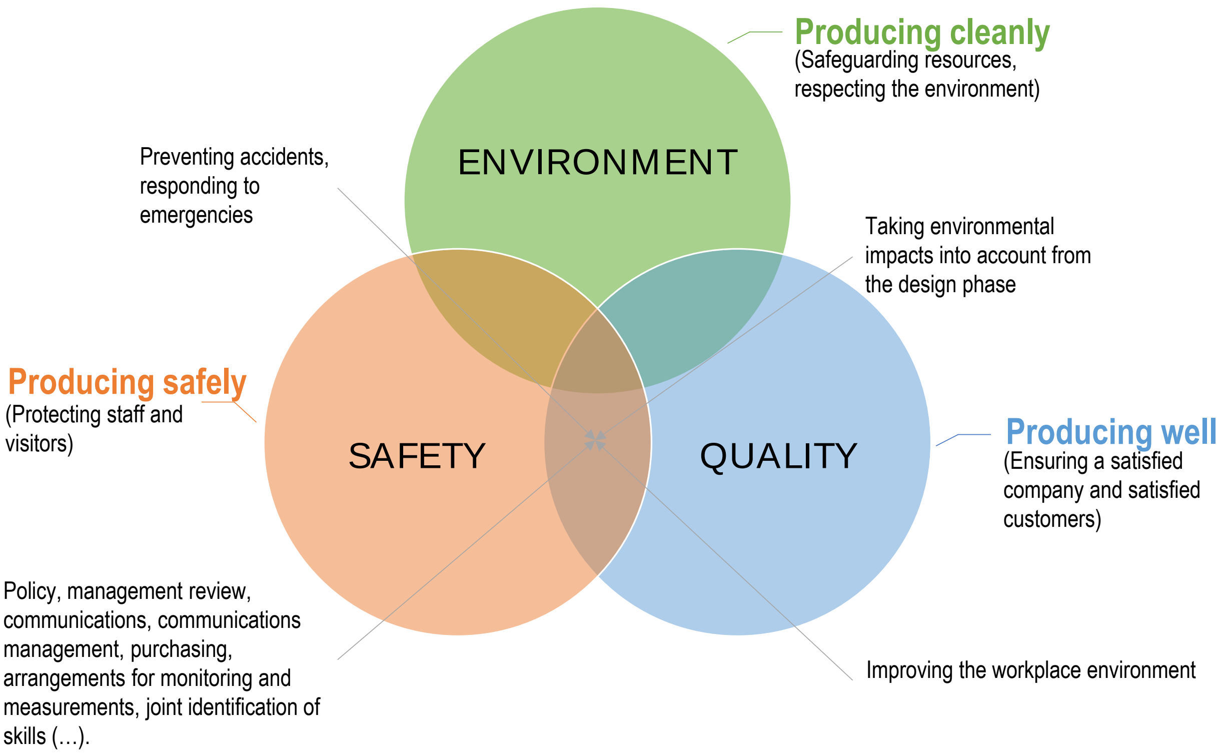
6.4.3. Continuous quality improvement

Parrot's environmental management system has been built around three areas - Quality, Safety and the Environment - with progress marked by a certain number of certifications:

– ISO 9001 since 2002 (Quality), supplemented with an ISO/TS 16949 certificate relating to the automotive sector;
– ISO 14001 since 2008 (Environment), and since 2010 in Parrot's Chinese subsidiary;
– OHSAS 18001 since 2009 (Occupational Health and Safety).

This overall approach ensures effective control over Parrot's activities in these three areas, as well as their compliance with recognized and proven international standards. Incorporating economic, social and environmental dimensions, sustainable development was established as a major focus for the company's progress since 2010, following on logically from the efforts already made

[1] http://www.gaia-index.com/files/pdf/Presentation_Gaia_soiree_13-10-2017.pdf



- Stakes and strategy

Parrot has reviewed its sustainable development performance based on the standard defined by the French automotive suppliers federation (FIEV) in order to determine the most significant issues at stake for the company. These have made it possible to draw up a corporate social responsibility (CSR) strategy built around the following points.

- Assessing and optimizing the environmental impacts of Parrot's products and activities;
- Continuing to improve the workplace environment and conditions for building staff loyalty;
- Developing an ethical and responsible policy throughout the supply chain;
- Reporting to its partners on the company's sustainable performance;
- Further strengthening internal and external communications.

A sustainable development correspondent has been appointed and a sustainable development action plan has been mapped out, incorporating all the actions resulting from regulation watch, audits and risk analyses. This plan represents the tool for overseeing the sustainable development approach at Parrot.

6.4.4. Societal commitments supporting sustainable development

6.4.4.1. Human resources data: employment

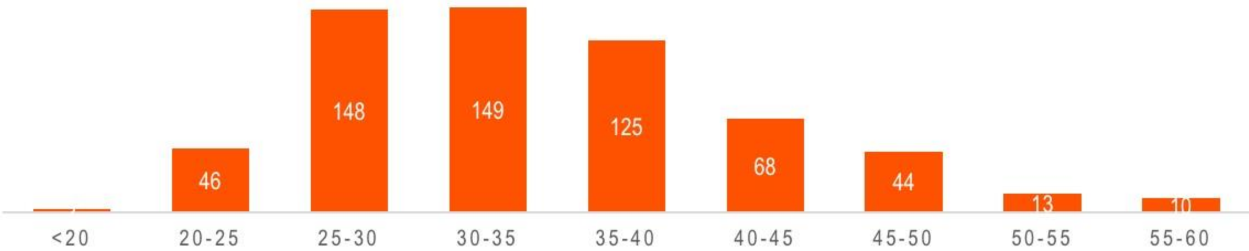
- Breakdown of the workforce by country at December 31, 2017 (Group)

Country	France	Switzerland	UK	Spain	Italy	Germany	Total for Europe
Headcount	264	200	7	2	3	16	492
Country	**China**	**Hong Kong**	**Japan**	**Korea**	**Australia/NZ**		**Total for Asia Oceania**
Headcount	54	17	2	1	3		77
Country	**United States**						**Total for Americas**
Headcount	36						36

- Breakdown of the workforce by gender at December 31, 2017 (Group)

- Women: 27.77%
- Men: 72.23%

Breakdown of the workforce by age range (Group) at December 31, 2017



Monitoring of staff movements (Group)

In 2017, there were 180 arrivals and 374 departures (including interns). Turnover in 2017 was marked by the restructuring operations carried out during the first half of the year. There were 129 dismissals and redundancies, including 56 linked to the Group's economic restructuring. Dismissals and redundancies accounted for 34% of the contracts terminated.

Remuneration figures and changes (Group)

Fixed remuneration excluding variable elements, prorated based on employees' presence (excluding interns):

- France: 16.18 M€
- Europe excluding France: 14.61 M€
- Asia-Pacific: 3.05 M€
- United States: 2.90 M€

Organization of working time

Within the Parrot economic and social unit:

employees, technicians and supervisors have a 39-hour working week and accrue 1.92 RTT reduced working week days per month.

Working time for executive-grade staff is measured on an annual basis in days. The annual basis in days that is applied when executive-grade staff are recruited in the economic and social unit is 218 working days, with 10 RTT reduced working week days of leave.

Within the Group:

each subsidiary applies the regulations in force locally and ensures compliance with ILO recommendations in this area. The subsidiaries do not differentiate between different grades, and their weekly working times give the following breakdown:

- Germany 38.5
- Australia / New Zealand 38
- China 40
- Korea 40
- Spain 40
- United States 40
- Hong Kong 40
- Italy 40
- Japan 37.5
- UK 37.5
- Switzerland 42

Absenteeism (Group)

The rates for unforeseeable absenteeism (including illness, occupational accidents, maternity and paternity absences, and absences for family events, excluding interns) are as follows:

- 2.59% for Parrot SA
- 3.67% for Parrot Drones SAS
- 2.70% for Parrot Air Support

3.19% for the subsidiary Airinov

- 1.61% for the Chez Parrot store
- 5.93% for the subsidiaries in Hong Kong
- 1.10% for the subsidiaries in China
- 1.44% for Parrot Inc.
- 0.66% for Parrot ANZ

- 3.59% for Parrot IBERIA
- 0.43% for Parrot UK
- 17.50% for Parrot GmbH
- 1.42% for PIX4D
- 2.51% for senseFly
- 0.41% for senseFly Inc.

Labor relations at Parrot

Organization of dialogue between management and employees

With the creation of an economic and social unit grouping together Parrot S.A., Parrot Drones and Parrot Automotive, joint structures were set up for the various entities:

- 1 meeting per month for the Works Council
- 1 meeting per quarter for the health, safety and working conditions committee
- 1 meeting per month for staff representatives for each establishment with more than 10 staff (i.e. 2 monthly meetings)

Joint mandatory annual negotiations for all the entities.

Review of collective agreements within the economic and social unit, with the following agreements in force to date:

- Company-wide agreement on recognition for the economic and social unit from August 26, 2015
- Company-wide agreement on working time, remote working and the right to disconnect for Parrot SA and Parrot Drones
- Company-wide agreement on working time, remote working and the right to disconnect for Parrot Faurecia Automotive
- Company-wide agreement relating to incentive bonuses
- Company-wide agreement on means of communication for staff representatives
- Agreement to set up electronic voting
- Company-wide agreement on career and skills management planning
- Company-wide agreement relating to welfare benefits
- Company-wide agreement relating to the generational contract
- Company-wide agreement relating to the company savings scheme
- Agreement for a mandatory and collective healthcare plan
- Collective pension savings plan agreement
- Agreement relating to gender equality in the workplace

The other structures and subsidiaries do not have structured staff representative organizations in accordance with the regulations or their size. As such, Parrot encourages and facilitates direct employee expression, particularly through top-down communications on the company's main strategic aspects, as well as team meetings.

Health and safety within Parrot

Occupational health and safety conditions

Parrot takes the greatest care with occupational health and safety conditions. Although it does not have its own production facilities, some of these activities (particularly tests) require high levels of care concerning potential occupational safety risks.

Parrot has an OHSAS 18001 standard occupational health and safety management system, which has been certified by AFNOR, the French standards association, since 2009. A renewal audit is carried out every three years to maintain this certificate, with follow-up audits in the two years between each renewal. An occupational health and safety policy was drawn up by the Chairman-CEO in 2009, while a risk analysis and targets make it possible to factor in the various risks and hazards associated with our business.

In this way for instance, Parrot has been encouraging training for the staff concerned on safe drone piloting since 2015.

In addition, to improve working conditions for its staff, Parrot has introduced arrangements under the company-wide agreement for occasional distance working in accordance with the legislation in force.

Review of agreements signed with union organizations or staff representatives within Parrot

No occupational health and safety agreements have been signed with the union organizations or staff representatives at Group level.

Occupational accidents and accidents traveling to and from work resulting in time off work (excluding interns):

Within the Parrot economic and social unit:

- Occupational accidents: 3 accidents in 2017
- Accidents traveling to and from work: 1 accident in 2017
- Frequency rate = (number of accidents resulting in at least 24 hours off work / hours worked) x 1,000 000= 8.76
- Severity rate = (days lost as a result of temporary incapacity / hours worked) x 1,000= 0.12

Within the Group (including the economic and social unit):

- Occupational accidents: 6 accidents in 2017
- Accidents traveling to and from work: 4 accidents in 2017
- Frequency rate = (number of accidents resulting in at least 24 hours off work / hours worked) x 1,000 000= 9.28
- Severity rate = (days lost as a result of temporary incapacity / hours worked) x 1,000= 0.15

Training within the Parrot economic and social unit

The priority in 2017 was to improve employees' understanding and the visibility of the various training programs offered by Parrot. The work carried out since 2012 to improve knowledge of the various legal training arrangements (training plan, personal training account (CPF) system, personal leave for training, validation of work experience, etc.) has continued through communications actions carried out with the work's council's training committee.

The range of internal training programs has also been further strengthened with the introduction of 'small talks' provided by employees who are experts in their fields; Parrot's training catalogue is regularly reviewed to help ensure better visibility for the most used actions to develop skills in four areas - technical, management, personal development, languages and office IT - and has been extended to include new training methods such as MOOCs.

The general areas for training for all the departments are focused on:

- Developing managerial skills,
- Adapting to changes in standards,
- Developing project management-related skills in BtoB and BtoC environments,
- Developing English language skills to better communicate with clients and subcontractors.

In addition to these general areas, specific priorities have been defined for certain departments:

Parrot Drones is focused in priority on software development quality and architecture, as well as mechanics, design and vibration, and lastly, developing skills relating to Wifi, GPS and RF standards.

Number of hours of training

In 2017, 1,416 hours of training were recorded for the economic and social unit, with 246 hours for senseFly, 1,206 hours for Pix4D and 502 hours for the subsidiaries in China.

The breakdown of the different types of training within the economic and social unit (Parrot SA and Drones) is presented below (in terms of training actions):

- Business: 83%
- Compulsory: 11%
- Management: 3%
- Languages: 2%
- Personal development: 1%

Workplace equality

In connection with the measures adopted to promote gender equality, Parrot is covered by a company-wide agreement relating to professional equality. The Works Council members are informed and consulted on the actions taken in this context.

As part of its anti-discrimination policy, Parrot, which works with employees from various nationalities, ensures respect for fundamental freedoms, displays information at multiple locations aimed at combating discrimination, covers this point in its internal policies and procedures, and encourages compliance with the terms of the International Labor Organization's fundamental conventions.

Parrot carries out various actions for the employment of disabled people, including measures to adapt workstations (working from home, covering taxi costs).

At Group level, Parrot ensures compliance with all local workplace equality regulations and follows the ILO's recommendations in this area. Its global recruitment policy, focused on the application of non-discriminatory practices, aims to promote the workplace equality policy.

Promoting and respecting the stipulations from the International Labour Organisation's Fundamental Conventions

A Social, Ethical and Environmental policy has been drawn up by the Quality Department. It is incorporated into the quality agreement, signed with firms supplying components for Parrot products. It notably stipulates that:

"Parrot is committed to respecting the International Labour Organisation (ILO) fundamental rights and principles in accordance with the legislation in force. They cover various areas that are considered to be fundamental workplace principles and rights, i.e.: respect for freedom of association and the right to collective bargaining, elimination of all forms of forced or compulsory labor, effective abolition of child labor, and elimination of discrimination in hiring and employment practices".

General environmental policy

Company's organization to take environmental issues into account and, when relevant, environmental assessment or certification procedures

Parrot has an ISO 14001 standard environmental management system, which has been certified by AFNOR, the French standardization association, since 2008. A renewal audit is carried out every three years to maintain this certificate, with follow-up audits in the two years between each renewal. An environmental policy was drawn up by the Chairman-CEO in 2008, then renewed in October 2016. An environmental analysis, supported by targets, is carried out to factor in the various environmental impacts and aspects associated with our business.

Environmental protection training and information actions for staff

Staff information and training actions are carried out on environmental protection aspects, notably through:

- Quarterly quality meeting report with information on environmental actions underway (suppliers, chemical substances, eco-design) every quarter.
- Environmental Policy and Safety-Environment Handbook, which are available on the intranet.
- In-house awareness campaigns carried out with the marketing department on the right steps to take: posters inviting people to recycle by sorting paper, turn off electrical devices when they leave and take care with their water consumption.
- Training modules on the regulations for hazardous products in Parrot products and eco-design for products.
- Display board at the Paris headquarters making it possible to communicate on actions carried out by the QSE department.

Resources for preventing pollution and environmental risks

At this stage, the resources for preventing pollution and environmental risks are covered by a dedicated person. The financial resources required are reviewed on a case-by-case basis.

Amount of provisions and guarantees for environmental risks, unless such information is liable to seriously prejudice the Company in an ongoing dispute

No provisions or guarantees have been recorded for environmental risks and the company is compliant with its obligations in terms of the application of the “Eco” tax.

Office waste management and pollution

Measures to prevent, reduce or remedy air, water and ground emissions seriously affecting the environment

Parrot works with a specialist provider to recover the hazardous chemical mixtures that could be dangerous for the environment if they were discharged as emissions.

Smoke extractors are set up on the soldering stations to capture the polluting and toxic fumes linked to this activity.

Measures to prevent, recycle and eliminate waste

Parrot works with a provider to recycle or eliminate part of the waste from its head office. The percentage of waste recycled for each category and the annual change in the tonnage of the different types of waste collected are presented below:

2015	Paris headquarters			Géodis platform			Varioptic		
	Tonnage	% recycled	% reclaimed for energy	Tonnage	% recycled	% reclaimed for energy	Tonnage	% incinerated	% reclaimed
WEEE	2.431	100%	0%	1,111	100%	0%	-	-	-
Cardboard / common industrial waste	0	0%	0%	5,632	0%	100%	-	-	-
Batteries	0.083	100%	0%	0	0%	0%	-	-	-
Other	0	0%	0%	0	0%	0%	-	-	-
Dispersed hazardous waste	-	-	-	-	-	-	0.491	0%	100%
Dispersed toxic waste	-	-	-	-	-	-	0.173	100%	%

*As December's waste monitoring forms have not been received for the Paris headquarters, we cannot say exactly how many tons are missing.

2016	Paris headquarters (provider: Paprec) Tonnage	% recycled	% reclaimed for energy	Paris headquarters (provider: Géodis) Tonnage	% recycled	% reclaimed for energy	senseFly Tonnage	% recycled	100% reclaimed
WEEE (peripherals and screens)	4.292	100%	0%	32.909	0%	0%	490 liters (barrels)	100%	0%
Common industrial waste: paper / cardboard, plastics. etc.	10.6	0.44%	13.80%	26.62	8%	0%	Paper / cardboard: 6.373 Baled cardboard: 0	100%	0%
Common industrial: other							Timber: 1.465 PET: 6,270 x 110L bags	100%	100%
Batteries	0.227	100%	0%	0	0%	0%	-	-	-
Industrial waste	-	-	-	-	-	-	8.830	0%	100%
Waste to be sorted	-	-	-	-	-	-	3.8	100%	-

Parrot Shenzhen gets its waste processed directly by the structure responsible for managing its premises with all the other companies present.

2017	Paris headquarters (provider: Paprec) Tonnage	% recycled	% reclaimed for energy	Paris headquarters (provider: Géodis) Tonnage	% recycled	% reclaimed for energy	senseFly Tonnage	% recycled	100% reclaimed
WEEE: peripherals	2.172	61%	39%	-	-	-	-	-	-
WEEE: screens	0.061	100%	0%	-	-	-	-	-	-
WEEE: mixed	3.539	100%	0%	-	-	-	400 liters (barrels)	100%	0%
Scrap metal	0.216	0%	100%	-	-	-	Aluminum / tinplate: 2 collections	100%	0%
Common industrial waste (paper, cardboard, plastics. etc.)	14.526	0%	100%	365	25% **	0%	Paper / cardboard: 1.535 Baled cardboard: 6.44 Plastics: 0.124	100% 100%	0% 0%
Common industrial waste: other	-	-	-	-	-	-	Timber: 2.07 PET: 41 x 110L bags Mixed glass: 4 collections	0% 100% 100%	100% 0% 0%
Batteries	-	-	-	-	-		0.380	100%	0%
Cells	0.39	0%	100%	-	-	-	0.02	100%	0%
Industrial waste	-	-	-	-	-	-	12.58	0%	100%
Waste to be sorted	-	-	-	-	-	-	1.33	100%	0%

* Parrot Shenzhen sent a certificate in Chinese proving its compliance with Chinese regulations for electronic waste and batteries.

** Geodis recycles exclusively paper and cardboard.

Tackling food waste

Considering Parrot's activities and the fact that the Group does not have a company restaurant, the Company does not have a policy to tackle food waste.

Management of waste and pollution relating to Parrot products

In the user manuals for its products, Parrot provides instructions on how to dispose of waste, notably including the crossed-out wheelie bin symbol in European instructions for Parrot products. This symbol is indicated on all Parrot products to inform consumers that specific collection is needed for WEEE.

Since 2013, Parrot has carried out tests on its new projects to ensure that their heavy metal content levels are lower than the regulatory limits (RoHS Directive 2011/65/EU) and they do not represent a water or ground pollution risk with the heavy metals when the products become waste. These tests are conducted by an external laboratory Bureau Veritas while projects are underway.

Taking into consideration noise pollution and any other forms of pollution specific to an activity

Parrot carries out an acoustic analysis of its Paris head office every four years to determine whether any workstations are exposed to levels that exceed the regulations, with a corresponding action plan (latest to date: 2016).

All forms of pollution are taken into account in the environmental analysis for the Environmental Management System, which is updated as soon as a new activity appears that could have an impact on the environment.

Sustainable use of resources

Water consumption and supplies in line with local constraints

Water consumption levels are measured and monitored based on various indicators. The refurbishment of the Paris offices has made it possible to reduce these consumption levels with the fitting of push-button taps. Posters to raise awareness on water consumption are on display at various locations.

Change in water consumption (cold water consumption indicator: water consumption based on the building’s rental expenses statement)

	2012	2013	2014	2015	2016	2017
Paris (cbm per person)	6.9	8.0	8.7	9.0	8.5	11.5
Shenzhen (total drinking water consumed in cbm per person)	-	-	-	-	0.2	0.2
senseFly (total water consumed in cbm per person)	-	-	-	-	4.5	4.8

This consumption indicator corresponds to water consumption. Headcount at end-December 2017: 448 people. In 2016, the monitoring of water consumption for Parrot Shenzhen (2017 headcount: 52) and senseFly (2017 headcount: 100) was added.

With regard to taking local constraints into consideration, as the Company does not own its premises, no specific measures have been taken.

Consumption of raw materials and measures adopted to improve their efficient use

At this stage, the Company has not taken any specific measures to improve the efficient use of raw materials.

Energy consumption and measures taken to improve energy efficiency and the use of renewable energies

Parrot displays posters at various locations frequented by staff inviting them to turn off electronic or electrical equipment and lights. Lighting in the corridors is automatically scheduled to be switched off at 9:30 pm.

Change in electricity consumption (electricity consumption indicator: sum of monthly bills based on EDF meters):

	2012	2013	2014	2015		2016			2017		
Site	Paris	Paris	Paris	Paris	Lyon	Paris	Shenzhen	senseFly	*Paris*	*Shenzhen*	*senseFly*
kWh per person	1886	1965	1707	1679*	10530	1716	1246	470*	2121	1732	418

* Part of senseFly’s electricity consumption is based on estimates.

Paris headcount at end-December 2017: 448 people.

Shenzhen headcount at end-December 2017: 52 people.

senseFly headcount at end-December 2017: 100 people.

Land use

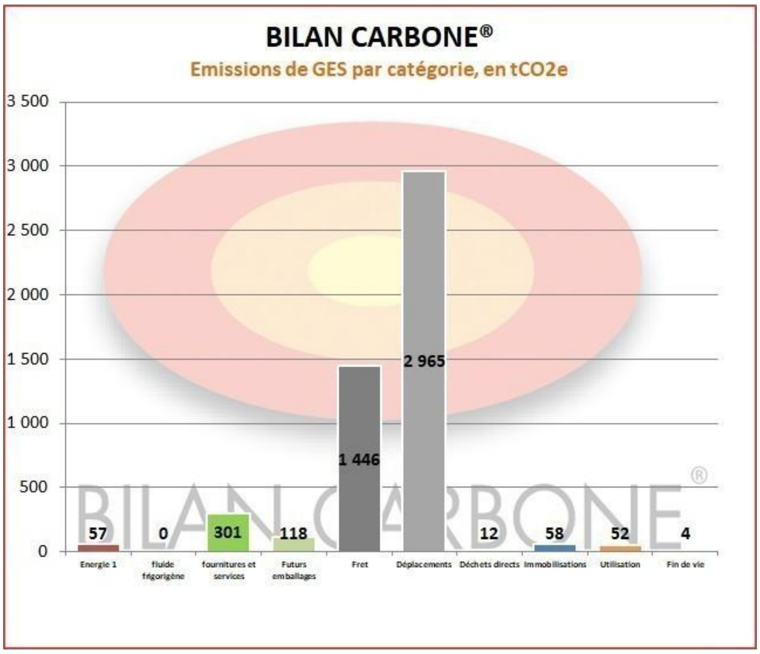
Parrot primarily uses offices for its activities without any direct impacts in terms of land, which is why this category is not considered to be relevant.

With regard to the use of renewable energies, as the Company does not own its premises, no specific measures have been taken to modify our energy services and systems.

Climate change

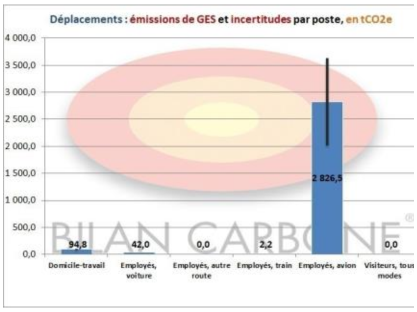
The main approach for reducing greenhouse gas emissions is based on reducing electricity consumption (presented previously) and travel. Conference call services are in place for communicating with correspondents at remote locations.

Parrot reviewed its greenhouse gas footprint in 2017 with the help of Ecoute&Qualité, a specialist consultancy, taking 2016 as its reference year. It is presented on the following chart:

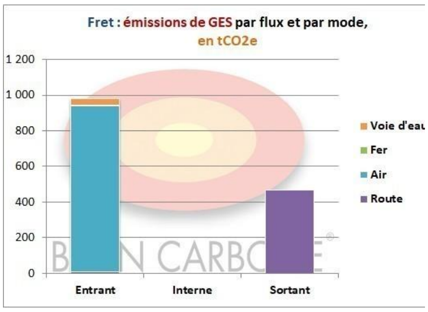


Significant areas of GHG emissions:

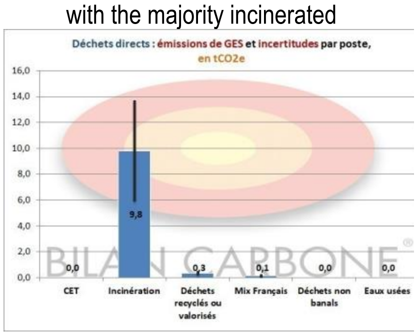
Employee flights



Incoming and outgoing cargo, from raw materials to products sold



WEEE, plastic, paper / cardboard waste managed by our accredited provider, with the majority incinerated



The resulting action plan for each area covers:

Business travel: Formalizing a business travel policy making it possible to clearly define the basic guidelines for means of transport depending on the distance and the class used, promoting videoconferencing to minimize travel needs where possible. Working on guests' travel arrangements is a potential option: they represent around 10% of the travel emission factors.

Cargo: Working on the means of transport used for imports from China, to reduce the proportion of products shipped by plane and therefore the CO2 emissions relating to the use of planes.

Product packaging: Using cardboard packaging made out of recycled raw materials, which would make it possible to reduce the emission factors.

Volume of waste with Géodis: Setting up a system to track the volume of waste with our provider Géodis, because the volumes taken into account seem very high considering our products' unit weights.

CO2 emissions linked to electricity consumption represent 56.6 t CO2eq, while heating-related emissions represent 300.8 t CO2eq for the Paris head office in 2017 according to the deliverable from Ecoute&Qualité.

Ecodesign

We take the environment into consideration in our product design and improvement phases thanks to our lifecycle analyses. We use the EIME software to carry out these analyses. This enables us to benefit from detailed information concerning the production or extraction of raw materials, the manufacturing of our products, their distribution, their use and the impacts relating to their processing or elimination at the end of their lives. The lifecycle analyses for DOC products were carried out in 2016, while the analyses for Automotive products are underway and will be available in 2018.

Conflict minerals

Every six months, we ask our OEM suppliers to complete an RMI/CMRT form. This form makes it possible to list and detail all the minerals used by each supplier. Each report will be compiled in order to be able to create one global report for Parrot. It will then be sent to our clients to prove our compliance.

Biodiversity protection

Various measures are taken to reduce the impact of products on biodiversity when they become waste products (e.g. RoHS substances and ground pollution).

The senseFly / Parrot commercial drones include on-board aerial mapping technologies offering a range of solutions that can help protect biodiversity. Some examples:

- Assessing damage following a forest fire or flooding
- Measuring the quantity of light reflected by leaves. These data provide agronomic indicators making it possible to estimate the quantity of biomass or nitrogen requirements, enabling farmers to optimize their inputs and improve the average harvest for their crops in terms of both quantity and quality aspects
- Researching rare plants in areas that are difficult to access.

6.4.5. Information on societal commitments to sustainable development: regional, economic and social impact of the Company's activity

Organized around a fabless model, Parrot does not own its factories and all its products are manufactured by subcontractor suppliers in China, Taiwan or Europe.

An ethical, social and environmental policy has been put in place for suppliers and is included in the quality agreement signed with suppliers. This policy covers several areas:

- Social: child labor, forced labor, inhuman treatment and harassment, freedom of association, discrimination, health and safety;
- Ethical: corruption, transparency and legal compliance;
- Environmental: environmental management system set up, environmental procedures in place for production, components and delivery, identification of chemical substances and products, compliance with environmental regulations.

With regard to health and safety for consumers, the standards validation department ensures that all Parrot products are compliant with electrical safety standards. Tests are carried out on products to confirm that they do not contain any hazardous chemical substances in relation to the regulatory frameworks (Reach, RoHS, etc.).

The rules for recreational drone use defined by the French civil aviation authority (DGAC), consulting with manufacturers, including Parrot, as well as the French data protection agency (CNIL) and the French model aircraft federation are listed in an article on Parrot's official blog.

Regional, economic and social impact of the Company's business

Regional development and employment

Parrot contributes to regional development by employing more than 500 people at its headquarters in Paris. There is little impact on neighboring or local communities in view of the activities performed at the head office and the design / R&D unit.

Relations with people and organizations concerned by the Company's business, particularly integration organizations, educational institutions, environmental protection associations, consumer groups and residents associations

Conditions for dialogue with these people or organizations

Parrot is committed to establishing partnerships with educational institutions and the HR department regularly organizes conferences and takes part in shows for students.

Corporate citizenship and partnership actions

Parrot is committed to working closely with consumer groups. Since 2012, Parrot has therefore supported the association "40 millions d'automobilistes", which groups together drivers to collect their views and reduce the nuisances relating to this means of transport.

Parrot is also committed to supporting integration organizations and in particular disabled associations and charities, including Les Chevaliers du Ciel and Handicap International for the past three years.

Parrot is committed to the development of neighboring communities, supporting the SNCP Sporting Club Nord Parisien association volleyball team for the past four years.

- **Other actions to support human rights**

Parrot is committed to supporting human rights and has signed an agreement for equality in the workplace, ensuring equal pay for men and women. To date, the Company has not adopted any other measures to support human rights in addition to the ethics policy presented before and compliance with the ILO's stipulations.

6.4.6. Report by the independent third party on the consolidated social, environmental and societal data

ERNST & YOUNG et Associés

To the Shareholders,

In our capacity as an independent third party, accredited by the French national accreditation body COFRAC[1] under number 3-1050 and a member of the network of one of Parrot's statutory auditors, please find hereafter our report on the consolidated social, environmental and societal data presented in Section VI of the management report (the "CSR Data") for the year ended December 31, 2017, in accordance with Article L. 225-102-1 of the French commercial code.

Company's responsibility

The Board of Directors is responsible for preparing a management report containing the CSR Data required by Article R. 225-105-1 of the French commercial code, in accordance with the procedures adopted by the company (the "Reporting Standards"), as summarized in section VI of the management report and available on request from the company's registered office.

Independence and quality control

Our independence is defined by the regulations, the professional code of ethics and the provisions of Article L. 822-11-3 of the French commercial code. Furthermore, we have put in place a quality control system which includes documented policies and procedures aimed at ensuring compliance with the applicable ethical rules, professional standards, laws and regulations.

Independent third party's responsibility

It is our responsibility, based on our work, to:

- Certify that the required CSR Data are present in the management report or, in the event of omissions, are explained in accordance with the third paragraph of Article R. 225-105 of the French commercial code (Certificate of presence of CSR Data);
- Express a conclusion of moderate assurance that the CSR Data overall are presented, in all their material respects, in a true and fair manner in accordance with the Reporting Standards (Considered opinion on the accuracy of the CSR Data).

However, it is not our responsibility to give an opinion on compliance with other legal provisions where applicable, particularly those provided for in the Sapin II Act no. 2016-1691 of December 9, 2016 (anti-corruption).

Our work was carried out by four people over a period of approximately four weeks between February and March 2018.

[1] Accreditation scope available on www.cofrac.fr

We conducted the work described hereafter in accordance with French industry standards and the Decree of May 13, 2013, setting out the conditions under which the independent third-party organization performs its mission, and the international standard ISAE 3000[1] for the considered opinion on the accuracy of the data.

1. Certificate of presence of CSR Data

Nature and scope of our work

Based on interviews with the managers of the departments concerned, we reviewed the presentation of the sustainable development policies, in view of the social and environmental consequences relating to the company's business and its societal commitments and, as relevant, the resulting actions or programs.

We compared the CSR Data presented in the management report with the list set out in Article R. 225-105-1 of the French commercial code.

If certain consolidated data were not included, we checked that explanations were provided as required by the provisions of Article R. 225-105 Paragraph 3 of the French commercial code.

We checked that the CSR Data covered the consolidated scope, namely the company and its subsidiaries as defined by Article L. 233-1 of the French commercial code, as well as its controlled companies as per Article L. 233-3 of the commercial code, within the limits set out in the methodological memo presented in section VI of the management report.

Conclusion

On the basis of this work, and within the aforementioned limits, we certify that the management report contains the CSR Data required.

2. Considered opinion on the accuracy of the CSR Data

Nature and scope of our work

We conducted interviews with the people responsible for the preparation of the CSR Data from the various departments in charge of the data collection processes, and, as relevant, the people responsible for the internal control and risk management procedures, with a view to:

- Assessing the appropriate nature of the Reporting Standards in terms of their relevance, completeness, neutrality, clarity and reliability, taking into consideration, when relevant, best practices for the sector;
- Checking the implementation of a process for collecting, compiling, processing and checking the CSR Data to ensure it is complete and consistent, and obtaining information about the internal control and risk management procedures regarding the preparation of the CSR Data.

We determined the nature and extent of our tests and controls based on the nature and importance of the CSR Data in relation to the company's characteristics, the social and environmental issues associated with its activities, its sustainable development policies and industry best practices.

For the CSR Data that we considered most important[2]:

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[1] ISAE 3000 – *Assurance engagements other than audits or reviews of historical information*

[2] **Human resources data:** *total headcount and breakdown, recruitments, exits and dismissals, number of occupational accidents and accidents traveling to and from work, as well as their frequency and severity, absenteeism, training and remuneration.*

Environmental and societal data: *tonnage of waste and electricity consumption.*

- For the consolidating entity, we reviewed the related documentary sources and we conducted interviews to corroborate the qualitative data (organization, policies, actions, etc.), we performed analytical procedures on the quantitative data and verified, on a test basis, that such data had been correctly calculated and consolidated; we also checked their consistency with the other data presented in the management report;

- For a representative sample of subsidiaries we selected[1] in view of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify the correct application of the procedures and carried out detailed tests on a sampling basis, checking the calculations made and the consistency of data in the supporting documents. On average, the sample selected in this way represents over 78% of the workforce.

For the other consolidated CSR data, we assessed their consistency in relation to our knowledge of the company.

Lastly, we assessed the relevance of explanations relating to the total or partial omission of certain data, if applicable.

We consider that the sampling methods and sample sizes that we have used, exercising our professional judgment, allow us to express a conclusion of moderate assurance; a higher level of assurance would have required more extensive verification work. As a result of the use of sampling techniques, and the other limitations inherent in the functioning of any internal control and information system, the risk of a material anomaly in the CSR Data not being detected cannot be ruled out entirely.

Conclusion

Based on this work, we have not identified any material anomalies likely to call into question the fact that the CSR Data overall are presented in a true and fair way, in accordance with the Reporting Standards.

Paris-La Défense, March 30, 2018

The Independent Third Party
ERNST & YOUNG et Associés

Eric Mugnier
Sustainable Development Partner

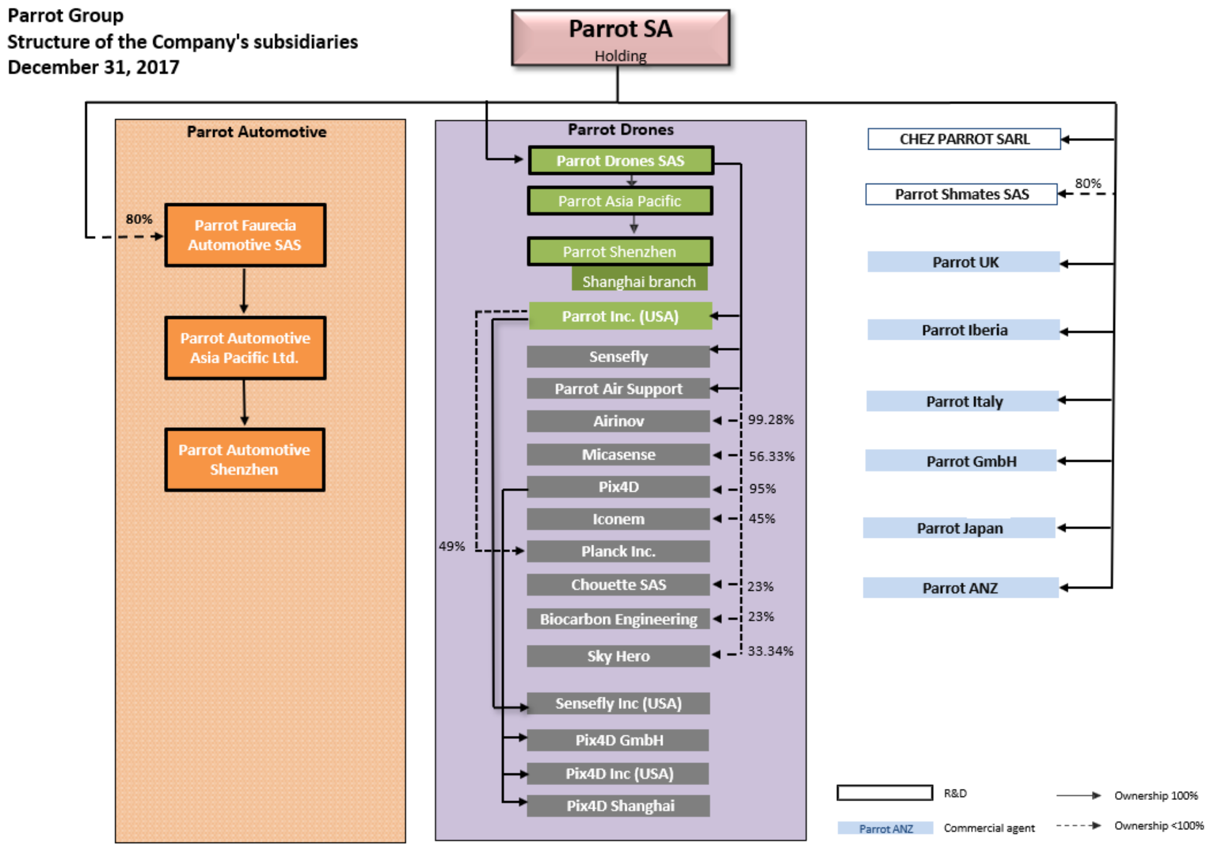
Bruno Perrin
Partner

[1] **For the human resources data:** *Parrot social and economic unit (Drones and Parrot S.A) and the subsidiary Pix4D.*
For the environmental data: *the subsidiaries* Parrot *S.A. and Sensefly.*

VII. Structure

7.1. Simplified Group structure

Structure of the Company's subsidiaries at December 31, 2017



At December 31, 2017, the Company at the head of the Group directly owned all of the following companies:

Consolidated subsidiaries	Country	Parent company	Parent company interest at Dec 31, 2017
Parrot Gmbh	Germany	Parrot SA	100%
Parrot UK Ltd	UK	Parrot SA	100%
Parrot Iberia SL	Spain	Parrot SA	100%
Parrot Italia Srl	Italy	Parrot SA	100%
Parrot Anz Ltd Limited	Australia	Parrot SA	100%
Parrot Japan KK	Japan	Parrot SA	100%
Chez Parrot Sarl	France	Parrot SA	100%
Parrot Shmates SAS	France	Parrot SA	80%
Parrot Drones SAS	France	Parrot SA	100%
Parrot Asia Pacific Ltd	Hong Kong	Parrot Drones SAS	100%
Parrot Shenzhen	China	Parrot Asia Pacific Ltd / Parrot SA	100%
Parrot Air Support	France	Parrot Drones SAS	100%
Parrot Inc	USA	Parrot Drones SAS	100%
MicaSense Inc	USA	Parrot Drones SAS	56%
Airinov SAS	France	Parrot Drones SAS	99%
Airinov NL	Netherlands	Airinov SAS	100%
Airinov DK	Denmark	Airinov SAS	100%
senseFly SA	Switzerland	Parrot Drones SAS	100%

senseFly Inc	USA	senseFly SA	100%
Pix4D SA	Suisse	Parrot Drones SAS	95%
Pix4D Inc	USA	Pix4D SA	95%

The following interests are consolidated on an equity basis at December 31, 2017:

- Iconem, French company (45% interest)
- EOS innovation, French company (49% interest).
- Planck Aerosystems Inc, American company (49% interest);
- Parrot Faurecia Automotive, French company (80% interest);
- Parrot Automotive Asia Pacific, Chinese company (80% interest);
- Parrot Automotive Shenzhen, Chinese company (80% interest).

7.2. Presentation of the Group's companies

In 2017, each subsidiary recorded the following amounts of corporate sales (including invoicing within the Group):

- Parrot, Inc: 29.1 M€ in 2017, versus 38.1 M€ in 2016
- Parrot Italia Srl: 0.7 M€ in 2017, versus 1.5 M€ in 2016
- Parrot GmbH: 2.0 M€ in 2017, versus 2.9 M€ in 2016
- Parrot UK Ltd: 1.8 M€ in 2017, versus 2.4 M€ in 2016
- Parrot Asia Pacific Ltd: 74.8 M€ in 2017, versus 109 M€ in 2016
- Parrot Trading (Shenzhen) Ltd: 5.9 M€ in 2017, versus 6.9 M€ in 2016
- Parrot Iberia: 1.4 M€ in 2017, versus 1.6 M€ in 2016
- Parrot SA: 14.6 M€ in 2017, versus 15.7 M€ in 2016
- Parrot Drones SAS: 75.9 M€ in 2017, versus 92.9 M€ in 2016
- Parrot Japan KK: 0.5 M€ in 2017, versus 0.6 M€ in 2016
- Parrot ANZ Ltd: 1.7 M€ in 2017, versus 2.4 M€ in 2016
- Chez Parrot SARL: 0.7 M€ in 2017, versus 1.0 M€ in 2016
- senseFly: 19.7 M€ in 2017, versus 15.2 M€ in 2016
- senseFly Inc: 7.7 M€ in 2017, versus 5.8 M€ in 2016
- Pix4D: 16.1 M€ in 2017, versus 12.9 M€ in 2016
- Pix4D INC: 2.1 M€ in 2017, versus 0.8 M€ in 2016
- Airinov: 2.0 M€ in 2017, versus 2.6 M€ in 2016
- Airinov NL: 67 K€ in 2017, versus 41 K€ in 2016
- MicaSense: 4.1 M€ in 2017, versus 2.7 M€ in 2016
- Parrot Air Support: 225 K€ in 2017, versus 29.1 K€ in 2016

Parrot Drones SAS

Parrot Drones SAS is a French-law joint-stock company (société par actions simplifiée) with a capital of 60,627,824 €. It was incorporated in Paris on December 15, 2014 with the corporate name "Parrot Invest 2". Its registered office is located at 174-178 Quai de Jemmapes, 75010 Paris, France.

The corporate purpose of Parrot Drones SAS is to design, manufacture and sell drones, robotics products and connected devices.

At December 31, 2017, Parrot Drones employed 167 people (344 at December 31, 2016).

Parrot, Inc

Parrot, Inc is an American-law limited company with a capital of 55,693,419 US$. It was incorporated in New York State on January 30, 2004. Its registered office is located at 535 Mission St, San Francisco, CA 94105, USA.

Parrot, Inc.'s corporate purpose is to develop, market and sell Parrot telecommunications and IT products. It may also carry out any operation which might directly or indirectly support its corporate purpose. In this way, it may set up branches and acquire interests in other businesses.

At December 31, 2017, Parrot, Inc employed 11 people (43 at December 31, 2016).

Parrot Italia Srl

Parrot Italia Srl is an Italian-law limited liability company with a share capital of 10,000 €. It was registered on January 19, 2005 in the Italian trade register under number IT 04717030961. Its registered office is located at Via Giuseppe Revere 16, 20123 Milan, Italy.

Parrot Italia Srl's corporate purpose is to develop, market and sell Parrot telecommunications and IT products. It may also carry out any operation which might directly or indirectly support its corporate purpose. In this way, it may set up branches and acquire interests in other businesses.

At December 31, 2017, Parrot Italia Srl employed 3 people (9 at December 31, 2016).

Parrot UK Ltd

Parrot UK Ltd is an English-law limited liability company with a share capital of £100, split into 100 shares of £1 each. It was incorporated on June 14, 2005 under number 5480392. Its registered office is located at Park View, One Central Boulevard, Blythe Valley Business Park, Solihull B90 8BG, Birmingham, UK.

Parrot UK Ltd's corporate purpose is to develop, market and sell Parrot telecommunications and IT products. It may also carry out any operation which might directly or indirectly support its corporate purpose. In this way, it may set up branches and acquire interests in other businesses.

At December 31, 2017, Parrot UK Ltd employed 7 people (12 at December 31, 2016).

Parrot GmbH

Parrot GmbH is a German-law company with a share capital of 25,000 euros. It was incorporated on April 29, 2005 and registered on July 8, 2005 under number HR 157910. Its registered office is located at Maximilianstasse 27, 80539 Munich, Germany.

Parrot GmbH's corporate purpose is to develop, market and sell Parrot telecommunications and IT products. It may also carry out any operation which might directly or indirectly support its corporate purpose. In this way, it may set up branches and acquire interests in other businesses.

At December 31, 2012, Parrot GmbH employed 3 people (compared with 14 at December 31, 2011).

Parrot Asia Pacific Ltd

Parrot Asia Pacific Ltd is a private company limited by shares with a share capital of 10.000 Hong Kong dollars split into 10,000 shares of 1 Hong Kong dollar each. It was incorporated on July 25, 2005 under number 985350. Its registered office is located at Suite 707-9, 7/F., Wharf T&T Centre, 7 Canton Road, Tsim Sha Tsui, Kowloon, Hong-Kong (China).

Parrot Asia Pacific Ltd's corporate purpose is to develop, market and sell Parrot telecommunications and IT products. It may also carry out any operation which might directly or indirectly support its corporate purpose. In this way, it may set up branches and acquire interests in other businesses.

At December 31, 2017, Parrot Asia Pacific Ltd employed 74 people, with 56 in Shenzhen, 18 in Hong Kong (versus 95, with 75 in Shenzhen and 20 in Hong Kong at December 31, 2016).

Parrot Iberia, SL

Parrot Iberia, SL is a Spanish-law company with a share capital of 63,036 €, split into 10,506 shares of 6 € each.

It was acquired by Parrot in 2005 and is registered under number B82129099. Before the Company's acquisition of 100% of its capital, Parrot Iberia (formerly Inpro Tecnologiá) SL was the Company's exclusive distributor in Spain (mutually exclusive rights). Its registered office is located at Calle Orense 81-7, Madrid – 28020, Spain.

Parrot Iberia, SL's corporate purpose is to develop, market and sell Parrot telecommunications and IT products. It may also carry out any operation which might directly or indirectly support its corporate purpose. In this way, it may set up branches and acquire interests in other businesses.

At December 31, 2017, Parrot Iberia, SL employed 2 people (12 at December 31, 2016).

Parrot Japan KK

Parrot Japan KK is a Japanese-law company with a share capital of 10,000,000 Yen. It was incorporated on April 30, 2009 and registered on April 30, 2009 under number 0104-01-081734. Its registered office is located at PMC Building 1-23-5, Higashi-Azabu, Minato-ku, Tokyo, Japan.

Parrot Japan KK is working to deploy the Key Account products.

At December 31, 2017, Parrot Japan KK employed 2 people (3 at December 31, 2016).

Parrot ANZ Ltd

Parrot ANZ Ltd is an Australian-law company with a capital of 10,000 AUD. It was incorporated on July 11, 2012 and registered under number 159443820. Its registered office is located at 68-72 York Street, South Melbourne, Victoria 3205, Australia.

Parrot ANZ Ltd's corporate purpose is to develop, market and sell Parrot telecommunications and IT products. It may also carry out any operation which might directly or indirectly support its corporate purpose. In this way, it may set up branches and acquire interests in other businesses.

At December 31, 2017, Parrot ANZ Ltd employed 4 people (5 at December 31, 2016).

Chez Parrot SARL

Chez Parrot is a French-law company with a capital of 10,000 €. It was incorporated on April 27, 2012 and registered on May 29, 2012 under number 751 758 848 000 12. Its registered office is located at 30, rue du 4 Septembre, 75002 Paris, France.

Chez Parrot SARL sells telecommunications equipment on a retail basis in a specialized store.

At December 31, 2017, Chez Parrot SARL employed 4 people (unchanged from December 31, 2016).

Parrot Shmates SAS

Parrot Shmates SAS is a French-law joint-stock company (société par actions simplifiée) with a capital of 10,000 €. It was incorporated in Paris on July 2, 2015. Its registered office is located at 174-178 Quai de Jemmapes, 75010 Paris, France.

Parrot Shmates SAS' corporate purpose is to design, manufacture and sell electronics and IT products and connected devices.

At December 31, 2017, Parrot Shmates employed 1 person (unchanged from December 31, 2016).

senseFly

senseFly is a Swiss-law company with a capital of 196,816 CHF. It was incorporated on November 30, 2009 and registered under number CH-550.1.063.796-3. Its registered office is located at Route de Genève, 38 - 1033 Cheseaux-sur-Lausanne, Switzerland.

senseFly's activity involves the development, manufacturing and marketing of smart mobile systems and software, as well as all related services.

At December 31, 2017, senseFly employed 110 people (112 at December 31, 2016).

senseFly Inc

senseFly Inc is an American-law company with a capital of 5 US$. It was incorporated on December 21, 2015. Its registered office is located at 205 New York Avenue, NW Washington, DC 20001, USA.

senseFly Inc's activity involves the development, manufacturing and marketing of smart mobile systems and software, as well as all related services.

At December 31, 2017, senseFly Inc employed 11 people (12 at December 31, 2016).

Pix4D

Pix4D is a Swiss-law company with a capital of 105,510 CHF. It was incorporated on June 1, 2011 and is registered under number CH-5501938772. Its registered office is located at EPFL Innovation Park - Building D, 1015 Lausanne, Switzerland. Pix4D's business involves the development of algorithms and image analysis programs to help robots navigate within 3D spaces and generate models.

At December 31, 2017, Pix4D employed 94 people (76 at December 31, 2016).

Pix4D Inc

Pix4D Inc is an American-law company with a capital of 100 US$. It was incorporated on January 21, 2015 and registered under number C3745818. Its registered office is located at 150 Post Street, Suite 650, San Francisco, CA 94108, USA.

Pix4D Inc's business involves the development of algorithms and image analysis programs to help robots navigate within 3D spaces and generate models.

At December 31, 2017, Pix4D Inc employed 12 people (4 at December 31, 2016).

Airinov SAS

Airinov is a French-law joint-stock company (société par actions simplifiée) with a capital of 177,824 €. It was incorporated in Paris on December 2, 2010. Its registered office is located at 174-178 Quai de Jemmapes, 75010 Paris, France.

Airinov's corporate purpose covers the design, manufacturing, sale, maintenance and renting of unmanned aerial vehicles, as well as their associated or constituent systems, their accessories and payloads, services resulting from the acquisition or analysis of this data, and training.

At December 31, 2017, Airinov employed 13 people (40 at December 31, 2016).

Micasense Inc

Micasense Inc is a Californian-law American company with a capital of 6,887,218 US$. It was incorporated in Washington on November 21, 2014. Its registered office is located at 1055 N 38th St., Seattle WA 98103, USA.

MicaSense's corporate purpose covers the design and sale of agricultural sensors, as well as software making it possible to analyze and process data collected by these sensors.

At December 31, 2017, Micasense employed 19 people (26 at December 31, 2016).

Parrot Air Support SAS (previously Parrot Invest 3)

Parrot Invest 3 is a French-law joint-stock company (société par actions simplifiée) with a capital of 1,000.00 euros. Its registered office is located at 174-178, quai de Jemmapes, 75010 Paris, France. The company changed its corporate name on July 28, 2016 to Parrot Air Support SAS. The company carried out a capital increase based on 99,000 ordinary shares with a par value of 1 € on November 14, 2016. At December 31, 2016, Parrot Air Support SAS had a share capital of 100,000.00 €. Parrot Air Support's corporate purpose covers the development and sale of services for the collection and IT processing of technical data, taking of photos and images for the building, construction, real estate, mapping, property and personal surveillance sectors.

At December 31, 2017, Parrot Air Support employed 9 people.

Parrot Faurecia Automotive S.A.S.

Parrot Faurecia Automotive S.A.S. is a French-law joint-stock company (société par actions simplifiée) with a capital of 35,507,913 €. It was incorporated in Paris on December 15, 2014 with the corporate name "Parrot Invest 1". Its registered office is located at 174-178 Quai de Jemmapes, 75010 Paris, France.

The corporate purpose of Parrot Faurecia Automotive S.A.S. is to design, manufacture and sell handsfree communication and infotainment systems for vehicles, designed for sale to auto manufacturers or OEM suppliers.

At December 31, 2017, Parrot Faurecia Automotive S.A.S. employed 225 people. At December 31, 2016, Parrot Automotive S.A.S. employed 194 people.

Parrot Automotive Asia Pacific Ltd

Parrot Automotive Asia Pacific is a private company limited by shares with a share capital of 1 Hong Kong Dollar. It was incorporated on November 26, 2014 under number 2173244. Its registered office is located at Suite 707-9, 7/F., Wharf T&T Centre, 7 Canton Road, Tsim Sha Tsui, Kowloon, Hong-Kong (China). The corporate purpose of Parrot Automotive Asia Pacific Ltd. is to design, manufacture and sell handsfree communication and infotainment systems for vehicles, designed for sale to auto manufacturers or OEM suppliers.

At December 31, 2017, Parrot Automotive Asia Pacific Ltd employed 4 people (unchanged from December 31, 2016).

Parrot Automotive (Shenzhen) Ltd

Parrot Automotive (Shenzhen) is a private company limited by shares with a share capital of 1,230,653 CNY. It was incorporated on June 10, 2015 under number 440301503504745. Its registered office is located at Room 1501 – 1503, Centre Commerce Building, 88 Fuhua Yi Road, Futian Centers District, Shenzhen. The corporate purpose of Parrot Automotive (Shenzhen) Ltd. is to design, manufacture and sell handsfree communication and infotainment systems for vehicles, designed for sale to auto manufacturers or OEM suppliers.

At December 31, 2017, Parrot Automotive (Shenzhen) Ltd employed 11 people (compared with 15 at December 31, 2016).

7.2.1. Majority investments

The subsidiary Pix4D, in which Parrot Drones held a 95% interest at December 31, 2017, is fully consolidated. Parrot has awarded Pix4D's minority shareholders options to sell their 5% minority interest in this subsidiary.

The subsidiary Airinov, in which Parrot Drones held a 99.28% interest at December 31, 2017, is fully consolidated.

The subsidiary MicaSense Inc, in which Parrot Drones held a 56% interest at December 31, 2017, is fully consolidated. Parrot has awarded MicaSense Inc's minority shareholders options to sell their 44% minority interest in this subsidiary.

The subsidiaries Parrot Faurecia Automotive, Parrot Automotive Asia Pacific Ltd and Parrot Automotive Shenzhen Ltd, in which Parrot SA held an 80% interest at December 31, 2017, have been consolidated on an equity basis since March 31, 2017.

Detailed information is also provided in the notes to the consolidated financial statements in section 20.2.4 "Note 4 – Basis for consolidation", 20.2.12 "Note 12 – Business combinations" and 20.2.15 "Note 15 – Associates".

7.2.2. Minority investments

On the date when this reference document was published, Parrot Drones held the following interests:

- 49% of the company EOS INNOVATION (compulsory liquidation proceedings underway since March 6, 2017);
- 45% of the company Iconem (investment carried out in 2015);
- 23% of the company BioCarbon Engineering Ltd (investment carried out in 2015);
- 49% of the company Planck Aerosystems (investment carried out in March 2016, through its subsidiary Parrot Inc.);
- 20% of the company Nano Racing (compulsory liquidation proceedings underway since December 2017);
- 33.34% of the company Sky-Hero (investment carried out in December 2017).

Detailed information is also provided in the notes to the consolidated financial statements in section 20.2.14 "Note 14 – Financial assets".

VIII. Property, plant and equipment

The Group and its subsidiaries do not own any major property, plant and equipment and do not intend to acquire any such fixed assets in the near future.

The parent company operates out of its registered office in the premises located at 174-178, quai de Jemmapes, 75010 Paris, France, occupied under leases entered into with the real estate company Neuilly Château SA. There are no links between the real estate company Neuilly Château SA and the Company or any of its executives. Neither are there any links between any of the Group's lessors and the Company, its subsidiaries or any of their executives.

IX. Review of the financial position and earnings

9.1. Review of the financial position

9.1.1. Key developments and revenue trends in 2017

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 development of its product selection 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 rolled out 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: Precision Farming, 3D Mapping, Geomatics and Inspection, and lastly 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, particularly 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 100 M€ (excluding financial liabilities and cash and cash equivalents). From March 31, 2017, Faurecia held 20% of Parrot Automotive and the company is equity-accounted in Parrot's consolidated accounts. Parrot has issued 41 M€ 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 certain organizational changes: Gilles Labossière, Parrot's Chief Financial Officer since 2008, was appointed as the Parrot Group's Executive Vice President. At the end of the year, new talents from diverse technology, consumer marketing and business development backgrounds took on various 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 7.1 M€ 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.

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

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 2.4 M€.

Breakdown of revenues by business

IFRS (€m)	2017		2016		Change
- Consumer drones	78.2	51%	83.3	50%	-6%
- Business solutions	41.6	27%	30.6	18%	+36%
DRONE TOTAL	**119.8**	**79%**	**114.0**	**68%**	**+5%**
- Other consumer products	32.1	21%	52.5	32%	-39%
GROUP TOTAL	**151.9**	**100%**	**166.5**	**100%**	**-9%**

Consumer drones

The product portfolio's resizing and adjustments, the acceleration of sales of end-of-life products and the rollout of the selective distribution strategy at the end of the year are reflected in a 5.4 M€ contraction in sales to 78.2 M€ 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 level of sales prices achieved.

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 2.3 M€ in 2017.

Business Solutions (commercial drones)

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

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 6.3 M€.

Other consumer products

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

9.2. Change in consolidated earnings

€'000	Dec 31, 2017	Dec 31, 2016	Change
Revenues	**151,871**	**166,446**	**-9%**
Cost of sales	-100,696	-139,608	-28%
Gross margin	**51,176**	**26,837**	**+91%**
% of revenues	*33.7%*	*16.1%*	
Research and development costs	-36,915	-52,718	-30%
% of revenues	*24.3%*	*31.7%*	
Sales and marketing costs	-44,797	-68,433	-35%
% of revenues	*29.5%*	*41.1%*	
Overheads	-16,648	-20,370	-18%
% of revenues	*11.0%*	*12.2%*	
Production and quality	-10,394	-16,507	-37%
% of revenues	*6.8%*	*9.9%*	
Income from ordinary operations	**-57,579**	**-131,191**	**+56%**
% of revenues	*-37.9%*	*-78.8%*	
Other operating income and expenses	-11,724	-5,359	+119%
EBIT	**-69,303**	**-136,550**	**+49%**
% of revenues	*-45.6%*	*-82.0%*	
Income from cash and cash equivalents	50	1	

Gross finance costs	-369	-605	-39%
Net finance costs	-319	-604	-47%
Other financial income and expenses	-4,999	-1,382	
Financial income and expenses	**-5,318**	**-1,986**	**-168%**
Share in income from associates	-6,695	62	+262%
Income from discontinued operations, net of tax	**43,483**	**5,245**	**+729%**
Tax	-1,085	-8,144	-87%
Net income	**-38,918**	**-141,372**	**+72%**
Group share	**-38,218**	**-137,907**	**+72%**
% of revenues	*-25.2%*	*-82.9%*	
Non-controlling interests	-700	-3,466	-80%

9.2.1. Revenues

The consolidated accounts show 151,871 K€ in consolidated revenues, down 9% from the previous year (166,446 K€). The lower level of Group revenues reflects the contraction in the Consumer Drones and Products business (-19%).

9.2.2. Cost of sales and gross margin

The gross margin represents 33.7% of revenues, significantly higher than the previous year (+91%). Parrot has rolled out a sales and marketing strategy enabling it to turn its gross margin around and also chose to end its sales of connected products and end-of-life drone ranges at the end of December.

9.2.3. Operating expenditure

Current operating expenditure totaled 108,754 K€, down 31.2% compared with the 158,028 K€ recorded one year earlier. The resources allocated for consumer drones were reduced by 40%, while continuing to move forward with investments in Business Solutions. A detailed breakdown of the changes is presented below:

■ Research and development costs

In 2017, the Group's research and development costs came to 36,915 K€, representing 24.3% of revenues, compared with 52,718 K€ (31.7% of revenues) in 2016, down 15,803 K€ (-30%). This reduction primarily factors in the reduced headcount for the consumer drone design teams, while the resources allocated to commercial drones have continued to be ramped up in line with this business' growth.

■ Sales and marketing costs

In 2017, the Group's sales and marketing costs totaled 44,797 K€, representing 29.5% of revenues, compared with 68,433 K€ (41.1% of revenues) in 2016, down 23,636 K€ (-34.5%). The savings achieved reflect the reorganization of the sales and marketing departments, the reduced staffing levels for consumer drones and the low level of resources allocated to marketing as there were no significant new product launches.

■ Production and quality

In 2017, the Group's production and quality costs came to 10,394 K€, representing 6.8% of revenues, compared with 16,507 K€ (9.9% of revenues) in 2016, down 6,113 K€ (-37%). This reduction has been made possible by the reorganization of the consumer business and the resizing of the product portfolio.

■ General and administration costs

In 2017, the Group's overheads totaled 16,648 K€, representing 11.0% of revenues, compared with 20,370 K€ (12.2% of revenues) in 2016, up 3,722 K€ (-18.3%). Actions have been rolled out to reduce the cost structure at every level, while continuing to move forward with commercial drone developments and further strengthening the Group's executive leadership and management structures.

9.2.4. Income from ordinary operations

Income from ordinary operations came to (57 579) K€.

	Mar 31, 2017	Dec 31, 2017			Mar 31, 2017	Dec 31, 2017
(€'000)		OEM Automotive	**Drones**	**IFRS 5 reclassification**		Dec 31, 2017
Revenues	18,009			151,871	-18,009	151,871
% of Group revenues	*0%*	*100%*		*0%*		*100%*
Income from ordinary operations	**-623**			**-57,579**	**623**	**-57,579**

EBIT for each segment comprises:

- Revenues for each segment;
- Production costs and operating expenditure (R&D, sales and marketing costs) for each segment;
- Allocation of costs for the functional divisions, prorated to revenues.

9.2.5. Financial income and expenses

Financial income and expenses came to (5,318) K€ in 2017, compared with (1,986) K€ in 2016, linked primarily to foreign exchange effects, income from the portfolio of financial investments and interest on borrowings.

9.2.6. Earnings for the period

In 2017, net income (Group share) totaled -38,218 K€, representing -25.2% of revenues, compared with -137,907 K€ and -82.9% respectively in 2016.

9.2.7. External factors which might influence the Group's activities

A certain number of factors had a significant impact on the Group's earnings in 2017 and could do so in the future. For further information, refer to section 4.2 “Risks relating to the Group's business sectors” and 6.2 “Exceptional events in 2017”.

9.3. Change in Parrot SA earnings

9.3.1. Main income statement items for Parrot SA

€'000	2017	2016
Revenues	**14,640**	**15,738**
Operating income	19,432	18,906
Operating expenses	20,663	23,886
EBIT	**-1,231**	**-4,980**
Financial income and expenses	-36,338	-70,651
Non-recurring income and expenses	-1,592	774
Net income	**-39,162**	**-74,033**

9.3.2. Main balance sheet items for Parrot SA

■ Share capital and shareholders' equity

The Company's share capital comprises 30,174,671 shares, an increase of 44,619 shares as a result of the stock options exercised by the Group's staff. At December 31, 2016, the Company had 344,009 K€ in shareholders' equity, down 73,482 K€ from the previous year (2015: 417,491 K€).

■ Debt

At December 31, 2017, the breakdown of borrowings and debt was as follows:

- Bonds: 41,021 K€ maturing on December 31, 2021;
- Swap fair value: -2 K€.

Medium-term financing

The Company does not have any finance lease agreements in place and does not use any other medium or long-term means of financing

Trade payables

At December 31, 2017, the Company's aged creditors balance (excluding accrued expenses) shows a total of 1,118 K€, compared with 649 K€ in 2016. The amounts presented in the following table include taxes.

Year	Balance	Future maturities	0 – 10 days	11 – 20 days	21 – 30 days	31 – 60 days	> 61 days
GROUP trade payables	**76**	**150**	**-74**	**-**	**-**	**-**	**-**
% of purchases and other external expenses (1)	*1%*	*1%*	-1%	*0%*	*0%*	*0%*	*0%*
- Of which, French suppliers	76	150	-74	-	-	-	-
- Of which, non-French suppliers	-	-	-	-	-	-	-
NON-GROUP trade payables	**1,042**	**170**	**821**	**1**	**4**	**-234**	**280**
% of purchases and other external expenses (1)	9%	1%	7%	0%	0%	-2%	2%
- Of which, French suppliers	1,002	133	821	1	4	-232	275
- Of which, non-French suppliers	40	37	0	0	0	-2	5
Total trade payables	**1,118**	**320**	**747**	**1**	**4**	**-234**	**280**
Number of invoices concerned	541	36	85	18	20	43	339

(1) Includes royalty charges

Trade receivables

At December 31, 2017, the Company's aged debtors balance (excluding accrued income) shows a total of 5,115 K€, compared with 2,423 K€ in 2016.

Year	Balance	Future maturities	0 – 30 days	31 – 60 days	> 61 days
Receivables	**5,115**	**1,788**	**925**	**708**	**1,694**
Percentage of revenues (1)	*28%*	*10%*	*5%*	*4%*	*9%*
Number of invoices concerned	38	8	9	4	17

(1) Includes other income

9.4. Five-year financial summary

Breakdown (€, except I-b and IV-a)	2017	2016	2015	2014	2013
I. Capital at year-end					
a) Share capital	4,599,258	4,599,258	4,592,458	1,944,296	1,929,304
b) Number of existing ordinary shares	30,174,671	30,174,671	30,130,052	12,753,663	12,655,293
c) Number of priority dividend shares (without voting rights)					
d) Maximum number of future shares to be created:					
- by converting bonds					
- by exercising subscription rights	409,006	409,006	474,925	507,915	784,371,
II. Operations and earnings for the year					
a) Revenues (net of tax)	14,640,237	15,737,681	,12,893,727	124,703,069	109,639,970
b) Earnings before tax, employee profit-sharing, depreciation and provisions	2,382,939	5,919,550	14,354,854	-3,977,466	-11,795,072
c) Corporate income tax	-	-823,259	-1,144,034	-4,158,584	-4,034,566
d) Employee profit-sharing due for the year					
e) Earnings after tax, employee profit-sharing, depreciation and provisions	- 39,161,859	- 74,032,905	-1,954,319	,3,426,803	-12,130,495
f) Distributed earnings					
III. Earnings per share					
a) Earnings after tax and employee profit-sharing, but before depreciation and provisions	0,08	-0,23	-0,51	-0,64	-0,61
b) Earnings after tax, employee profit-sharing, depreciation and provisions	-1,30	-2,45	-0,06	,0,27	-0,96
c) Dividend per share					

IV. Workforce					
a) Average headcount	49	59	481	615	589
b) Payroll	4,313,709	5,056,326	3,776,447	35,613,551	33,519,692,
c) Amount of sums paid for employee benefits (social security, benefits, etc.)	1,675,566	1,197,439	2,214,117	16,963,440	16,131,645

9.5. Non-deductible expenses

NA.

X. Cash and capital

10.1. Parrot Group cash and capital

At December 31, 2016, the Group's cash position, including other financial assets, represented 157 557 M€, with 13 M€ of other current financial assets. Cash equivalents primarily comprise risk-free investments, such as interest-bearing current accounts and guaranteed term deposits with a maturity of less than three months.

Other current financial assets (with guaranteed capital) consist of progressive term accounts / deposits, 3.0 M€ in March 2018 and 10.0 M€ in December 2018. Net cash after liabilities came to 115 M€ at December 31, 2017.

- **Group consolidated cash flow**

€'000	Dec 31, 2017	Dec 31, 2016*
Operating cash flow		
Net income	(38,918)	(141,372)
Share in income from associates	6,695	(62)
Depreciation and amortization	6,128	33,054
Capital gains and losses on disposals	(44,747)	(10,833)
Capital gain linked to remeasurement of securities of companies previously recorded as long-term financial investments	-	-
Tax charges	1,085	9,061
Cost of share-based payments	1,735	6,242
Cost of net financial debt	319	611
Cash flow from operations before cost of net financial debt and tax	**(67,703)**	(103,299)
Change in working capital	27,970	12,107
Tax paid	(550)	(1,404)
CASH FROM OPERATING ACTIVITIES (A)	**(40,284)**	**(92,596)**
Investing cash flow		
Acquisition of tangible and intangible assets	(2,260)	(13,843)
Acquisition of subsidiaries, net of cash acquired (2)	(25,444)	(29,059)
Acquisition of financial assets	(3,655)	(3,233)
Disposal of tangible and intangible assets	94	9,891
Disposal of subsidiaries, net of cash divested	(9,346)	-
Disposal of long-term financial investments	217	3,502
CASH FLOW FROM INVESTMENT ACTIVITIES (B)	**(40,394)**	**(32,743)**
Financing cash flow		
Equity contributions (1)	-	551
Dividends received	-	-
Receipts linked to new loans 3	41,078	25,343
Other financing	-	-
Cash invested for over 3 months *	14,982	130,000
Cost of net financial debt	(319)	(611)
Exchange hedging instruments	-	-
Repayment of short-term financial debt (net) 4	(42,016)	(1,835)
Acquisition / Disposal of treasury stock	(60)	(5,757)
Cash flow from financing activities (C)	**13,664**	**147,692**
CASH FLOW FROM FINANCING ACTIVITIES (C)	**(67,013)**	**22,353**
NET CHANGE IN CASH (D = A+B+C)	(4,799)	853
Impact of change in exchange rates	**216,348**	193,143
CASH AND CASH EQUIVALENTS AT YEAR-START - CONTINUED OPERATIONS (3)	**144,539**	**216,348**
Cash and cash equivalents at end of period – discontinued operations (IFRS 5)	-	16,305
Cash and cash equivalents at end of period – continuing operations	144,539	200,043

* The data for 2016 have been restated in relation to the data reported the previous year to incorporate flows from discontinued operations.

(1) Dilution effect and fair value remeasurement of the OEM Automotive business.

(2) Exercising of the Pix4D put, acquisition of shares from a minority shareholder in Airinov and acquisition of Planck Aerosystems securities.

(3) Issuing of 13,319,906 bonds with a nominal value of 3.0797 € (see Note 22 – Financial liabilities)

(4) Early repayment of all outstanding sums for the external growth loan agreement (see Note 22 – Financial liabilities)

€'000	Dec 2017	Dec 2016
Cash, cash equivalents and bank overdrafts at period-end	144,539	200,043
Other current financial assets	13,018	28,000
Cash, cash equivalents, other current financial assets and bank overdrafts at period-end	157,557	228,043

10.2. Sources and amounts of cash flow

10.2.1. Net cash from operations

The Group's net cash from operating activities came to (40.3) M€ in 2017, against (92.6) M€ compared with the previous year.

On February 20, 2017, Parrot S.A. made an early repayment covering all the outstanding sums due under the external growth credit agreement set up on July 24, 2015 for a total of 41.3 M€.

As a result, Parrot S.A. secured the release of the agreement pledging financial securities as collateral for 35.5 M€, signed on July 24, 2015 between Parrot S.A. and the banks involved in the syndicated credit facility for external growth.

10.2.2. Cash from investments activities

The cash used for financing activities in 2017 represents (40.4) M€, compared with (32.7) M€ for 2016. This change primarily reflects the exercising of the Pix4D put, the acquisition of shares from minority shareholders in Airinov, and the acquisition of Planck Aerosystems Inc securities.

10.2.3. Net cash from financing activities

The Group's debts represent 42.2 M€, compared with 43.2 M€ at December 31, 2016: 41 M€ of bonds and 1.2 M€ for the FELIN subsidy.

10.3. Borrowing conditions and financing structure

Since the start of 2017, the Company has had authorized overdraft lines and an import documentary letter of credit with the banks Palatine, Palatine, BNP and Crédit Agricole Ile-de-France representing a total of 5.4 M€, enabling it to cover all or part of any temporary fluctuations in its cash flow.

In 2017, these short-term financing lines can be broken down as follows:

BNP

- An unconfirmed overdraft line for 3 M€ with an annual interest rate of 0.90% over the EONIA; this line is not guaranteed;

Palatine

- An unconfirmed overdraft line for 1 M€ with an annual interest rate of 0.80% over the three-month EURIBOR; this line is not guaranteed;

Crédit Agricole Ile-de-France

- An unconfirmed overdraft line for 1 M€ with an annual interest rate of 0.90% over the one-month EURIBOR; this line is not guaranteed;

LCL

- An unconfirmed overdraft line for 0.4 M€ with an annual interest rate of 0.80% over the three-month EURIBOR; this line is not guaranteed.

There are no specific repayment or default clauses on the overdraft authorizations granted by the banks Palatine, BNP, HSBC, Crédit Agricole Ile-de-France and LCL. By December 31, 2017, the Company had not used any of these financing lines.

10.3.1. Credit agreement

10.3.1.1. Information concerning the use of financial instruments

On February 20, 2017, Parrot SA made an early repayment covering all the outstanding sums due under the external growth credit agreement set up on July 24, 2015 for a total of 41.3 M€. As a result, Parrot SA secured the release of the agreement pledging financial securities as collateral for 35.5 M€, signed on July 24, 2015 between Parrot SA and the banks involved in the syndicated credit facility for external growth.

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

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

To hedge this exposure, the Parrot Group decided to take out a 0% capped swap rate agreement to protect itself against interest rate fluctuations.

This is a hybrid instrument made up of a bond liability and a derivative instrument. The bond liability is valued at its amortized cost, while the derivative instrument must be measured at fair value. This fair value will be adjusted through profit or loss, depending on changes in the value of Parrot Faurecia Automotive.

However, at December 31, 2017, the value of Parrot Faurecia Automotive had not changed significantly since the transaction. The derivative's value is therefore considered to be equal to 0 at December 31, 2017.

At December 31, 2017, the bond liability with Faurecia can be broken down as follows:

- Liability: 41,021 K€ maturing on December 31, 2021;
- Swap fair value: 2 K€; and
- Use of short-term credit lines: na (dept repaid in 1st quarter of 2017).

10.4. Contractual obligations

Please see chapter XXII “Significant contracts” in this reference document for Parrot’s contractual obligations.

XI. Research and development

11.1. Strategy and organization

11.1.1. A key part of the Group's success

The Group's research and development is one of its key features, contributing towards its competitive edge, flexibility and technological independence. The Group's research and development is constantly focused on improving existing products by incorporating ever more features and developing new products that are increasingly innovative.

Following its initial success in the automotive handsfree telephony sector, the design office successfully capitalized on its core business capabilities to diversify and innovate in technically-related fields, opening up new commercial opportunities for the business.

With a team of engineers educated at the most prestigious French and foreign schools (École Supérieure d'Électricité, École Nationale Supérieure des Télécommunications, École Centrale des Arts et Manufactures, SUPAERO, École Polytechnique, Georgia Tech, etc.), the Group has comprehensive expertise across all the technologies required for developing its products, notably designing its own solutions for signal processing and wireless connectivity using Bluetooth and Wifi standards.

11.1.2. Structured organization

R&D is organized around its two main business segments:

- Consumer Drones (Parrot Drones SAS, entity covering R&D for Consumer Drone products)
- Commercial Drones (Parrot Drones SAS, senseFly, Pix4D)

Each business sector is focused on specific product developments, managed by project leaders, who head up their teams.

Product developments are supported by cross-business areas of expertise, specific to each segment: software development, signal processing, electronics or even mechanical and industrial design.

11.2. Group technologies

11.2.1. Technological leadership driven by innovation

Capitalizing on its longstanding signal processing and software development expertise from handsfree telephony systems, Parrot has built up expert capabilities covering all drone technologies. Since the launch of its AR Drone - a consumer drone with smartphone and wifi piloting capabilities - in 2010, the R&D department has constantly innovated, developed its own solutions and further strengthened its expertise covering the specific technological "building blocks" for drones.

11.2.2. Drone technology expertise on every level

11.2.2.1. Optimizing the propulsion chain

Propulsion is an essential function for a drone because this is the main contributor to its flight time, agility and wind resistance. Parrot has put in place a team capable of developing leading-edge technological propulsion systems, optimizing each element within the propulsion chain:

- Engines to deliver the best performance levels, while minimizing weight
- Control logic and electronics developed in-house and surpassing the market's other solutions
- Blades with custom designs for each drone, thanks to aerodynamic simulation tools (CFD)

These elements are combined with wind tunnel test campaigns making it possible to validate the system's overall performance and build increasingly accurate models for the complex aerodynamic phenomena faced by micro drones at high speeds.

11.2.3. Strong automatic and control expertise

Responsible for a drone's flight quality, the autopilot is one of its crucial components. Since 2010, the Group has developed its own control and stabilization algorithms, continuously improving their performance capabilities.

By combining data from a number of sensors (motion sensor, gyroscope, optical flow, ultrasound, barometer and GPS) and constantly improving its understanding of the physical phenomena affecting drones in flight (modelling of aerodynamic effects measured in wind tunnel, research into how the drone structure distorts during maneuvers), Parrot has successfully developed an affordable flight control solution for consumers, which has been a key factor behind the success of its products. This combines simplified manual piloting for beginners with automatic phases such as takeoff, landing or flips, with fully autonomous flight modes such as return to home, flight plan or follow me.

11.2.3.1. Ramping up computer vision

Parrot introduced the use of cameras as sensors to develop assisted flying from 2010. Optical flow use is key to the stability performance of drones under all operational conditions (outdoors or indoors). The algorithms are continuously refined to enable increasingly accurate speed and position estimates. Machine learning and neural network developments have been carried out, enabling the drones to benefit from target tracking and person detection capabilities. Other applications using several camera systems are being developed to make it possible to extend the possibilities for environment analysis and localization with a view to making the drones easier to fly and more autonomous.

11.2.3.2. Expertise across the entire image chain

Taking aerial shots with a drone is a major challenge and multiple aspects that are hard to combine on a camera system must be taken into consideration:

- Significant angular movements requiring solutions with a wide stabilization range
- Immunity to vibration from the blades
- Reduced weight to maximize flight time
- Pricing constraints to remain competitive on the consumer market
- Strong level of robustness
- High image quality driven by telephony and action camera standards.

In this area, the R&D department is developing innovative fully integrated digital, mechanical or combined stabilization solutions for drones, in line with the issues faced. These solutions require innovation throughout the image processing chain: specific optical design based on wide-angle lenses, accurate electronic synchronization for inertial units and high-resolution sensors, specific algorithmic processing operations for color and exposure, and lastly, algorithms for image correction and vibration effects using GPU processors.

These developments have enabled the company to build up retail camera design expertise, with several patents filed.

11.2.4. Optimizing the Wi-Fi standard for drone use

Parrot's use of Wi-Fi is very different from standard products, such as internet access points, laptop computers, mobile phones, etc., since drones can travel considerable distances, over several kilometers, and are extremely mobile. Today, Parrot is one of the only players on the drone market to use Wi-Fi as its one dedicated technology for wireless connections between the remote control and the drone for piloting, as well as video streaming, and it is the only one to have successfully achieved such performances in terms of range and video quality over long distances using this technology.

Parrot's engineers have identified the parameters with the physical connection that previously limited the range and have been able to adjust them in order to optimize the distances that can be reached, while maintaining the necessary responsiveness.

In addition, Parrot has developed a “smart” video streaming solution that automatically adapts the video speed in real time, as well as the number of images per second, in relation to the quality of the Wi-Fi link. This makes it possible to optimize the video quality depending on environmental conditions: distance, interference, etc. Advanced video encoding techniques are also used to limit the visual impact of Wi-Fi packet loss. Parrot's video streaming approach is constantly evolving and a number of potential improvements are being considered and currently being researched and tested.

Parrot is working closely with Wi-Fi chipset manufacturers to further strengthen the suitability of Wi-Fi technology for drone use cases.

11.3. Strong business foundations

11.3.1. Software development at the heart of the Group’s expertise

Throughout its history, the Group has always had comprehensive, vertical software development expertise for its products. Embracing the Agile methodology and continuous integration, software development is based around a highly automated infrastructure, enabling it to rapidly detect regression risks and generate reliable and repeatable upgrades. This expertise can be seen at all levels within the software:

11.3.1.1. Operating systems, pilots, core software tiers

Capitalizing on the Group's experience with designing and developing SoC (System-on-Chip) circuits on ARM architectures, the core software engineering team has in-depth knowledge of the Linux core embedded on board the drones, as well as the buses and technologies whose reliability and performance are crucial for the sensors and systems to operate effectively (USB, I2C, SPI, SDIO, NAND, WIFI, etc.). Its experience enables it to design innovative solutions combining software and electronics to minimize the costs and maximize the hardware’s possibilities on very diverse architectures and platforms. The applications for these solutions include reading flight sensors that require extremely accurate and reliable time-stamping. The Group's expertise with operating system dynamics and operations makes it possible to benefit from in-depth understanding and effectively analyze the real-time performance of embedded software.

11.3.1.2. Embedded services

These services cover all the drone's functions, particularly autonomous flight, control, photo/video, vision, wireless communications, etc. The modular, portable architecture of the software in charge of these functions enables a high level of flexibility with developing innovative algorithms, as well as quick responses for adapting and transitioning to new hardware platforms. The separation of the functions into independent processes makes it possible to fully benefit from the capabilities of modern multicore processors, while ensuring that overall operations are robust. Capitalizing fully on industry best practices for open source software, the embedded software teams develop and integrate a comprehensive, high-performance system, designed to meet the requirements for the flight software's real-time constraints and low latency, as well as complex real-time video processing operations: computer vision, image stabilization, etc.

11.3.1.3. SDK interface

Developed, published and used both in-house and externally, the SDK enables a community of developers to communicate with the drones and control them with a PC, tablet or smartphone. This openness to a community of developers is a key, essential feature for drones: it enables the rapid development of innovative features by partners, in addition to establishing the Group's drones as leading platforms for developing and innovating in terms of drone use.

11.3.1.4. Application for Android and iOS smartphones

Once again, the Group has comprehensive expertise for application software developed for smartphones and tablets. This expertise is essential to ensure the overall consistency of products and control the end user's experience.

11.3.1.5. Simulator

The development of a comprehensive simulator, making it possible to run the software developed in full in a simulated environment, is an essential component within the Group's strategy. This simulator enables quick development cycles, in addition to optimizing drone designs. Each software version generated is subject to extensive flight testing in the simulator, with the results used to detect potential regressions and extend coverage for the functional validation tests.

The Group's software development strategy is also based on two important principles:

– Use of free software and platforms: the Group's software engineers embrace the Open Source philosophy and benefit from the efforts of a vast international community of developers. A recognized player within this community, the Group is contributing to the development of a high-performance free software platform for drones. This ensures its independence in relation to proprietary third-party software. It also avoids the issues associated with the NIH (Not Invented Here) syndrome, which force many companies to redevelop solutions that already exist within the community. While a large part of the software solutions developed are still proprietary, in order to protect the Group's intellectual property, this openness also enables it to position itself as a leading platform for the community of academic researchers, laboratories, innovative startups, etc.
– Use of standard and open protocols: for reasons similar to those described above for the adoption of free software, the Group prefers to use standardized, open protocols for data formats and exchanges. This standardization accelerates development thanks to the use of tools and technologies that are already available and have proven their effectiveness. The resulting interoperability also makes it possible to ramp up the number of innovative partnerships established.

11.3.2. Strong focus on mechanical conception and design

Designing quality products also requires a good level of expertise concerning the aesthetic and mechanical aspects of products.

Parrot is committed to developing drones that are lightweight, solid and aesthetically designed. To achieve this, each component and each technological choice is carefully researched and calibrated to meet the Group's requirements and limit the impact of regulatory constraints, often linked to the weight of drones; made up of composite materials, the drones' structure is carefully modeled and simulated. The vibration data obtained in this way through frequency and dynamic analyses are used to make adjustments to ensure product security and performance levels. Computational Fluid Dynamics (CFD) make it possible to optimize the blade design and predict the airflow around drones, as well as temperature and heat transfer levels within components, circuit boards and full products. In addition, the mechanical unit works closely with the designers. In particular, these efforts enable Parrot to offer a range of the lightest drones on the market with distinctive, compact designs.

11.3.3. Strong electronics expertise

Parrot has built up strong electronics research and development expertise for radiofrequency integrated chipsets and GNSS, Bluetooth and Wifi antennas, engine control, inertial sensors, phonic audio and video, in addition to designing miniaturized circuit boards.

Drones need to be small and lightweight, offering a growing range of features and increased battery life. Electronics miniaturization is key to the strategy to develop circuit boards for our products. The benefits include reducing the volume, weight and price, as well as the consumption of energy and materials, while expanding the features available based on equivalent product volumes.

Miniaturization requires:

– Research and development or the use of integrated chipsets, such as Systems on Chip (SoC), integrating the microprocessors, memory interfaces, specialized audio and video circuits, timers and communications peripherals,
– Research and development for even more integrated components, Systems in Package (SiP), containing these same SoCs, but with memory, Wi-Fi and Bluetooth radio communications circuits, power supply circuits, etc.,
– Design of miniature, robust, energy-efficient electronic power supplies,
– Use of technologies for miniature component sets (0201, BGA, QFN, PoP, etc.),
– Research and development for very dense 3D printed circuits: multilayer, with any-layers, FR4 substrates, polyimide, factoring in the constraints for electromagnetic compatibility, adapted circuits, thermal dissipation, etc.,
– Research and development for reduced-size, high-performance Bluetooth, Wifi and GNSS antennas,
– Research and development for phonic audio and inertial sensors, as well as propulsion units (engine control, engines, blades) combining high-performance with extremely small sizes,

Drones are being piloted over increasingly long distances and require very reliable connections.

The quality of wireless links needs to be continuously improved. Within electronics R&D, the radiofrequency team is working in this area:

– By defining and validating the Bluetooth Low Energy, Wifi and GNSS technological platforms implemented on products,
– By integrating, through simulation software and effective measurement devices, these various technologies on increasingly miniaturized circuit boards and complex software architectures,
– By developing multi-antenna systems adapted for each flight scenario (optimized radiation pattern, gain dipoles, patches and PIFA),
– By monitoring emerging technological developments to assess appropriate technologies for future products.

11.4. Intellectual and industrial property

The Group protects some of its inventions using patents. Furthermore, the software developed in-house may, provided that they are original, benefit from copyright protection. Product names are registered as trademarks.

The Group may also protect its know-how through measures protecting the confidentiality of its technical knowledge (e.g. through confidentiality agreements with its technical and commercial partners).

The Company holds word and figurative marks for “Parrot” and its logo and/or has filed requests for registration in most countries in which the Group distributes its products.

The majority of Parrot’s product names are covered by registered marks (word and/or figurative marks in the countries and classes concerned).

11.4.1. Patents

Aware that patents represent a tool making it possible to promote, defend and maintain its technological advances, the Group strongly encourages its Research and Development teams to devise technologies that are innovative, relevant, and likely to be patented for the products developed. In this way, the eventual patentability of any new technologies is carefully examined, drawing on the expertise of industrial property advisors.

Since 1997, the Group has filed around 100 patent requests in France, and most of them are covered by international extensions in Europe (patents covering certain European countries), the US, China and Japan. Its patents concern all of Parrot’s areas of activity and specific applications, software, electronic and mechanical equipment. Since 2010, large numbers of patents have been filed for drones, particularly computer vision, transmission, piloting and control processes.

In 2017, the Group filed 12 new patent requests, primarily for commercial and consumer drones. In 2017, the Group was ranked 38th in France by the National Institute of Industrial Property (INPI) for the number of patents filed, based on filings from 2016.

11.4.2. Models

The Group has registered several models with a view to protecting the appearance of its new products, including the Parrot Bebop 2, Parrot Disco, Parrot Swing, Parrot Mambo, Parrot Pot and certain accessories (Parrot Cockpitglasses, Parrot Skycontroller 2). These models have been registered in the European Union and have sometimes been extended to cover the US, China and Japan in particular.

11.4.3. Brands

The Group has registered several brands, including the Parrot Disco, Parrot Mambo, Parrot Swing, Parrot Skycontroller and Parrot Pot brands. These requests have been registered in the European Union and extended to cover other countries, including the US, China and Japan.

XII. Information on trends

12.1. Main trends with an impact on production, sales and inventories, sales prices and costs from the end of the last financial year through to the reference document registration date

In 2018, in connection with the publication of its 2017 full-year earnings on March 15, 2018, Parrot reported that:

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.

To date, the Group has not identified new trends affecting its production, sales, inventory, costs and sales prices, but it is continuing to monitor changes in the competitive environment very closely.

12.2. Known trends, uncertainties or demand or any commitment or event which might reasonably have a significant impact on the outlook for the current financial year

Parrot plans to introduce a new generation of consumer drones in 2018, to roll out a new brand strategy and to continue moving forward with its selective distribution policy. If it encountered significant difficulties in connection with its launches and commercial development or the implementation of its sales and marketing strategy, these could have a significant impact on the outlook for the current year and adversely affect the Group's earnings and cash position.

Furthermore, the civil drone market is still young, characterized by strong potential for growth and innovation, a regulatory environment that is still evolving and gradual growth in the popularity of drone use with consumers and professionals, with a rate of development that is difficult to forecast.

Considering its current maturity and its potential for development, the civil drone market is marked by a certain instability, which represents a source of both risks and opportunities for Parrot. Readers are invited to refer to the risk factors presented in this reference document and particularly:

4.1.3 The Group could experience difficulties managing the risks linked to the international deployment of its activities and its growth on new international markets
4.1.4 The Group may encounter difficulties in integrating the acquired companies and in implementing its external growth strategy in the Commercial Drones market
4.1.5 The Group's consumer activities are seasonal and strongly depend on sales recorded during the fourth quarter
4.1.6 The Group's success depends to a great extent on the development of Parrot's brand awareness
4.1.12 The Group's earnings are subject to fluctuations which make them difficult to forecast
4.2.1 The Group is dependent on the context of the markets in which it operates, economic conditions and the pace of adoption of new technologies by the different audiences the Group is targeting
4.2.2 There is no guaranteeing that the Consumer Drones or the Commercial Drones business will develop as expected, or that the Group will take these new market opportunities
4.2.3 The Group cannot anticipate the development or the positioning of its current or future competitors, and may be unable to compete with them
4.2.4 The marketing of the Group's products may be impacted if wireless communications operators do not provide the required wireless services
4.2.5 The Group's business depends on the electronic components market
4.2.6 The Group's products are based on specific technical standards and all types of connectivity, requiring choices to be made in terms of strategic technological platforms
4.2.7 The Group may face risks relating to adverse legislative and regulatory developments regarding the civil drones sector
4.2.8 The Group may face commercial returns in the Consumer Drone sector that are hard to predict
4.2.9 The Group may face faults in its products that are difficult to forecast
4.2.11 The Group may not be in a position to cope with growth in the markets
4.2.12 The Group's target markets are subject to rapid technological change and frequent launches of new products.

XIII. Financial outlook

13.1. Outlook for 2018

To date, and in connection with the publication of its 2017 full-year earnings on March 15, 2018, Parrot reported that:

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, while the cash consumption required for developing drone operations is expected to decrease.

At the heart of this new high-growth industry, the Group believes that it has the resources and assets needed to develop its leadership, combined with its strong capabilities to help drive the expansion of the consumer drone market and the development of Business Solutions: in 2018, Parrot will continue moving forward with its committed growth strategy.

13.2. Additional information

The reader can also refer to the 2017 earnings presentation including the 2018 outlook available on the Parrot website: http://www.parrotcorp.com/fr/publicationsfinancieres to listen to replay of the conference call held on that day or read the presentation given during roadshow.

XIV. Administrative, management, supervisory and executive bodies

Since February 2012, the Company has referred to the recommendations from the MiddleNext governance code. The MiddleNext corporate governance code for small and mid-caps is available on the MiddleNext site (www.middlenext.com). Further details and information concerning the application of the recommendations from the MiddleNext governance code are provided in 16.4.1 “Details and application of recommendations from the MiddleNext Governance Code (September 2016 version)”.

14.1. Board of Directors

The Company's administration is entrusted to a Board of Directors with a minimum of three and a maximum of 12 members, subject to the exceptions provided for under French law in the event of a merger. Directors are appointed for a six-year term of office. The Board currently has nine members.

The Company is represented in relation to third parties by Mr Henri Seydoux, Chief Executive Officer, who also serves as Chairman of the Company's Board of Directors.

Composition of the Board of Directors

- Mr. Henri Seydoux, Chairman and Chief Executive Officer
- Mr Jean-Marie Painvin, Director
- Mr Geoffroy Roux de Bézieux, Independent Director
- Mr Stéphane Marie, Independent Director
- Mrs Natalie Rastoin, Independent Director
- Mrs Marie Ekeland, Independent Director
- BPIFRANCE PARTICIPATIONS S.A., Director (permanent representative: Mr Paul-François Fournier)
- Mr Olivier Legrain, Independent Director (until June 21, 2017)
- Mr Jean-Yves Helmer, Director (until June 21, 2017)
- Mrs Agnès Bureau-Mirat, Independent Director (from June 21, 2017)
- Mrs Anne Samak de la Cerda, Independent Director (from June 21, 2017)

Mr Olivier Legrain and Mr Jean-Yves Helmer tendered their resignations during the first half of the year, with effect from the General Meeting on June 21, 2017.

Mr Geoffroy Roux de Bézieux, Mr Stéphane Marie, Mrs Natalie Rastoin, Mrs Marie Ekeland, Mrs Agnès Bureau-Mirat and Mrs Anne Samak de la Cerda are considered to be independent directors in line with the criteria from the Middlenext Governance Code.

Board’s operations

The Board’s bylaws require the Board of Directors to meet at least four times a year, and it may hold additional meetings if required by the economic situation or any specific events.

In 2017, the Board met eight times:

- January 9, 2017
- February 28, 2017
- April 24, 2017
- May 11 and 13, 2017
- June 21, 2017
- July 27, 2017
- November 9, 2017

Meetings are held at the registered office or as conference calls.

Each director is invited to attend all Board of Directors meetings at least five days before the session in question. The agenda for the Board meeting and the draft minutes from the previous meeting are appended to each invitation to attend. Prior to each meeting, a file containing the documents relating to the various points included on the agenda is sent to each director.

- **Participation in the Board**

The Board of Directors' attendance rate remained constant over 2017, with seven or eight directors out of nine present.

In addition to the directors, the following people regularly attend Board meetings:

- The statutory auditors are invited to attend all Board of Directors meetings convened to review the annual or half-year financial statements.
- Two members representing the Works Council are also invited to attend all of the Board of Directors' meetings.
- Mr Gilles Labossière, Executive Vice President, is invited to and attends the Board of Directors' sessions.
- Mr Ludovic Floret, Chief Legal Officer, in charge of legal secretary aspects, serves as the Board's secretary.
- Mrs Marie Calleux, in charge of the Group's financial communications, is also invited to and attends the sessions.

During its meeting on June 21, 2017, the Board of Directors decided that part of the payment of the attendance fees for directors would now be dependent on them effectively attending the four Board meetings when the agenda concerns the approval of the quarterly accounts.

14.2. Rules and principles governing the Board of Directors

- **Application of the principle for the balanced representation of men and women within the Board of Directors**

In accordance with the French law of January 27, 2011 concerning balanced representation in boards of directors, the proportion of the Company's directors of each gender may be no less than 40% since January 1, 2017.

The Company is compliant with this requirement, with four women on the Board: Mrs Natalie Rastoin, Mrs Marie Ekeland, Mrs Anne Samak de la Cerda and Mrs Agnès Bureau-Mirat (i.e. a proportion of 44%).

14.2.1. Rules governing the appointment and replacement of members of the Board of Directors, as well as amendments to the Company's bylaws

Directors are appointed by shareholders at a General Meeting. In accordance with Article 14 of the Company's bylaws, if one or more directors' seats become vacant following their death or resignation, the Board of Directors may, between two General Meetings, make provisional appointments as provided for under French law.

However, when the number of directors in office falls below the minimum legally required, the directors still in office or, failing that, the statutory auditors must immediately convene an ordinary general shareholders' meeting with a view to completing the Board's headcount. The provisional appointments made by the Board of Directors are submitted to be ratified at the next General Meeting. If provisional appointments are not ratified by the General Meeting, the deliberations and proceedings carried out by the directors appointed provisionally, or with their support, will nevertheless remain valid. Directors appointed to replace another member will remain in office for the time left to run on their predecessor's term.

The Company's bylaws may be amended by the shareholders at a General Meeting.

14.2.2. Board of Directors' powers for issuing or buying back shares

The General Meeting on June 21, 2017 renewed the authorization granted to the Board of Directors to implement a share buyback program, for an 18-month period ending December 20, 2018. Under this authorization, the Company buys back treasury shares in connection with a liquidity agreement on the one hand and allocations of shares to Group employees on the other.

The Company entered into a first liquidity agreement with Natixis on July 31, 2008, in accordance with the AFEI compliance charter, approved by the French securities regulator (AMF), for a one-year period, tacitly renewable subject to the renewal of the authorization given to the Board of Directors to implement a share buyback program by the aforementioned general meeting.

Since the Ordinary General Meeting on June 21, 2017 renewed the authorization for the Board of Directors to implement a share purchase program, the Board acknowledged during its meeting on June 21, 2017 this contract's tacit renewal from this same day. The latest mandate still in place with Natixis is due to end on the day of the General Meeting convened to approve the annual financial statements for 2017, i.e. in 2018.

As authorized by the General Meeting on June 21, 2017, the maximum purchase price for shares has been set at 40 €. Acquisitions made by the Company under these authorizations may not result in the Company directly or indirectly holding more than 10% of the shares comprising its capital (while noting that the number of shares acquired with a view to being issued again subsequently in connection with a merger, spin-off or contribution operation may not exceed 5% of the capital).

The shares bought back may be used with a view to:

- Continuing to implement the liquidity agreement;
- Allocating stock options and/or bonus shares;
- Being allocated in exchange, in payment or otherwise in connection with external growth operations;
- Reducing the Company's capital through cancellations.

The General Meeting on June 21, 2017 renewed the authorization given to the Board of Directors to reduce the capital by cancelling shares in accordance with Article L. 225-209 of the French commercial code.

The General Meeting on June 21, 2017 renewed the authorization given to the Board of Directors to award stock options and/or warrants to employees and/or certain corporate officers of the Company or related companies.

The General Meeting on June 21, 2017 renewed the authorization given to the Board of Directors to award bonus shares to employees and/or certain corporate officers of the Company or related companies.

The General Meeting on June 21, 2017 also delegated to the Board of Directors, for 26 months from the date of the General Meeting, its authority to decide on the following points (for details of the restrictions concerning authorizations given to the Board of Directors, see section 21.1.5 "Authorized capital not issued"):

– Issuing, either on a free basis or subject to payment, with preferential subscription rights maintained for shareholders, (i) ordinary Company shares and/or (ii) capital securities entitling holders to access other capital securities or the awarding of debt securities and/or (iii) marketable securities entitling holders to access capital securities to be issued, with subscriptions made either in cash or by offsetting receivables;
– Issuing, with preferential subscription rights waived for shareholders in connection with a public offering, (i) ordinary Company shares and/or (ii) capital securities entitling holders to access other capital securities or the awarding of debt securities and/or (iii) marketable securities entitling holders to access capital securities to be issued, with subscriptions made either in cash or by offsetting receivables;
– Issuing, with preferential subscription rights waived for shareholders in connection with an offer covered by Section II of Article L. 411-2 of the French monetary and financial code, (i) ordinary Company shares and/or (ii) capital securities entitling holders to access other capital securities or the awarding of debt securities and/or (iii) marketable securities entitling holders to access capital securities to be issued, with subscriptions made either in cash or by offsetting receivables;
– Increasing the number of securities to be issued, for up to 15% of the initial issue;
– Issuing ordinary Company shares or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities entitling holders to access capital securities to be issued, in return for securities tendered for a public offering with an exchange component initiated in France or abroad;
– Issuing ordinary Company shares in return for any contributions in kind made to the Company;
– Increasing the share capital through the incorporation of reserves, profits or premiums into the capital, followed by the creation and free allocation of shares or an increase in the par value of existing shares, or a combination of these two approaches.

14.2.3. Agreements providing for compensation for members of the Board of Directors or employees if they resign or are dismissed without just cause or if their employment ends as a result of a public takeover bid or exchange offer

As Mr Gilles Labossière's employment contract was suspended when he was appointed as Executive Vice President, an amendment states that in the event of his dismissal that does not follow his resignation from his position as Executive Vice President, his redundancy benefits in accordance with the Collective Agreement for Executives from the Metalworking Industry will be calculated based on the following elements:

– The seniority taken into account will be Mr Labossière's length of service since September 1, 2008, including any period when his employment contract has been suspended for any reason whatsoever and particularly in connection with a corporate office;
– The compensation taken into account will be the total average compensation (fixed and variable) received in any capacity (employment contract or corporate office) by Mr Labossière over the 12 months or three months prior to the date when he receives notice of his dismissal or the date when his employment contract is terminated, retaining the most favorable of the average figures.

If Mr Labossière's redundancy follows his resignation from his position as Executive Vice President, his seniority would still be calculated as indicated above, but the compensation taken into account to calculate his redundancy benefits would be the total average compensation (fixed and variable) received during the 12 months or three months prior to the date when his employment contract was suspended, retaining the most favorable of the average figures.

14.3. Offices held by directors and executives in 2017

Director's first name, surname, age and professional or personal address	Office and term	Other offices and positions	Company name
Henri Seydoux 57 29 rue de la Faisanderie 75116 Paris, France	Chairman of Board of Directors and Chief Executive Officer Term of office: six years from June 2015 Date first appointed: Jan 31, 1994	Chairman Director Director Chairman and Director Director Chairman and Director Chairman and Director Chairman and Director Chairman and Director Chairman and Director Chairman of Board of Directors Chairman Chairman Chairman Chairman Manager Manager Manager Manager Director Director and Vice-Chairman Director Director	Horizon SAS Schlumberger NV Sigfox Parrot Inc. Micasense Inc. Parrot UK Ltd Parrot Asia Pacific Ltd Parrot Iberia, SL Parrot Italia Srl SenseFly SA Parrot Faurecia Automotive Parrot Drones SAS Parrot Shmates SAS Parrot ANZ Ltd Parrot Air Support SAS Parrot GmbH Chez Parrot SARL Parrot Invest 4 SARL Parrot Invest 5 SARL Parrot Japan KK Pix4D Airinov SAS Parrot Automotive Asia Pacific
Gilles Labossière 57 34 chemin Desvallières 92410 Ville-d'Avray, France	Executive Vice President Date appointed: May 13, 2017	Chairman and CEO Majority Manager Republic Alley's representative on the Board Director and CEO Director Director	Republic Alley SA LM-FI SARL La Cantoche SAS Parrot Inc. Planck Aerosystems Inc. Micasense Inc.
Jean-Marie Painvin 66 201 West 17th Street New York, NY 10011 United States	Director Term of office: six years from June 2015 Date first appointed: Jan 31, 1994	Founder and CEO Director Director Director Director Director Director Director	JMC Investment Neuflize Monde Selection Golf du Médoc JTI Ode à la Rose Keosys SiO2 IH Hospitality
Jean-Yves Helmer 72 121 boulevard Haussmann 75008 Paris, France	Director (until June 21, 2017)		
Olivier Legrain 65	Director (until June 21, 2017)	Chairman Board member Director	Solaire SAS Financière K2 (Kiloutou) Mécénat Balas

19, place de la Résistance 92200 Issy-les-Moulineaux, France		Director Director Supervisory Board member Strategy Board member	CPI ARP SA LBO France Qualium
Geoffroy Roux de Bézieux 55 2 bis rue de Villiers 92300 Levallois-Perret, France	Director Term of office: six years from June 2012 Date first appointed: Sep 14, 2006	Chairman and founder Chairman Supervisory Board member Deputy Vice President, Treasurer	Notus Technologies Oliviers & Compagnie Peugeot SA MEDEF
Stéphane Marie 54 61 rue des Galons 92190 Meudon, France	Director Term of office: six years from June 2015 Date first appointed: Jun 18, 2009	Chairman Director, Chairman and CEO Director Director Director Manager Manager Manager	Corevise Expertise et Audit SA Fidus GIE RSM Paris Fidinter SARL ACMK Lakvest Expertise & Audit SCI Lakvest Paris
Natalie Rastoin 58 45 bis rue Beaunier 75014 Paris, France	Director Term of office: six years from June 2017 Date first appointed: May 31, 2011	Chairman Director Supervisory Board member	Ogilvy France Pégase HighCo
Marie Ekeland 42 269 avenue Daumesnil 75012 Paris, France	Director Term of office: six years from June 2014 Date first appointed: Jun 11, 2014	Director Daphni's representative on the Board	Showroomprivé (SRP Group) Criteo Daphni Bibicheri Less
BPIFRANCE PARTICIPATIONS SA Permanent representative: Paul-François Fournier	Director Term of office: six years from June 2016 Date first appointed: Jun 16, 2016	Director Supervisory Board Chairman	Sigfox Cornovum Eutelsat Prodways Younited
Agnès Bureau-Mirat 54 7 avenue de Bretteville 92200 Neuilly sur Seine, France	Director Term of office: six years from June 2017 Date first appointed: Jun 21, 2017		

14.3.1. Director biographies

■ Henri Seydoux

Henri Seydoux founded the Company in 1994 and has served as Chairman and Chief Executive Officer since its creation. Self-educated, he began his career in 1978 as a trainee with Journal Actuel, where he was later employed as a journalist from 1979 to 1980. In 1981, he joined the sales team at the Matin de Paris newspaper. Then, in 1982, he joined SSCI as an operating systems software developer, before working for Microarchi from 1983 to 1984 in the same role. In 1985, he set up BBS, a company intended to market the micro archi operating system. In 1986, he created BSCA, a synthetic 3D imaging company, and became its Chairman and Chief Executive Officer from 1986 to 1990. In 1991, with three other partners, he founded and became a director in the luxury goods company Christian Louboutin until 2013.

■ Jean-Marie Painvin

Jean-Marie Painvin was appointed as a Company director on June 24, 2003. After graduating from Rice University in Texas with a masters degree in mechanical engineering, he began his career in 1975 as a regional director for Trailor S.A., where he went on to become sales and marketing director between 1981 and 1988. In 1988, he became Chairman of Deutsch Relays, Inc. in the US, and was then appointed in 1994 to head up Compagnie Deutsch, serving as its Chairman and CEO from 1999 to 2013. In 2013, he founded JM Investment, where he is currently its Chairman.

■ Geoffroy Roux de Bézieux

Geoffroy Roux de Bézieux was appointed as a Company director on September 14, 2006. He also satisfies the criteria to be considered an independent director. After graduating from ESSEC and completing a postgraduate DESS at Dauphine in 1984, he spent two years in the special forces (Marine Commandos), with operations in Africa and Lebanon. He then joined the L'Oréal group, where he spent 10 years in various positions in both France and abroad, notably serving as head of marketing in the UK and then CEO for Poland. In 1996, he set up The Phone House, the first fully dedicated chain of mobile telephony stores. One year later, he brought the English group The Carphone Warehouse on board as a shareholder. In 2000, this group listed in London and took control of The Phone House. He became its Chief Executive Officer to develop Phone House in Europe from 2000 to 2004. In 2004, he set up the company Omea Telecom, which launched Breizh Mobile, the first alternative mobile operator (MVNO). In 2006, he convinced the Virgin Group to invest in this project and launched Virgin Mobile. In December 2014, Numéricâble bought out Omea Telecom for 325 M€. In January 2015, Geoffroy Roux de Bézieux set up Notus Technologies, an industrial group of innovative companies serving retail markets, including firms such as Inès de la Fressange and Crédit.fr. In January 2016, he bought out Oliviers et compagnie, a company that produces (in France) and sells olive oil and related products worldwide (60% export). From 2003 to 2008, he was Vice-Chairman then Chairman of Croissance Plus, the association for high-growth businesses. He has been a member of the Board at France Investissement and been part of the Attali and Levy-Jouyet Commissions. From 2008 to 2012, he was Vice-Chairman and Chairman of Unedic for MEDEF. Since July 2013, he has been Vice-Chairman and Treasurer of MEDEF, in charge of its "Economy" section. He has been Vice-Chairman of the French telecoms federation (FFT). Lastly, with his wife, he has set up a charity foundation - the ARAOK Foundation - under the auspices of Fondation de France, providing funding for humanitarian associations.

■ Stéphane Marie

Stéphane Marie was appointed as a Company director on June 18, 2009. He also satisfies the criteria to be considered an independent director. Stéphane Marie is a chartered accountant and statutory auditor. He graduated from Dauphine and has an Executive MBA from HEC. He worked in international audit firms for nine years, including nearly three years in the US, before joining the Paris-based firm RSM in 1994. He is currently a partner and a member of the management committee, focused in particular on statutory auditing assignments for real estate, industrial and retail groups.

■ Natalie Rastoin

Natalie Rastoin was appointed as a Company director on May 31, 2011. She also satisfies the criteria to be considered an independent director. Since 2015, Natalie Rastoin has been Chairwoman of Ogilvy Paris. After starting off in strategic planning, she joined Saatchi & Saatchi in 1986 as Chief Development Officer, then, in 1991, she was appointed Vice-President in charge of European development. In 1992, she became CEO of the Paris branch of BDDP Conseil, before being appointed Chief Executive Officer of Ogilvy & Mather Paris in 1997 (1997-2005). Natalie Rastoin has worked with many high-tech clients, particularly on globalization issues for global brands (Cisco, Yahoo!, IBM, AOL, Google), as well as startups, particularly in collaboration with NUMA, which she advises. She is also a director of Pégase (Carel, Carvil and Accessoire brands) and a member of HighCo's supervisory board.

■ Marie Ekeland

Marie Ekeland was appointed as a Company director on June 11, 2014. She meets the criteria to be an independent director. Marie Ekeland is the co-founder of Daphni, a venture capital fund focused on European digital startups. Marie is also Vice-Chairman of France Digitale, an association that brings together digital investors and entrepreneurs, and a member of the national digital council (Conseil National du Numérique). She began her career in 1997 as an IT engineer with the investment bank JP Morgan in New York. In 2000, she joined the innovation investment team at CPR Private Equity, which later became Crédit Agricole Private Equity. In 2005, she joined Elaia Partners, where she was notably involved in the investments in Criteo and Sigfox. Marie Ekeland also sits on the boards of directors of Criteo and Showroomprivé. Marie Ekeland has a degree in mathematics and IT engineering from Université Paris IX Dauphine, and a masters in economic policy and analysis from Ecole d'Economie de Paris.

Bpifrance Participations SA (permanent representative: Paul-François Fournier)

On June 16, 2016, Paul-François Fournier was appointed as the permanent representative of BPIFRANCE PARTICIPATIONS S.A., a Company director. A Polytechnique and Telecom ParisTech graduate, Paul-François Fournier joined the France Telecom-Orange group in 1994 as a sales engineer and spent seven years developing business services. In 2001, Paul-François Fournier was appointed head of broadband business at Wanadoo, ensuring the successful growth of ADSL offers in France. He was also involved in the group's international operations as a member of the Wanadoo Group executive committee. He led a number of strategic projects, including the launch of the Livebox and voice over IP, in partnership with Inventel and Netcentrex, two French startups. Paul-François Fournier has been Executive Director of Orange's Technocentre since 2011, in charge of product innovation. He has promoted more regional and decentralized organization methods, illustrated by the creation of the Technocentres in Amman and Abidjan. Since April 2013, Paul-François Fournier has been Executive Director of Bpifrance's Innovation Division.

Agnès Bureau-Mirat

Agnès Bureau-Mirat was appointed as a Company director on June 21, 2017. She also satisfies the criteria to be considered an independent director. An IEP Paris graduate, with a masters in human resources management from Université Paris IX Dauphine, Agnès Bureau-Mirat began her career in 1986 as an Internal Communications and Human Resources Development Manager for La Samaritaine. In 1990, she joined the Ciments Français-Italcementi group, where she held various international human resources management positions, in Paris and Bergamo. In 1999, she moved to the Vivendi Universal group as Director of HR Development for VU Publishing, before being appointed VP Human Resources for VU Santé. From 2003, she served as VP Human Resources for the Valeo group's aftermarket activities. In 2006, she became the Arjowiggins group's SVP Human Resources and a member of its executive committee. She joined Elior in 2009 as SVP Human Resources and CSR, as well as a member of the group's executive committee. She also sat on the board of Grupo Areas in Barcelona from 2011 to 2015, a market leader for concession catering and stores serving airports, stations and highways in Spain and the US. Since 2017, she has been a Senior Business Advisor with the Paris-based consultancy X-PM, specialized in transition management and part of the international Wil Group network. As a company director, Agnès Bureau-Mirat has been a chartered member of the French Institute of Directors in Paris and the Institute of Directors in London since 2016.

Anne Samak de la Cerda

Anne Samak de la Cerda was appointed as a Company director on June 21, 2017. She also satisfies the criteria to be considered an independent director. Based in San Francisco since Nokia's acquisition of Withings in 2016, Anne Samak de la Cerda is Chief Financial Officer for Digital Health activities. Since joining Withings as CFO in 2013, she has built its financial and legal teams and put in place its operational processes, against a backdrop of strong growth. Anne was previously with LeGuide.com as Chief Financial Officer, a position created after the company floated on the stock market. She led the raising of funds on Alternext and two international acquisitions, while structuring the financial and HR teams in an operational growth phase. After graduating from ESCP-EAP, Anne Samak de la Cerda began her career with PricewaterhouseCoopers in London, before moving to the Vivendi group. She has been a member of the French Institute of Directors and the Financial Executives International network since 2016.

Olivier Legrain

Olivier Legrain was appointed as a director for the Company on September 14, 2006. He also satisfies the criteria to be considered an independent director. Olivier Legrain graduated in civil engineering from the Ecole des Mînes and from the Ecole Nationale de la Statistique de l'Administration Economique (ENSAE). After various executive management positions within the Rhône Poulenc group, he served as the deputy CEO for the Basic Chemicals Division from 1986 to 1990, for the Fibers and Polymers sector from 1990 to 1991, and for the Organic Intermediates and Minerals sector from 1991 to 1993. In 1994, he was appointed deputy CEO for the Lafarge group and a member of the executive committee. In 1995, he was appointed to head up the Specialty Materials branch, before also taking on responsibility for the Group's strategic coordination in 1997. He was Chairman of Matéris from 2001 to February 2015.

Mr Olivier Legrain has no longer been a member of the Board of Directors since June 21, 2017.

Jean-Yves Helmer

Jean-Yves Helmer was appointed as a Company director on June 4, 2007. Jean-Yves Helmer is a Senior Advisor at Banque Lazard. Until April 2013, he was a Managing Partner at Lazard Frères in Paris and Managing Director of Lazard LLC. He joined Lazard in April 2001. He previously spent five years as the delegate general for armament at the French Ministry of Defense, where he was responsible for armament acquisitions, as well as a range of industrial activities, such as the naval construction division. Before being appointed as the delegate general for armament by the French government in March 1996, he had spent 18 years with the PSA Peugeot Citröen automobile group, where he held various positions, notably as the manager in charge of after-sales services and spare parts, the head of exports, the head of the Poissy production center and, from July 1988 to March 1996, the head of the automobile division, the group's number 2. Before joining PSA Peugeot Citröen, he began his career in the civil service, notably in the Ministry of Finance's treasury division and as an industrial affairs advisor for Prime Minister Raymond Barre from August 1976 to May 1978.

Mr Jean-Yves Helmer has no longer been a member of the Board of Directors since June 21, 2017.

14.3.2. Additional information on the members of the Board of Directors

To the best of the Company's knowledge:

– There are no family ties between the Company's directors, with the exception of Mr Henri Seydoux and Mr Jean-Marie Painvin, who are related (brothers-in-law);
– None of the directors have been convicted of fraud over the past five years;
– None of the directors have been associated with a bankruptcy, sequestration or liquidation over the past five years;
– None of the directors have been incriminated or officially sanctioned by statutory or regulatory authorities (including designated professional bodies) over the past five years; and
– None of the directors have been prevented by a court from serving as a member of an issuer's administrative, management or supervisory bodies or from managing or conducting the business of an issuer over the past five years.

14.4. Conflicts of interest

To the best of the Company's knowledge, there are no conflicts of interest between the duties of the members of the Board of Directors in relation to the Company on the one hand, and on the other, their private interests or other duties.

Offices held by directors and executives over the past five years and not held on the date of this reference document

Director name	Other offices held in any company over the past five years and not held on the filing date of this reference document
Henri Seydoux, Chairman of the Board of Directors and Chief Executive Officer	Director of Mobinear (until 2014) Director of Trimaran (until Sep 2016) Director of Christian Louboutin (until Sep 2016) Director of Seychemanlou (until Sep 2016)
Jean-Marie Painvin	Director of Fin-Air Chairman of Golf du Médoc Director of Golf des Baux de Provence Chairman and CEO of Deutsch Group
Edward Planchon	Vice-Chairman of the auto equipment union FIEV Director of CLEPA Chairman of the Supervisory Board of Vignal Systems Director of Enricau Holding S.A. Director of Alpen'Tech S.A.S. Member of the Supervisory Board of Electricfil S.A. Member of the Supervisory Board of SolSaCon AG
Olivier Legrain	Director of Terreal Director of Rhodia Director of Parex Lanko S.A. Director of Ecor Director of Kerneos S.A. Chairman of Materis (until Feb 2015)
Geoffroy Roux de Bézieux	Chief Operating Officer of Carphone Warehouse Director of Budget Telecom Director of Micromania Director of Sporever Director of Nocibé Director of IMS
Jean-Yves Helmer	Managing Partner at Lazard Frères (until Apr 2013)
Stéphane Marie	NA
Natalie Rastoin	NA
Marie Ekeland	Partner at Elaia Partners (until 2014)
Paul François Fournier	Director of Soft@Home Director of Dailymotion

Definition of the independent director concept

The bylaws drawn up by Parrot for the Board of Directors and specialized committees specify the role and the operating conditions for the Board of Directors and specialized committees in accordance with French law and the corporate bylaws of Parrot S.A., in addition to the corporate governance rules set out in the MiddleNext Code, which the Company has adhered to since 2012.

The Middlenext Code was revised in September 2016. The Board's bylaws were amended in February 2017. Directors are considered to be independent if they meet the following criteria on the date when their status as an independent director is assessed:

– May not be an employee or executive officer of the Company or a Group company currently or at any time during the last three years;
– May not have any close ties with a corporate officer or executive of the Company or a Group company as per Article L.233-3 of the French commercial code, or a majority shareholder in the Company;
– May not be a customer, supplier, corporate banker or service provider with material relationships with the Company or a Group company, or for which the Company represents a significant percentage of their business;
– May not (i) represent a shareholder holding, (ii) be a member of an entity holding, directly or indirectly, (iii) directly or indirectly hold more than a five percent (5%) interest in the Company's capital or voting rights;
– May not have been an auditor of the Company during the five (5) years prior to their appointment.

The concepts of “executive” and person with “closes tie with an executive” are those defined by Article L. 621-18-2 of the French monetary and financial code.

Moreover, the Board of Directors is required to check, at least on an annual basis, that the directors or candidates for positions as directors comply with the independence criteria set out above. The Board reports on the findings from this review to the shareholders:

– Each year at the General Meeting convened to approve the annual financial statements, and
– During General Meetings convened to rule on the appointment of new directors or the ratification of directors co-opted by the Board.

On October 12, 2017, the directors were invited to complete an individual questionnaire concerning their independence, based on the criteria defined by the MiddleNext Code. The Board then reviewed each director's situation during its meeting on November 9, 2017. Following this review, six directors meet the conditions required to be classed as Independent Directors in accordance with the bylaws: Mr Geoffroy Roux de Bézieux, Mr Stéphane Marie, Mrs Natalie Rastoin, Mrs Marie Ekeland, Mrs Agnès Bureau-Mirat and Mrs Anne Samak de la Cerda.

XV. Compensation and benefits

The following information incorporates the elements from the "report on executive pay and benefits" prepared in accordance with Article L.225-37-2 of the French commercial code, which, supplemented with the information available in 16.3.1 "Appointments and Compensation Committee", is being presented for the General Meeting on June 12, 2018.

15.1. Compensation and benefits in kind for the Company's executive officers

15.1.1. Principles and rules defined by the Board for determining compensation and benefits of any kind awarded to corporate officers

The Board of Directors determines the compensation for the Company's executive officers in accordance with the guidelines set by the MiddleNext Governance Code[1]:

- Exhaustive: items of compensation for executive officers are determined on an exhaustive basis, taking into account the fixed component, the variable component (bonus), potential items of medium-term compensation (stock options, bonus shares), attendance fees, retirement conditions and specific benefits;
- Balanced: a good balance is ensured between the various items of compensation for executive officers. Each item of compensation must be justified and aligned with the Company's general interests;
- Benchmarked: the positioning of compensation for the Company's executive officers and Management Committee members is regularly reviewed in relation to companies operating on a comparable market, based on research by specialist external consultancies;
- Consistent: compensation for executive officers is determined in line with that of the Company's other managers and employees;
- Clear guidelines: the performance criteria used to determine the variable compensation component are assessed based on performance objectives that are demanding, explainable and, where possible, sustainable;
- Measured: the determination of compensation and awards of stock options or bonus shares is balanced and takes into account the company's interests, market practices and the corporate officers' performance;
- Transparent: the annual information for shareholders concerning all the compensation and benefits received by executives is provided in accordance with the regulations applicable.

15.1.2. Criteria for determining, distributing and awarding fixed, variable and exceptional elements for corporate officers

Short-term compensation (annual basis) comprises a fixed component and a variable component.

Fixed compensation is determined primarily based on the following criteria:

- Type of office and level of responsibility;
- Executive's interest in the Company's capital;
- General experience;
- Experience in executive positions;
- Experience in the business sector concerned;
- Market practices in France and other countries.

The variable compensation components must be sources of motivation, aiming to reflect the core aspects of Parrot's strategy and ensure alignment with the rapid changes on the markets covered by Parrot. When objectives are achieved, they represent a significant portion of the overall compensation package.

Bonus shares and stock options may be awarded to eligible executive officers individually or collectively based on the objectives set in connection with the long-term incentive plan, as applicable.

More specifically, this type of compensation aims to motivate and reward the loyalty of the Company's key players.

Exceptional compensation may be awarded when required by specific circumstances.

Variable compensation is paid annually and includes a scale combining various criteria in line with the budget strategy for the year, such as the level of revenues achieved in relation to the budget, the gross margin, certain types of expenditure or the change in the Group's cash position.

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[1] The MiddleNext corporate governance code for small and mid caps is available on the MiddleNext site (www.middlenext.com).

These criteria are weighted to effectively reflect the strategy and ambitions set for a given year.

The objectives set for executive officers may be quantitative for a significant portion, but may also be qualitative; in the latter case, they must be simple and understandable (e.g. completion of a specific operation).

In accordance with Articles L.225-37-2 section1 (ex-ante) and L.225-100 II (ex-post) of the French commercial code, the fixed, variable and exceptional components of the overall compensation package and benefits of any kind available and awarded to the Company's executive officers are submitted for approval at the General Meeting.

The proposed resolutions prepared by the Board of Directors in accordance with the aforementioned provisions are appended to this report.

15.1.3. Items of compensation for 2017 (ex-post)

The General Shareholders' Meeting on June 21, 2017 approved the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components of the overall compensation package and benefits of any kind to be awarded to the Company's executive officers in accordance with Article L.225-37-2 of the French commercial code (8th resolution).

15.1.4. Compensation for the Chairman and Chief Executive Officer of Parrot S.A.

Mr Henri Seydoux was reappointed as Chairman of the Board of Directors and Chief Executive Officer on June 30, 2015.

The items of compensation for Mr Henri Seydoux were approved by the Board of Directors during its meeting on February 28, 2017, after consulting with the Appointments and Compensation Committee, which met on the same day.

During its meeting on March 14, 2018, and after consulting with the Appointments and Compensation Committee, the Board of Directors approved the variable and exceptional compensation components for 2017, with their payment subject to the 2018 Ordinary General Meeting approving the items of compensation for the person concerned in accordance with Article L. 225-100 of the French commercial code.

In his capacity as a member of the Board of Directors:

- Attendance fees (per year): **25,000 €**
- In his capacity as an executive corporate officer:
- Fixed annual compensation: **240,000 €**
- Variable annual compensation: **295,984 €.** The variable compensation for 2017 was determined by the Board of Directors during its meeting on March 14, 2018 based on a sliding scale combining a criteria for achieving revenues (25% weighting) and a financial performance criteria (75% weighting)
- Multi-year variable compensation: na
- Exceptional compensation: na
- Long-term variable compensation (including stock options and bonus shares): na
- Compensation, allowances or benefits due or likely to be due for commencing duties: na
- Severance benefits or benefits for changing positions (severance pay, non-compete benefits, supplementary pension) covered by the Company itself or one of its controlled or controlling companies: na
- Collective retirement plans: general social security system and ARRCO and AGIRC supplementary pensions.
- Protection benefits plan: protection insurance plans in place within the Company.
- Compensation for other offices held within the Group: **na**
- Benefits in kind: **na**

■ Compensation for the Executive Vice President of Parrot S.A.

Mr Gilles Labossière, the Company's Chief Financial Officer since September 2008, was appointed as the Company's Executive Vice President on May 13, 2017, as proposed by Mr Henri Seydoux. On this date, his employment contract was suspended.

The items of compensation for Mr Gilles Labossière in his capacity as an executive officer were approved by the Board of Directors during its meeting on May 13, 2017, after consulting with the Appointments and Compensation Committee, which met on the same day.

During its meeting on March 14, 2018, and after consulting with the Appointments and Compensation Committee, the Board of Directors approved the variable and exceptional compensation components for 2017, with their payment subject to the 2018 Ordinary General Meeting approving the items of compensation for the person concerned in accordance with Article L. 225-100 of the French commercial code.

- Fixed annual compensation: 310,000 €
- Variable annual compensation: 129,143 €. The variable compensation for 2017 was determined by the Board of Directors during its meeting on March 14, 2018 based on a sliding scale combining a criteria for achieving revenues (25% weighting) and a financial performance criteria (75% weighting)
- Multi-year variable compensation: na
- Exceptional compensation: na

– Long-term variable compensation (including stock options and bonus shares): 10,000 bonus shares awarded on May 13, 2017
– Compensation, allowances or benefits due or likely to be due for commencing duties: 25,000 bonus shares awarded on May 13, 2017
– Severance benefits or benefits for changing positions (severance pay, non-compete benefits, supplementary pension) covered by the Company itself or one of its controlled or controlling companies: unemployment benefits insurance (benefits plan for business leaders with 70% over two years)
– Collective retirement plans: general social security system and ARRCO and AGIRC supplementary pensions
– Protection benefits plan: protection insurance plans in place within the Company
– Compensation for other offices held within the Group: na
– Benefits in kind: company car

Summary of executive officers' compensation (Table 1 of AMF recommendation) in euros

Henri Seydoux, Parrot's Chairman and CEO	FY 2016	FY 2017
Compensation due for the year (see table 2)	304,000	560,984
Value of multi-year variable compensation awarded during the year	na	na
Value of options awarded in 2017 (see table 4)	na	na
Value of bonus shares awarded (see table 6)	na	na
Total	**457,640**	**560,984**
Gilles Labossière, Parrot's Executive Vice President	**FY 2016**	**FY 2017**
Compensation due for the year (see table 2)	na	439,143
Value of multi-year variable compensation awarded during the year	na	na
Value of options awarded in 2017 (see table 4)	na	na
Value of bonus shares awarded (see table 6)	na	311,494
Total	**na**	**750,637**

Summary of executive officers' compensation (Table 2 of AMF recommendation) in euros

Henri Seydoux	FY 2016 Maximum amounts	FY 2016 Amounts paid	FY 2017 Maximum amounts	FY 2017 Amounts paid
Fixed compensation	240,000	240,000	240,000	240,000
Variable compensation	320,000	*192,640	320,000	**80,000
Exceptional compensation	na	na	na	na
Attendance fees	25,000	25,000	25,000	25,000
Benefits in kind	na	na	na	na
Total	**585,000**	**457,640**	**585,000**	**345,000**

(*) Of which, advance on 2016 bonus: 80,000 € paid in 2015. (**) The difference compared with the amount due is reimbursed.

Gilles Labossière	FY 2016 Maximum amounts	FY 2016 Amounts paid	FY 2017 Maximum amounts	FY 2017 Amounts paid
Fixed compensation	na	na	310,000	310,000
Variable compensation	na	na	140,000	29,375
Exceptional compensation	na	na	na	na
Attendance fees	na	na	na	na
Benefits in kind	na	na	Company car	Company car
Total	**na**	**na**	**450,000**	**339,375**

For 2016, the Chairman and CEO's variable compensation was determined with a target of 100% based on a sliding scale combining (i) a criteria for achieving revenues (25% weighting), (ii) an enterprise value criteria (25% weighting), and (iii) a Group performance criteria (50% weighting).

For 2017, the variable compensation for the Chairman and CEO and the Executive Vice President was determined by the Board of Directors during its meeting on March 14, 2018 based on a sliding scale combining a criteria for achieving revenues (25% weighting) and a financial performance criteria (75% weighting).

Securities with an equity component awarded during the year to each executive officer by the issuer and any Group company (Table 4 of AMF recommendation)

	Plan no. and date	Type	Value	Number	Exercise price	Exercise period
Gilles Labossière	Plan 1 from May 13, 2017	Bonus shares	83,794 €	10,000	na	Subject to presence condition after the 2-year vesting period
Gilles Labossière	Plan 2 from May 13, 2017	Bonus shares	227,700 €	25,000	na	After the 1-year vesting period

Securities with an equity component exercised during the year by each corporate officer (Table 5 of AMF recommendation)

None.

History of securities awarded with an equity component

The company founder equity warrant schemes and share warrant schemes all expired in 2011 and were not exercised.

Bonus share awards (see 15.1.3 “Items of compensation for 2017 (ex-post)” and 15.1.4 “Items of compensation for the current year (ex-ante)” for Gilles Labossière, Parrot’s Executive Vice President, are subject to approval by the general meeting. The Company currently holds 706,153 treasury shares, for which one of the objectives from the Share Buyback Program Description from June 21, 2017 is awarding bonus shares.

In connection with its 298,779,726 € capital increase in December 2015, Parrot notably issued 17,575,278 Class 1 warrants and 17,575,278 Class 2 warrants (see 15.12.2 “Securities entitling holders to access the capital”).

The Class I and Class 2 warrants held by Horizon, representing a combined total of 2,597,703 shares if they were converted, were acquired in connection with Horizon’s participation in the capital increase from December 2015 for a total of 5,485,641 shares representing an investment of around 90 M€.

15.1.5. Items of compensation for the current year (ex-ante)

During its meeting on March 14, 2018, and after consulting with the Appointments and Compensation Committee, which met on the same day, the Board of Directors approved the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components of the overall compensation package and benefits of any kind to be awarded to the Company’s executive officers. Note that the payment of items of variable and exceptional compensation is dependent on the Ordinary General Meeting in 2019 approving the items of compensation for the person concerned in accordance with Article L. 225-100 of the French commercial code.

Compensation for Parrot SA’s Chairman and Chief Executive Officer

In his capacity as a member of the Board of Directors:

– Attendance fees (per year): 25,000 €

In his capacity as an executive corporate officer:

– Fixed annual compensation: 240,000 €
– Target variable annual compensation: 320,000 €. For 2018, variable compensation will be determined based on a sliding scale combining a criteria for achieving revenues (50% weighting) and two financial performance criteria (25% weighting each).
– Multi-year variable compensation: **na**
– Exceptional compensation: **na**
– Long-term variable compensation (including stock options and bonus shares): **na**
– Compensation, allowances or benefits due or likely to be due for commencing duties: **na**
– Severance benefits or benefits for changing positions (severance pay, non-compete benefits, supplementary pension) covered by the Company itself or one of its controlled or controlling companies: **na**
– Collective retirement plans: general social security system and ARRCO and AGIRC supplementary pensions
– Protection benefits plan: protection insurance plans in place within the Company
– Compensation for other offices held within the Group: na
– Benefits in kind: na

Compensation for Parrot SA's Executive Vice President

- Fixed annual compensation: 310,000 €
- For 2018, variable compensation will be determined based on a sliding scale combining a criteria for achieving revenues (50% weighting) and two financial performance criteria (25% weighting each).
- Multi-year variable compensation: na
- Exceptional compensation: na
- Long-term variable compensation (including stock options and bonus shares): 20,000 bonus shares awarded on March 14, 2018
- Compensation, allowances or benefits due or likely to be due for commencing duties: na
- Severance benefits or benefits for changing positions (severance pay, non-compete benefits, supplementary pension) covered by the Company itself or one of its controlled or controlling companies: unemployment benefits insurance (benefits plan for business leaders with 70% over two years)
- Collective retirement plans: general social security system and ARRCO and AGIRC supplementary pensions
- Protection benefits plan: protection insurance plans in place within the Company

Compensation for other offices held within the Group: na

- Benefits in kind: company car

15.2. Compensation and benefits in kind for Company directors and other corporate officers

Each director receives a gross annual total of 25,000 € in attendance fees, based on a fixed component for 9,000 € and a 16,000 € variable component, prorated to their effective presence (including conference calls or video conferences) in the Board's four meetings when the agenda concerns the approval of the quarterly accounts.

When they chair a committee, directors receive an additional gross annual amount of 15,000 €, based on a 5,000 € fixed component and a 10,000 € variable component, prorated to their effective presence (including conference calls or video conferences) in the meetings of the Committees which they chair.

When directors resign from or join the Board during the year, their attendance fees are prorated to the duration of their term of office during the year.

Name	Office	Compensation and benefits in 2017
Henri Seydoux	Company director Chairman and Chief Executive Officer	Attendance fees: 25,000 € Benefits in kind: na Reimbursement of expenses: na
Jean-Marie Painvin	Company director	Attendance fees: 25,000 € Benefits in kind: na Reimbursement of expenses: na
Olivier Legrain	Company director (until June 21, 2017)	Attendance fees: 18,750 € Benefits in kind: na Reimbursement of expenses: na
Geoffroy Roux de Bézieux	Company director and Chairman of the Compensation Committee	Attendance fees: 25,000 € for his participation in the Board 15,000 € for chairing a specialized committee. Benefits in kind: na Reimbursement of expenses: na
Jean-Yves Helmer	Company director (until June 21, 2017)	Attendance fees: 18,750 € Benefits in kind: na Reimbursement of expenses: na
Stéphane Marie	Company director and Chairman of the Audit Committee	Attendance fees: 25,000 € 15,000 € for chairing a specialized committee. Benefits in kind: na Reimbursement of expenses: na
Natalie Rastoin	Company director	Attendance fees: 25,000 € Benefits in kind: na Reimbursement of expenses: na
Marie Ekeland	Company director	Attendance fees: 25,000 € Benefits in kind: na Reimbursement of expenses: na
Bpifrance Participations	Company director	Attendance fees: 25,000 € 15,000 € for chairing a specialized committee

		Benefits in kind: na Reimbursement of expenses: na
Agnès Bureau-Mirat	Company director (since June 21, 2017)	Attendance fees: 6,250 € Benefits in kind: na Reimbursement of expenses: na
Anne Samak de la Cerda	Company director (since June 21, 2017)	Attendance fees: 6,250 € Benefits in kind: na Reimbursement of expenses: na

It is also important to note that during 2017 the directors were not awarded any benefits in kind, specific pension plans or severance benefit provisions irrespective of the reasons for departure (dismissal, retirement, etc.).

15.3. Company provisions for pensions or other benefits for directors and other corporate officers

No provisions were recorded in this respect.

15.4. Corporate officer interests in the Company's capital

Corporate officers	Number of shares held at Dec 31, 2017	% of capital and voting rights	Number of shares on a diluted basis	% of capital and voting rights
Number of Parrot SA shares taken into account for the calculation	*30,174,671*		*33,931,349,*	
Henri Seydoux, through the company Horizon[(1)]	10,893,751	36.10%	13,491,454	39.76%
Bpifrance Participations SA	1,552,188	5.14%	1,704,372	5.02%
Gilles Labossière	13,955	0.05%	20,336	0.06%
Jean Marie Painvin	100	0.00%	100	0.00%
Geoffroy Roux de Bézieux	1,754	0.01%	1,754	0.01%
Stéphane Marie	1	0.00%	1	0.00%
Natalie Rastoin	5,352	0.02%	,5,947,	0.02%
Marie Ekeland	27	0.00%	,27,	0.00%
Agnès Bureau-Mirat (since Jun 21, 2017)	200	0.00%	200	0.00%
Anne Samak de la Cerda (since Jun 21, 2017)	1	0.00%	1	0.00%
Olivier Legrain (until Jun 21, 2017)	20	0.00%	20	0.00%
Jean Yves Helmer (until Jun 21, 2017)	5,160	0.02%	6,120	0.02%

(1) Horizon has made a commitment to sell the Managers up to 20% of the Class 1 and Class 2 warrants that it holds.

15.4.1. Details of executive transactions to acquire, sell, subscribe for or exchange securities on the stock market

In 2017, Horizon SAS, the holding company owned by Henri Seydoux, acquired 300,000 Parrot shares on the Euronext Paris market: 283,000 shares were acquired on August 1 at a price of 10.50 € and 17,000 shares were acquired on August 2 at a price of 10.7857 €. These filings are available on the AMF site.

15.4.2. Securities entitling holders to access the capital

15.4.2.1. Breakdown of the Class 1 and Class 2 warrants

Corporate officer	Class 1 warrants	Equivalent shares	Class 2 warrants	Equivalent shares
Number of Parrot SA shares taken into account for the calculation	*17,575,278*	*1,464,607*	*17,575,278*	*1,883,066*
Henri Seydoux through the company Horizon(1)	13,637,943	1,136,495	13,637,943	1,461,208
Bpifrance Participations	798,964	66,580	798,964	85,603
Gilles Labossière	61,627	5,136	11,627	1,246
Jean Marie Painvin	0	0	0	0
Geoffroy Roux de Bézieux	0	0	0	0
Stéphane Marie	0	0	0	0
Natalie Rastoin	3,122	260	3,122	335
Marie Ekeland	0	0	0	0
Agnès Bureau-Mirat	0	0	0	0
Anne Samak de la Cerda	0	0	0	0
Olivier Legrain (until Jun 21, 2017)	0	0	0	0
Jean Yves Helmer (until Jun 21, 2017)	5,040	420	5,040	540

(1) Horizon has made a commitment to sell the Managers up to 20% of the Class 1 and Class 2 warrants that it holds.

XVI. Administrative and management body operations

The Company is compliant with the legal provisions in force concerning internal control and the principles relating to corporate governance. The Company has internal control procedures covering both operational and financial aspects. The Chairman of the Board of Directors has drawn up a report on the conditions for the preparation and organization of the Board's work, as well as the internal control procedures put in place by the Company.

Since February 2012, the Company has referred to the recommendations from the MiddleNext governance code. The MiddleNext corporate governance code for small and mid caps is available on the MiddleNext site (www.middlenext.com). Further details and information concerning the application of the recommendations from the MiddleNext governance code are provided in 16.4.1 "Details and application of recommendations from the MiddleNext Governance Code (September 2016 version)".

16.1. Company management

Details on the Company's management are presented in section 9.1 “Board of Directors” in this reference document.

Conditions for the performance of executive management

During its meeting on June 30, 2015, the Board of Directors decided to renew the option to combine the roles of Chairman of the Board of Directors and Chief Executive Officer, and to renew the term of office of Mr Henri Seydoux, Chairman of the Board of Directors, as Parrot SA’s Chief Executive Officer.

Unless there are changes to the way in which executive management is performed, this information will not be included again in subsequent reports.

Mr Gilles Labossière was appointed as Parrot SA’s Executive Vice President on May 13, 2017.

The powers of Mr Seydoux and Mr Labossière were not subject to restrictions when they were appointed.

Mr Henri Seydoux’ term of office as a director, Chairman of the Board of Directors and Chief Executive Officer will expire at the end of the ordinary general meeting convened to approve the financial statements for the year ending December 31, 2020.

Approach for the prevention of insider trading

The Company applies the recommendation issued by the French Financial Markets Authority (AMF) on November 3, 2010 under number 2010- 07 concerning the prevention of insider trading and, since 2011, has introduced negative windows for managers and people assimilated with managers, as well as any parties with regular or occasional access to privileged information. Negative windows are set for 30 calendar days prior to the publication of the annual accounts, half-year accounts and, if applicable, complete quarterly accounts, or the publication of quarterly information. The parties subject to these windows are only authorized to trade in the Company's securities after the information in question has been published.

16.2. Service agreements between members of the Board of Directors and the Company or any of its subsidiaries

To the best of the Company's knowledge, there are no other service agreements in place between the Company or any of its subsidiaries and any of the members of the Company's Board of Directors providing for benefits to be awarded under such an agreement.

16.3. Standing committees

The Board of Directors is made up of three standing committees:

- The Audit Committee,
- The Appointments and Compensation Committee,
- The Strategy Committee.

For biographical information on the members of these committees, please refer to section 9.4 "Director biographies" in this reference document.

16.3.1. Appointments and Compensation Committee

The Appointments and Compensation Committee is chaired by Mr Geoffroy Roux de Bézieux. The other directors serving on the Committee are Olivier Legrain and Jean-Yves Helmer (until June 21, 2017) and, since June 21, 2017, Agnès Bureau-Mirat and Jacques Bouchet (Group HRD). In accordance with the bylaws, at least two of the members are independent directors.

The Appointments and Compensation Committee meets twice before each of the Board's sessions is held in order to review matters relating to the policy for awarding stock options or bonus shares to Group staff, compensation for Management Committee members, as well as compensation for the Chairman and the Executive Vice President. The Appointments and Compensation Committee is also consulted concerning the recruitment of strategic profiles for the Group. The Head of Human Resources takes part in the Committee's meetings and prepares its minutes.

16.3.2. Audit Committee

The Audit Committee is chaired by Mr Stéphane Marie (appointed at the Board meeting on May 12, 2016). Mrs Marie Ekeland also sits on the Audit Committee.

The Audit Committee meets four times a year:

- For the approval of the audited accounts for the second and fourth quarters, the Chief Financial Officer and the statutory auditors attend the meetings. The primary objective with these meetings is to review the accounts.
- For the approval of the unaudited accounts for the first and third quarters, only the members of the Committee itself and the Chief Financial Officer attend. The primary focus for these meetings is internal control and risk management. The Audit Committee reports to the Board on its work at least once a year.

16.3.3. Strategy Committee

Considering the rapidly evolving markets and competitive landscape in which the Company operates, and its need to effectively anticipate and adapt for its markets and their changes, the Board wanted to reactivate the Strategy Committee, which it had decided to set up during its meeting on June 16, 2014, by making it a permanent committee, in the same way as the Audit Committee and the Appointments and Compensation Committee.

The Strategy Committee is chaired by Mr Paul-François Fournier. Mrs Marie Ekeland, Mr Stéphane Marie and Mr Henri Seydoux are also members of the Strategy Committee.

16.4. Corporate governance

The Company refers to the recommendations from the MiddleNext governance code. The MiddleNext corporate governance code for small and mid caps is available on the MiddleNext site (www.middlenext.com).

The code was revised in September 2016. To comply with the new provisions, the Board's bylaws were amended at the start of 2017.

16.4.1. Details and application of recommendations from the MiddleNext Governance Code (September 2016 version)

Recommendation 1: Directors' ethics

(Summarized outline of the recommendation) Each director should observe ethical guidelines (see MiddleNext Code) and, when they have an "executive" office, they should not accept more than two other appointments as directors in listed companies, even when they are located in countries other than France, that are outside of their group.

The Company is compliant with this recommendation.

Recommendation 2: Conflicts of interests

(Summarized outline of the recommendation) The Board of Directors should ensure that all necessary procedures are in place to identify and manage conflicts of interests.

The Company is compliant with this recommendation.

Recommendation 3: Composition of the Board – Independent directors

(Summarized outline of the recommendation) The Board should have at least two independent directors.

The Company is compliant with this recommendation.

Recommendation 4: Board member information

(Summarized outline of the recommendation) The company should provide the directors, within a sufficient timeframe, with all necessary information between Board meetings when justified by the Company's latest developments and events. The Rules of Procedure should provide the practical terms for supplying this information and should set reasonable timescales.

The Company is compliant with this recommendation.

Recommendation 5: Organization of Board and Committee meetings

(Summarized outline of the recommendation) The frequency and duration of meetings should allow in-depth examination of the themes that are addressed. A minimum of four Board meetings per year is recommended. Minutes are prepared for each Board meeting, summarizing the discussions.

The Company is compliant with this recommendation.

Recommendation 6: Creation of committees

(Summarized outline of the recommendation) Each Board should decide, depending on its size, its requirements and its latest developments and events, to organize itself with or without specialized ad hoc committees (compensation, appointments, strategic, CSR, etc.). It is important that some of these specialized committees, particularly the audit committee, should be chaired by independent directors.

The Company is compliant with this recommendation.

Recommendation 7: Introduction of Board rules of procedure

(Summarized outline of the recommendation) Rules of procedure should be defined for the Board with the following eight sections as a minimum: Board's role and, if applicable, operations subject to prior authorization from the Board; composition of the Board / criteria for the independence of its members; definition of the roles of any specialized committees set up; duties of members; functioning of the Board and committees; conditions for protecting executives: executive liability insurance; rules for determining compensation for directors; succession planning for the executive manager and key people. It is recommended that the rules of procedure or significant extracts should be available on the website and, if applicable, clearly presented in the Chairman's report.

The Company is compliant with this recommendation.

Recommendation 8: Selection of each director

(Summarized outline of the recommendation) Sufficient information concerning the biography, particularly the list of offices, experience and skills provided by each director, should be published online on the company's website prior to the general meeting ruling on their appointment or the renewal of their terms of office.

The Company is compliant with this recommendation.

Recommendation 9: Directors' term of office

(Summarized outline of the recommendation) The Board should ensure that the statutory term of office is adapted to the specific features of the company, within the limits set by the law. The renewal of directors' terms of office should also be staggered. The duration of offices should be clearly indicated in the chairman's report.

The Company is compliant with this recommendation.

Recommendation 10: Directors' compensation

(Summarized outline of the recommendation) A minimum level of attendance fees should be awarded, particularly to independent directors. The breakdown of attendance fees is determined by the Board and notably takes into account the actual level of attendance by directors and the time they devote to their role, including their potential participation in committees.

The Company is compliant with this recommendation.

Recommendation 11: Introduction of Board evaluation

(Summarized outline of the recommendation) Once a year, the chairman of the Board should call upon the directors to express themselves on the working of the Board, any committees and the preparation of its work. These discussions are recorded in the minutes of the session. In his/her report, the chairman confirms that this procedure has effectively taken place.

This evaluation is carried out informally on a regular basis.

Recommendation 12: Relations with shareholders

(Summarized outline of the recommendation) Outside of the General Meeting, opportunities for exchanges with significant shareholders should be organized to establish the conditions needed for productive dialogue. Prior to the General Meeting, the executive manager should endeavor to meet with any significant shareholders that would like to do so.

The Company is compliant with this recommendation.

Recommendation 13: Definition and transparency of executive compensation

(Summarized outline of the recommendation) The Board should determine the level and conditions for its executives' compensation, as well as its disclosure, in accordance with legislative and regulatory requirements. The assessment of the performance achieved takes into account both quantitative criteria – financial and non-financial – and qualitative criteria.

The level and conditions for executive compensation are based on the following seven principles: exhaustive, balanced, benchmarked, consistent, clear rules, measured and transparent.

The Company is compliant with this recommendation.

Recommendation 14: Succession planning for "executives"

(Summarized outline of the recommendation) The issue of succession should be regularly included on the agenda for Board or specialized committee meetings to check that the issue has been addressed or that it has been monitored annually. Depending on the situations, it may be relevant to change governance structures and switch from a single-tier structure to a dual-tier structure, or vice versa, or to review the allocation of roles between the chairman and the chief executive officer.

The Company is compliant with this recommendation.

Recommendation 15: Combining employment contracts and corporate offices

(Summarized outline of the recommendation) Subject to compliance with the regulations, the Board should assess whether or not to authorize managers to have employment contracts when they are serving as corporate officers. The General Meeting report explains the reasons for this decision.

The Company is compliant with this recommendation.

Recommendation 16: Severance benefits

(Summarized outline of the recommendation) If severance benefits are applicable under conditions that comply with the law, their maximum amount, after taking into account any severance pay under the terms of an employment contract, should not exceed two years of compensation (fixed and variable), except when the "manager's" compensation is clearly below the market median levels.

It is also recommended to exclude any payment of severance benefits to an executive officer if they leave the company on their own initiative to take on a new position or change positions within a group. Any artificial increase in their compensation during the period prior to their departure should also be avoided.

The Company is compliant with this recommendation.

Recommendation 17: Supplementary retirement schemes

(Summarized outline of the recommendation) In addition to applying the authorization procedures in accordance with legislation, the company should indicate in its report to the shareholders any defined-benefit supplementary retirement plans that it has set up for its managers and should provide justification for them, in the interests of transparency.

The Company is compliant with this recommendation.

Recommendation 18: Stock options and bonus shares

(Summarized outline of the recommendation) Conditions for awards: awards of stock options or bonus shares should not be excessively concentrated on executives. Stock options or bonus shares should not be awarded to executives in connection with their departure.

Conditions for exercising and vesting: the exercising of all or part of the stock options or the vesting of all or part of the bonus shares for executives should be subject to relevant performance conditions reflecting the company's medium to long-term interests assessed over a significant period.

The Company is compliant with this recommendation.

Recommendation 19: Review of points to be monitored

(Summarized outline of the recommendation) Any adoption of the Middlenext Corporate Governance Code engages the Board to take note of and regularly review any points to be monitored.

The Company is compliant with this recommendation.

16.5. Internal control procedures put in place by the Company

16.5.1. Internal control scope

The Group's internal control rules apply to all of the Company's subsidiaries.

16.5.2. Company objectives concerning internal control procedures

Applying the internal control procedures, comprising rules, guidelines, directives and operating procedures, for all of the Group's activities and seeking to create the conditions for a general internal control environment that is in keeping with the Group's specific features.

As defined by the market group created on the AMF's initiative to map out a frame of reference for internal control that may be used by French companies subject to the requirements applicable under the French financial security law (Loi de sécurité financière), internal control represents a system defined by the Group and implemented under its responsibility, aimed at ensuring:

- The development and optimization of operations, including the performance of operations and the protection of our assets;
- The reliability of financial and management information (financial statements), the accurate and exhaustive nature of accounting records, and the timely production of reliable accounting and financial information;
- The compliance of activities with the laws and regulations in force;
- The prevention and management of risks resulting from the Company's activities, risks of errors or fraud, particularly in terms of accounting and financial aspects; like any control system, it cannot however provide any absolute guarantee that such risks are eliminated entirely.

Furthermore, internal control also aims to:

- On the one hand, ensure that management decisions or operations are carried out and that staff behave within the framework defined by the guidance given for the Company's activities by the corporate bodies, by the laws and regulations in force, and by the Company's internal rules, standards and values;
- On the other hand, check that the accounting, financial and management information given to the corporate bodies accurately reflects the Company's situation.

By contributing towards preventing and managing the risks of not achieving the objectives set by the Group, the internal control system plays a key role in the performance and steering of its various activities. However, the internal control system cannot provide any absolute guarantees against all possible risks, no more than it can guarantee, regardless of its own quality or the quality of the staff performing such controls, perfect compliance with the objectives set by the Group.

16.5.3. General internal control structure

The players or structures performing control activities are as follows:

- Internal control is applied by several departments depending on the type of procedures, and more specifically the Administration and Finance Division, which is responsible for drawing up and implementing the procedures and ensuring the effective application of internal control with the Internal Control and Audit function.
- Delegations and authorizations are formalized in connection with the strict application of the procedures drawn up, relating more specifically to signatures on the bank accounts. Moreover, signatures on the bank accounts are limited in terms of the amounts concerned based on the positions of the signatories, with these restrictions expressly stipulated when opening such accounts with financial institutions.

The role of the various players or structures performing control activities in terms of internal control procedures and their general operating conditions are as follows:

- The application of procedures is controlled on a regular basis by the Administration and Finance Division, which is responsible for this on a day-to-day basis; these procedures are updated each year.
- Procurement / Production / Quality control is reviewed on a yearly basis by a specialized independent firm, which carries out an audit as part of the process to validate the ISO 9001 certification. The recommendations made are applied and used to update the procedures. The external benchmarks are the ISO 9001 certification awarded for quality control and formalized in a manual detailing the Company's internal procedures.
- Internal audit performs audit assignments, including in subsidiaries, in order to ensure that the Group's procedures and rules are effectively applied.
- An initial risk mapping was carried out in 2011 by the internal audit unit, and updated in 2012.

16.5.4. Overview of the internal control procedures in place

16.5.4.1. Main internal control procedures

Internal control procedures are centralized by the managers of the departments in question.

Information system

The Parrot Group's information system is managed centrally by an in-house team whose responsibilities range from project management to systems operations. This system's architecture is based on software published by industry leaders (Microsoft SAP, SalesForce). Depending on the critical or technical nature of the skills required for its operations, each application may be operated in house on a fully redundant infrastructure, or with specialized hosting firms, or in SaaS mode.

The level of data availability and security defined in the Service Continuity Plan by Parrot is supervised by an in-house team, supported by the technologies and expertise of specialist partners (Simpana, VMWare, IronMountain).

Parrot's sites (Europe, USA, Asia, Pacific) are connected together via a secure redundant private network (IPsec VPN, Aryaka), managed centrally by network engineers. Intrusion tests are carried out on a regular basis.

Nature of main procedures

Written procedures are drawn up in the following areas:

- Procedure concerning travel, assignment and entertainment costs: objective to control staff business trips, and prior authorization for the main travel requests, particularly by plane, in order to justify the need for spending, raise staff awareness on the benefits and cost of such spending, prevent any abuse and meet the budget.
- Procedure concerning customers, in order to take preventative action on the customer risk (financial position) and monitor customer accounts, particularly in terms of the payment of their debts.
- Procedure concerning component purchases for Production, the Production process and Production quality control.
- Procedure concerning the recognition of revenues based on deliveries made by the logistics provider and the contractual conditions relating to volume discounts, particularly with retailers, in order to ensure the reliability of the financial statements.
- Procedure concerning the recognition of costs with a purchase order and order form system integrated into the ERP system in order to ensure the reliability of the financial statements.
- Procedure concerning promotion fees with an analysis of contractual conditions in order to ensure the reliability of the financial statements.
- Procedure concerning the management of marketing spending.
- Procedure concerning the management of price lists in the SAP information system in order to ensure compliance with the Group pricing policy.
- Procedure concerning the depreciation of inventories in order to ensure the reliability of the financial statements.
- Procedure concerning the management of property, plant and equipment in order to monitor investments more effectively.

Internal control procedures relating to the preparation and processing of accounting and financial information

More specifically, the organization for drawing up the accounting and financial information intended for shareholders is as follows:

- Head of Accounting, Cash and Credit Management for the procedures concerning customers, back margin controls, the procedure for travel, mission and entertainment costs, as well as the procedures for allocating banking authorities, interest rate and exchange rate hedging;
- Head of Administration and Finance to cover the main operational activities, notably implementing procedures for inventory management, supplier commitments, pricing adjustments or R&D spending.

Strict accounting rules are applied, particularly for cost accounting and bills of materials for products and components, making it possible to prepare the monthly reports. A manual presenting the Group's financial procedures was drawn up in 2011.

Accounting functions are centralized by the chief accountant, who reports to the Chief Administrative and Financial Officer.

The reporting function is overseen by the Head of Reporting, who reports to the Chief Administrative and Financial Officer.

The Consolidation function reports to the Chief Administrative and Financial Officer. Its role is to prepare the Group's consolidated accounts and ensure that the financial statements are compliant with the rules in force.

The function relating to tax risks is overseen by the Chief Administrative and Financial Officer.

The accounting information system is interfaced with the other information systems (commercial management, fixed assets, sourcing, inventory management).

The Company closes its accounts on a monthly basis, making accurate adjustments for each quarterly close.

The budgeting procedure, with the collection of information on a decentralized basis by each of the Group's operational departments and legal entities through to approval, makes it possible to draw up the consolidated budget, which can be compared against the close of account reports. Accounting figures are interfaced with the budget and reporting system.

In the same way as for general internal control, the processes contributing towards controlling the preparation of accounting and financial information are known by the various players.

16.5.5. Specific conditions for shareholder participation in general meetings

The conditions for shareholder participation in general meetings are set in Article 20 of the Company's bylaws in the section entitled “Access to general meetings – Powers”, and presented below, and available in full in Section 21.2

- **Access to general meetings – proxies:**

1) The general meeting comprises all the shareholders, irrespective of the number of shares held, provided that they have been fully paid-up. All shareholders are entitled to attend general meetings and take part in deliberations, either personally or through a proxy, irrespective of the number of shares held, upon justification of their status.

2) If shareholders are unable to attend general meetings in person, they may choose one of the following three options:

– Be represented by another shareholder or their spouse, or by any other individual or legal entity of their choice; notice of the appointment and dismissal of representatives may be given electronically;
– Vote by correspondence using a paper or electronic form, in accordance with regulatory requirements, which may be obtained under the conditions indicated in the notice to attend for the meeting; paper correspondence voting forms will only be taken into consideration if they reach the Company at least three (3) days before the meeting date; electronic correspondence voting forms may be received by the Company up until 3 pm (Paris time) on the day before the general meeting;
– Send a proxy form to the Company without indicating any representative; the chairman of the general meeting will vote in favor of adopting the proposed resolutions put forward or approved by the Board of Directors, and will vote against adopting any other proposed resolutions; to vote in any other way, shareholders will need to select a proxy, who agrees to vote as indicated by the shareholders in question.

Holders of securities referred to in Paragraph 7 of Article L. 228-1 of the French commercial code may be represented by a registered intermediary under the terms and conditions required by French law.

3) The right to take part in general meetings is subject to securities being registered in the name of the shareholder or their intermediary by midnight (Paris time) on the second working day before the meeting, either in the registered securities accounts held by the Company, or in the bearer securities accounts held by an authorized intermediary, as justified in accordance with the regulations in force.

Under this condition, all shareholders are entitled to take part in meetings, irrespective of the number of shares held, either in person, using videoconferencing facilities or any other electronic means of communication applicable under the laws and regulations in force, as mentioned in the notice to attend, by returning a correspondence voting form or appointing a proxy.

The Board of Directors may shorten or cancel the timeframes set out above.

The Board of Directors may, if it deems it relevant, provide shareholders with personal admission cards in their names and require them to produce these cards.

In accordance with the provisions of Decree 2011-1473 from November 9, 2011, which came into force on March 1, 2012, Parrot is able to offer registered shareholders the option to receive electronic invitations to attend general meetings

16.5.6. Elements likely to have an impact in the event of a public offering

Only the extraordinary general meeting is authorized to amend any bylaw provisions.

To the best of the Company's knowledge, the Group has not entered into any agreements that would be amended or terminated in the event of a change of control, or any agreements providing for compensation for executives or employees if their positions were to be terminated further to a public offering.

However, if all of the Company's shares were to be sold to a new shareholder (sale of the Company), or the Company was taken over and merged with another company, the beneficiaries of stock warrants would be automatically entitled to exercise 50% of their remaining options ahead of schedule and would be required to exercise these options within 90 days of the definitive sale or merger.

Only the extraordinary general meeting is authorized to amend any bylaw provisions.

- To the best of the Company's knowledge, the Group has not entered into any agreements that would be amended or terminated in the event of a change of control, or any agreements providing for compensation for executives or employees if their positions were to be terminated following a public offering.

XVII. Employees

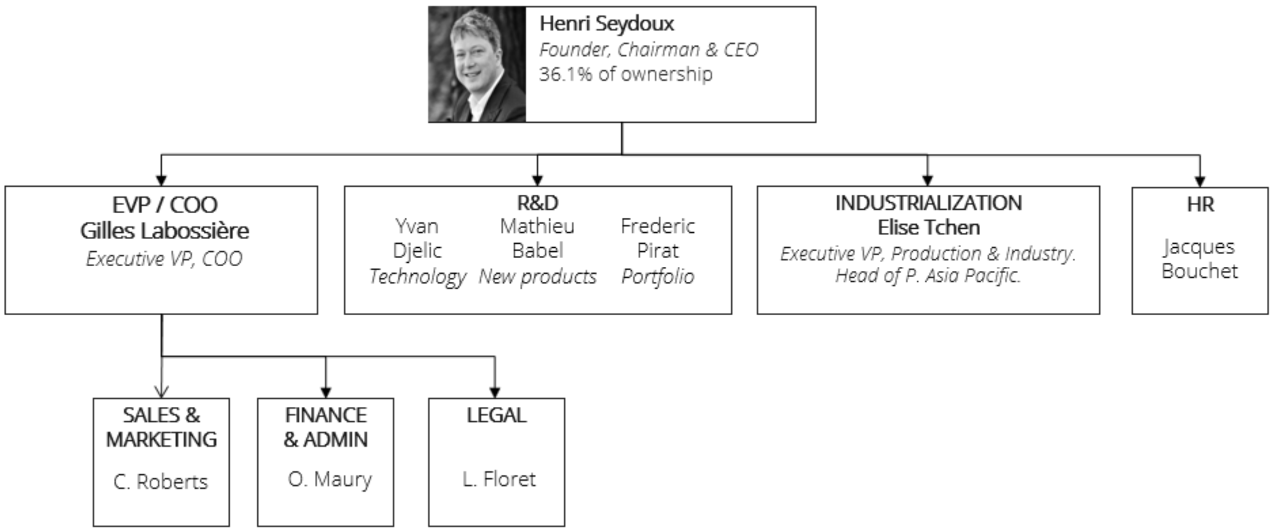
17.1. Human resources

17.1.1. Structure of the Group in 2017

The Group made certain organizational changes in 2017, particularly with Gilles Labossière's appointment as the Parrot Group's Executive Vice President; he was previously the Group's Chief Financial Officer from 2008 (see 17.1.3 "Executive managers"). The organization has notably changed in line with the reorganization rolled out over the first half of 2017.

At the end of the year, new talents from diverse technology, consumer marketing and business development backgrounds took on various managerial and/or transversal positions within the Group to consolidate Parrot's development in the drone sector, covering both consumer and business solutions.

For biographical information on the main executives from the Group's Management Committee, refer to section 17.1.3 "Executive managers".



17.1.2. Workforce

At December 31, 2017, the Group employed[1] 597 people, compared with 1,048 at end-2016. The reduction in the headcount is linked to the reorganization of Drone activities in the first half of 2017, notably detailed in sections 6.1.2 "Group's development in 2017", 6.2 "Exceptional events in 2017" and 20.2.2 "Note 2 – Significant events for the period".

At end-2017, more than 80% of the workforce was based in Europe, particularly in France and Switzerland. With the exception of the commercial drone subsidiaries in Switzerland (200 employees) and the subsidiaries monitoring production with suppliers in Asia (77 employees), the subsidiaries are primarily sales centers that cover the distribution networks and the needs of regional clients.

- **Additional information**

Further information concerning the workforce is provided in 6.4.4.1 "Human resources data: employment" and 20.4.3.7.4 "Headcount".

17.1.3. Executive managers

The main executive managers who are part of the Group's management committee are as follows:

[1] Permanent, fixed-term and internship contracts

Henri Seydoux

The biography of Henri Seydoux, Parrot's Chairman and Chief Executive Officer, is presented in 14.4 "**Erreur ! Source du renvoi introuvable.**".

Gilles Labossière

Gilles Labossière has been Parrot's Executive Vice President since May 2017. He joined the Group in September 2008 as the Group's Chief Financial and Operations Officer. An HEC graduate, he began his career as a Manager with the audit firm Arthur Andersen. In 1991, he was appointed to serve on the executive management committee of the logistics group Saga as Chief Internal Audit Officer, then Chief Financial and Operations Officer. In 1997, he joined Techpack International as Chief Financial and Operations Officer. In 2000, he was involved in founding Republic Alley, a major incubator for innovative companies in France, where he was Chairman. In 2003, he became Chief Financial and Operations Officer at Linedata Services, before joining Rocamat as Deputy Chief Executive Officer to accompany the drive to turn this company around.

Mathieu Babel

Mathieu Babel has been heading up R&D and product development since mid-2017. He began his career in 2008 as an inertial navigation engineer with Sagem Défense. He joined Parrot in 2011 as a control system engineer, working on developing automatic pilots for drones. In 2013, he became the control system team leader and took on a wider scope in 2016 to include computer vision and propulsion functions. Mathieu graduated from ISAE Toulouse and has a master's in astronautics from Cranfield University (UK).

Jacques Bouchet

Jacques Bouchet has been Parrot's Human Resources Director since 2017. Jacques has a master's in science and technology and graduated from IAE Paris. He has over 20 years' experience in human resources management, consulting and putting in place transformation projects. He began his career in IT with EDS as an account manager, before joining SODETEG, an engineering firm, in 1992 as an international development project leader in the training and education sector. He later moved to Thales Airsys as head of competency management, then HR director for a site and a recently created Customer Service department. In 2003, he was appointed Human Resources Director France for Grass Valley (HD audiovisual equipment firm). In 2005, he was HR Director Europe for Talc de Luzenac. After Talc de Luzenac was sold by Rio Tinto in 2011, he moved to London to become Global HR Director for Rio Tinto's Iron and Titanium business, operating primarily in Africa and Canada. In 2013, in connection with the digital transformation of the group's HR function, as HR Business Leader for Rio Tinto's Diamonds and Minerals branch, he was in charge of putting in place a new HR organization for all the sites in the Americas, Africa, Europe and Australia.

Ivan Djelic

Ivan Djelic has been the R&D manager in charge of hardware, software and mechanics development within the Parrot Group since mid-2017. He joined Parrot in 2004 as a software development engineer. From 2007 to 2013, he headed up the software team in charge of the operating system for all Parrot products. From 2013 to 2015, he was in charge of System, Network and Asic software developments. In 2015, he was appointed to head up drone software. Ivan graduated from Ecole Centrale Paris.

Ludovic Floret

Ludovic Floret joined Parrot in December 2014. After completing a master's in international law in 1990, he began his career as a corporate lawyer with major engineering groups. Initially in the nuclear sector with Framatome (Areva) then water treatment with Degrémont (Suez Environnement), he was involved in a large number of projects in Asia and America. In 2003, he set up the legal department for Souriau (aerospace equipment firm), supporting its international development (India, Morocco, USA) in the context of two successive LBOs. He became the legal director of Oberthur Technologies (smart cards) in 2011. Ludovic has over 25 years' experience with leading high-tech firms in contract negotiations, disputes, M&As, risk management and compliance. In addition to legal affairs, he manages the Group's insurance program.

Olivier Maury

Olivier Maury joined Parrot in November 2015, initially heading up management control, before being appointed Chief Financial Officer mid-2017. He began his career in management control at Valeo before joining Pechiney as manager of the internal audit department. In 2004, he joined Imerys where he served as BU and division finance manager, then head of strategy and business development for one of the group's branches. Olivier is a graduate of EBP-KEDGE Bordeaux and Fachhochschule Münster in Germany.

Frédéric Pirat

Frédéric Pirat has been the R&D manager in charge of product development since mid-2017. He joined Parrot in 2004. After completing an electronics and telecommunications engineering degree, he began his career in 2001 with Texas Instrument and then joined Newlogic, a startup specialized in wireless Asic development, heading up the development of the Bluetooth stack. In 2004, he joined Parrot as a software developer for Bluetooth handsfree kits, before being appointed a project manager for the Zik range in 2006. In 2015, Frédéric switched to drone development, focused in particular on the Parrot Disco flying wing.

- **Chris Roberts**

Chris Roberts joined Parrot in 2006 to set up and develop its UK subsidiary. In 2009, Chris was appointed Vice President EMEA, based at Parrot's head office in Paris, heading up the Group's consumer product sales for Europe, the Middle East and Africa. From 2012 to 2016, as part of the international development strategy, Chris served as Vice President and Manager for Parrot in the JPAC region, with responsibility for Japan, Australia, New Zealand and Southeast Asia. In October 2016, Chris was appointed Chief Sales and Marketing Officer, based at Parrot's head office in Paris, in charge of Parrot's consumer product and drone sales. Chris has over 25 years' experience in the consumer electronics and mobile telecommunications sectors, combining management, sales development and marketing roles with technical positions, from Europe to the Asia-Pacific region. Chris has an MBA from the University of Adelaide (Australia) and a strong track record in strategic management, global branding and sales performance improvement.

- **Elise Tchen**

Elise Tchen Thebault joined Parrot in 2000 to oversee product manufacturing as the Chief Industrial and Quality Officer. She has transformed this department into an industrial division able to support the Company's growth. Since September 2006, Elise has been heading up Parrot's Asia-Pacific subsidiary, in Hong Kong and Shenzhen, and is also in charge of the Procurement department. She has developed an entity covering both industrial aspects and component sourcing. This entity is enabling the Group to be as close as possible to suppliers in order to ensure effective control over quality and reduce manufacturing costs. After graduating from ENSEM in Nancy, she began her career at Renault, first in the research division, and then in the cabling engineering research team.

17.2. Company founder equity warrants, stock options and bonus shares for Group staff

17.2.1. Stock options

No stock options were awarded in 2017.

Previous changes in the plans are detailed in 20.2.21.2 "Plan to award stock options and bonus shares".

17.2.2. Bonus shares

- **Bonus shares awarded during the year**

In 2017, 248,000 bonus shares were awarded to the Group's employees.

- **Bonus shares awarded to the Group's 10 staff who received the highest number during the year**

Seven employees were awarded 7,000 bonus shares in 2017; three employees were awarded 5,600 bonus shares in 2017.

- **Conditions for awarding bonus shares**

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.

On May 13, 2017, the Board of Directors validated the proposal, terms and conditions for the Remuneration and Incentive Plan Regulations submitted by the Appointments and Compensation Committee. The Appointments and Compensation Committee has set up a plan for awarding units settled in Parrot shares at the end of a two-year period subject to presence conditions for all beneficiaries.

Further information is provided in section 20.2.21.2 "Plan to award stock options and bonus shares".

17.3. Mandatory profit-sharing agreements

The Company is required to put in place a mandatory profit-sharing agreement since 2005.

In this way, a mandatory profit-sharing agreement was signed on May 2, 2006 between the Company's management and the sole staff representative office, notably looking to introduce a special profit-sharing reserve calculated based on the legal formula for Company staff and defining the conditions for managing employees' entitlements, the procedure for resolving any disputes between the parties, and the conditions for informing staff on an individual and collective basis.

For 2017, the amount of the special profit-sharing reserve to be paid out represented zero, as in 2016.

17.4. Voluntary performance-related bonus agreement

The current voluntary performance-related bonus agreement was signed on June 22, 2015 between Parrot SA and the union representatives. This agreement was entered into for a three-year period, commencing January 1, 2015.

The performance-related bonus is calculated based on elements from the Group's income from ordinary operations and revenues. The individual amount of the performance-related bonus is determined in proportion to each employee's salary base for half, with the other half calculated in proportion to the period for which the employee was present during the year.

The performance-related bonus to be paid out for 2017 represented 106 K€ (1.2 M€ in 2016).

17.5. Employee shareholding

The Company's employees (and/or the employees of related companies as per Article 225-180 of the French commercial code) do not hold any shares in the Company's capital under the forms of collective shareholding defined in Article L. 225-102 of the French commercial code.

XVIII. Main shareholders

18.1. Shareholding structure

The following table presents the information available for the Company on the most recent dates. The number of shares taken into account for the calculation is from December 31, 2017: 30,174,671 shares; on a diluted basis, incorporating the equity warrants (see 15.4.2 "Securities entitling holders to access the capital") and stock options (see 4.1.11 "The company issues dilutive instruments which could have an impact on its capital"), the number of potential shares is raised to 33,931,349.

18.1.1. Breakdown of the share capital and voting rights

Holder	Shares held	% of capital and theoretical voting rights(1)	Source/Date	Diluted shares held(2)	% of capital on diluted basis
Shares held	**30,174,671**	**100.0%**	**Outstanding at Dec 31, 2017**	33 931,349	**100.0%**
Horizon (Henri Seydoux's holding company)	10,893,751	36.1%	Date when this document was published	13,491,454	39.8%
Amiral Gestion	3,044 243	10.1%	Threshold disclosure on Feb 12, 2018	-	-
Moneta AM	2,233,235	7.4%	Threshold disclosure on Nov 20, 2017	-	-
Bpifrance Participation SA (3)	1,552,188	5.1%	Threshold disclosure on Dec 17, 2015	1,704,372	5.0%
Treasury stock	721,062	2.4%	Date when this reference document was published	-	-

(1) The theoretical voting rights are equal to the number of shares. The actual voting rights can be calculated by subtracting the treasury shares, which are not entitled to voting rights.

(2) The dilution is linked to the warrants and stock options (see 4.1.11 "The company issues dilutive instruments which could have an impact on its capital").

(3) Bpifrance Participation SA sits on the Board of Directors (see XVI "Administrative and management body operations").

The Company estimates that the float represents 63.9% of the capital (as such, only Horizon is not considered part of the float).

Readers can also refer to sections 4.1.11 "The company issues dilutive instruments which could have an impact on its capital" and 15.4 "Corporate officer interests in the Company's capital" and 21.1.4 "Potential capital".

18.1.2. Agreements between corporate officers or one of the shareholders owning at least 10% of a company and another company in which the first company directly or indirectly holds more than half of the capital

None.

Breakdown of the share capital for previous years

	Number of Company shares held at Apr 30, 2017	% of the capital	Number of Company shares held at Apr 30, 2016	% of the capital	Number of Company shares held at Nov 6, 2015[1]	% of the capital
Total number of shares	**30,174,671**	**100.0%**	*30,174,671*	**100.0%**	*12,553,774*	**100.0%**
Henri Seydoux (Horizon)[2]	10,593,751	35.1%	10,593,751	35.1%	4,546,204	36.2%
Other declared investors:						
Covéa Finance [3]	ND	-	ND	-	365,107	2.9%
OJEJ [4]	-	-	-	-	561,906	4.5%
HG Vora Capital [5]	-	-	3,287,384	10.9%	1,307,000	10.4%
CDC	ND	-	ND	-	-	-
Moneta AM	1,630,000	5.4%	1,630,000	5.4%	-	-
Bpifrance Participation SA	**1,552,188**	**5.1%**	**1,552,188**	**5.1%**		
Parrot SA treasury stock	800,632	**1.2%**	**370,967**	1.2%	382,342	3.0%

[1] Date when the 2014 reference document was updated, i.e. before the December 2015 capital increase.

[2] Henri Seydoux controls the company Horizon. He is also the Company's Chairman and Chief Executive Officer.

[3] On June 30, 2015, the company Covéa Finance declared that it held 365,107 Parrot shares, representing the same number of voting rights (AMF declaration no. 215C0952 dated July 2, 2015).

[4] Company fully owned by Mr Jérôme Seydoux.

[5] On September 24, 2015, the company HG Vora Capital Management declared that it held 1,255,000 Parrot shares, representing the same number of voting rights (AMF declaration no. 215C1334 dated September 25, 2015).

18.1.3. Changes in the Company's capital

At December 31, 2017, the share capital was split into 30,174,671 fully paid-up ordinary shares, representing a total of 4,599 K€. The number of shares outstanding did not change in 2017:

	Dec 31, 2016	Issues	Reductions	Dec 31, 2017
Number of securities	30,174,671	-	-	30,174,671
Rounded off par value (€)	0.15 €	-	-	0.15 €
Share capital (€)	4,599,258	-	-	4,599,258

18.2. Voting rights

Each Company share is entitled to one voting right. As such, the shareholders listed in section 18.1.1 "Current breakdown of the share capital and voting rights" in this reference document have a number of voting rights that is equal to the number of shares they hold. The Company does not apply double voting rights.

18.3. Issuer's control

At December 31, 2017, the Company's main shareholder was Mr Henri Seydoux, holding, through the company Horizon, 36.1% of the Company's capital and voting rights and serving as its Chairman and Chief Executive Officer.

Henri Seydoux controls Parrot, which he founded in February 1994 and has managed since then. As indicated in section 16.4 "Corporate governance" and 16.5 "Internal control procedures put in place by the Company", the Company has put in place the arrangements required to comply with the corporate governance system following the recommendations from the MiddleNext code, more specifically setting up an Audit Committee and an Appointments and Compensation Committee, which report on their work directly to the Board of Directors. Furthermore, six of the nine directors are independent.

18.4. Agreements whose implementation could result in a change of control

To the best of the Company's knowledge, there are:

– No agreements which have been entered into by the Company that would be likely to have a significant impact on the Company's business in the event of a change of control over the Company,
– No other shareholders holding directly, indirectly or in concert 5.00% or more of Parrot's capital or voting rights,

– No shareholder agreements and no other agreements whose implementation could result in a change of control over Parrot,
– No direct or indirect interests in the Company's capital as defined by Articles L. 233-7 and L. 233-12 of the French commercial code,
– No agreements which have been entered into by the Company that would be amended or terminated in the event of a change of control over the Company.

Also refer to 16.5.6 "Elements likely to have an impact in the event of a public offering".

18.5. Information on the change

18.5.1. Parrot share characteristics

ICB classification

– Industry: 9000 "Technology"
– Sector: 9570 "Technology Hardware & Equipment"
– Subsector: 9578 "Telecommunications Equipment"

Market characteristics:

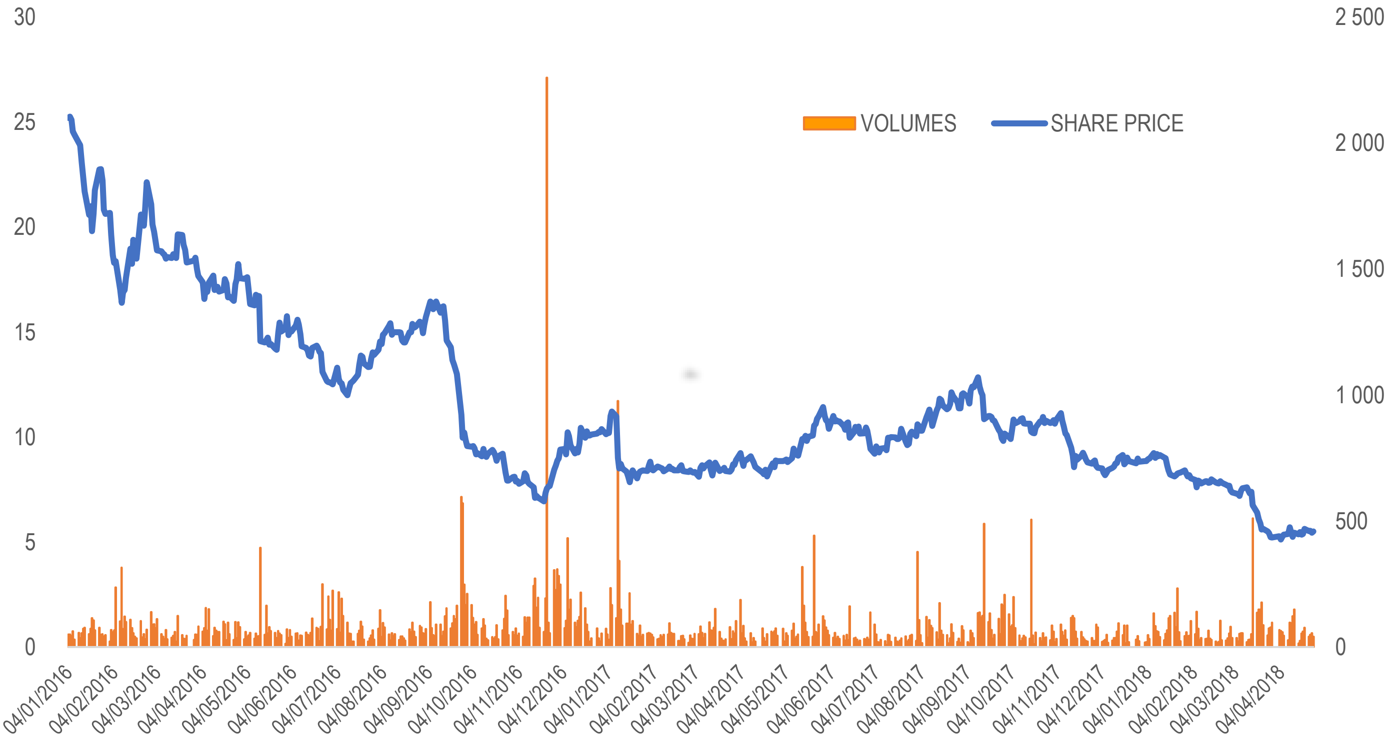
– Market: Euronext Compartment B
– ISIN: FR0004038263
– Ticker: PARRO
– Listing currency: euro
– Listing group: 16
– Trading frequency: continuous

Other information

– Eligible for share-based savings schemes: yes
– Eligible for SME share-based savings schemes: yes
– Deferred settlement service: eligible for long-only deferred settlement service

18.5.2. Parrot's share price and volumes from January 1, 2016 to April 26, 2018

Change in Parrot's share price and volumes over the last two years



Closing share price in euros Volume[1] in number of shares traded	2016[1]	2017
Highest closing price	25.26 €	12.84 €
Highest daily volume	595,303	975,945
Lowest closing price	6.93 €	7.85 €
Lowest daily volume	13,409	7,626
Average closing price for the year	14.63 €	9.71 €
Average daily volume for the year	86,639	69,222

(1) The volumes for 2016, extracted from the reports provided by Euronext for issuers, do not include the volumes traded on other platforms (e.g. CHI, Turquoise or BATS), which generally add 20% to 30% to the daily volumes.

XIX. Operations with related parties

19.1. Information on regulated agreements and commitments

No agreements were applied during 2017, as in 2016.

XX. Financial information concerning the assets, liabilities, financial position and earnings

20.1. Consolidated financial statements

20.1.1. Consolidated income statement

€'000	Note	Dec 31, 2017	Dec 31, 2016
Revenues		**151,871**	**166,446**
Cost of sales		(100,696)	(139,608)
Gross margin		**51,176**	**26,837**
% of revenues		*33.7%*	*16.1%*
Research and development costs		(36,915)	(52,718)
% of revenues		*24.3%*	*31.7%*
Sales and marketing costs		(44,797)	(68,433)
% of revenues		*29.5%*	*41.1%*
Overheads		(16,648)	(20,370)
% of revenues		*11.0%*	*12.2%*
Production and quality		(10,394)	(16,507)
% of revenues		*6.8%*	*9.9%*
Income from ordinary operations		**(57,579)**	**(131,191)**
% of revenues		*-37.9%*	*-78.8%*
Other operating income and expenses	7	(11,724)	(5,359)
EBIT		**(69,303)**	**(136,550)**
% of revenues		*-45.6%*	*-82.0%*
Net finance costs	**8**	(319)	(604)
Other financial income and expenses	8	(4,999)	(1,382)
Financial income (expense)		**(5,318)**	**(1,986)**
Share in income from associates		(6,695)	62
Net income from discontinued operations		**43,483**	**5,245**
Tax	9	(1,085)	(8,144)
Net income		**(38 918)**	**(141 372)**
Net income (Group share)		**(38,218)**	**(137,907)**
% of revenues		*-25.2%*	*-82.9%*
Non-controlling interests	24	(700)	(3,466)

	Note	Dec 31, 2017	Dec 31, 2016
Weighted average number of ordinary shares		30,174,671	30,165,361
Basic net income per share from continuing operations (€)	**23**	**-2.71**	**-4.75**
Basic net income per share from discontinued operations (€)	**23**	**1.44**	**0.17**
Weighted average number of ordinary shares (diluted)		30,174,671	30,165,361
Diluted net income per share from continuing operations (€)	**23**	**-2.71**	**-4.75**
Diluted net income per share from discontinued operations (€)	**23**	**1.44**	**0.17**

20.1.2. Comprehensive income statement

€'000	Dec 31, 2017	Dec 31, 2016
Net income for the period	**(38,918)**	**(141,372)**
Exchange gains or losses	(1,211)	259
Group exchange gains or losses	(1,178)	239
Non-Group exchange gains or losses	(34)	20
Change in value of derivative hedging instruments	-	-
Change in actuarial gains or losses concerning employee benefits	314	141
Taxes	(89)	(49)
Other comprehensive income items	**(987)**	**352**
- Subsequently non-recyclable to net income	314	141
- Subsequently recyclable to net income	(1,301)	211
Comprehensive income for the period	**(39,904)**	**(141,021)**
Attributable to owners of the parent	(39,171)	(137,576)
Attributable to non-controlling interests	(733)	(3,444)

20.1.3. Statement of financial position

Assets (€'000)	Note	Dec 31, 2017	Dec 31, 2016
Non-current assets		**160,949**	**61,206**
Goodwill	10	41,749	43,652
Other intangible assets	11	1,484	3,872
Property, plant and equipment	13	4,061	8,067
Investments in associates	15	107,299	1,243
Financial assets	14	6,023	3,652
Deferred tax assets	16	334	720
Current assets		**241,740**	**362,587**
Inventories	17	23,260	46,368
Trade receivables	18	40,218	59,815
Other receivables	19	20,706	28,362
Other current financial assets	28	13,018	28,000
Cash and cash equivalents	20	144,539	200,043
Assets held for sale		**-**	**82,848**
Total assets		**402,690**	**506,642**

Shareholders' equity and liabilities (€'000)	Note	Dec 31, 2017	Dec 31, 2016
Shareholders' equity		**251,193**	**288,137**
Share capital	21	4,599	4,599
Additional paid-in capital		331,678	331,678
Reserves excluding earnings for the period		(48,221)	86,738
Earnings for the period - Group share		(38,218)	(137,907)
Exchange gains or losses		4,017	5,195
Equity attributable to Parrot SA shareholders		**253,855**	290,303
Non-controlling interests	24	(2,662)	(2,166)
Non-current liabilities		**71,732**	**31,311**
Non-current financial liabilities	22	42,199	1,161
Provisions for pensions and other employee benefits	25	1,033	1,748
Deferred tax liabilities	16	1,690	465
Other non-current provisions		-	15
Other non-current liabilities	27	26,811,	27,922
Current liabilities		**79,765**	**173,432**
Current financial liabilities		-	42,032
Current provisions	26	13,996	15,637
Trade payables	27	37,587	52,099
Current tax liabilities		250	2,450
Other current liabilities	27	27,931	61,214
Liabilities held for sale		**-**	13,761
Total shareholders' equity and liabilities		**402,690**	**506,642**

20.1.4. Consolidated cash-flow statement

€'000	Dec 31, 2017	Dec 31, 2016
Operating cash flow		
Net income	(38,918)	(141,372)
Share in income from associates	6,695	(62)
Depreciation and amortization	6,128	33,054
Capital gains and losses on disposals	(44,747)	(10,833)
Capital gains linked to remeasurement of securities of companies previously recognized as long-term financial investments	-	-
Tax charges	1,085	9,061
Cost of share-based payments	1,735	6,242
Net finance costs	319	611
Cash flow from operations before net finance costs and tax	**(67,703)**	(103,299)
Change in working capital requirements	27,970	12,107
Tax paid	(550)	(1,404)
Cash from operating activities (A)	**(40,284)**	**(92,596)**
Investing cash flow		
Acquisition of property, plant and equipment and intangible assets	(2,260)	(13,843)
Acquisition of subsidiaries, net of cash acquired(2)	(25,444)	(29,059)
Acquisition of financial assets	(3,655)	(3,233)
Disposal of property, plant and equipment and intangible assets	94	9,891
Disposal of subsidiaries, net of cash divested	(9,346)	-
Disposal of long-term financial investments	217	3,502
Cash flow from investment activities (B)	**(40,394)**	**(32,743)**
Financing cash flow	-	551
Equity contributions (1)	-	-
Dividends received	41,078	25,343
Receipts linked to new loans	-	-
Other financing	14,982	130,000
Cash invested for over 3 months	(319)	(611)
Net finance costs	-	-
Repayment of short-term financial debt (net) (4)	(42,016)	(1,835)
Disposal / (Acquisition) of treasury stock	(60)	(5,757)
Cash flow from financing activities (C)	**13,664**	**147,692**
NET CHANGE IN CASH (D = A+B+C)	**(67,013)**	**22,353**
Impact of change in exchange rates	(4,799)	853
CASH AND CASH EQUIVALENTS AT YEAR-START	**216,348**	**193,143**
CASH AND CASH EQUIVALENTS AT YEAR-END	**144,539**	**216,348**
Cash and cash equivalents at year-end – discontinued operations (IFRS 5)	-	16,305
Cash and cash equivalents at year-end – continued operations	**144,539**	**200,043**

* The data for 2016 have been restated in relation to the data reported the previous year to incorporate flows from discontinued operations.

(1) Dilution effect and fair value remeasurement of the OEM Automotive business.

(2) Exercising of the Pix4D put, acquisition of shares from a minority shareholder in Airinov and acquisition of Planck Aerosystems securities.

(3) Issuing of 13,319,906 bonds with a nominal value of 3.0797 € (see Note 22 – Financial liabilities)

(4) Early repayment of all outstanding sums for the external growth loan agreement (see Note 22 – Financial liabilities)

€'000	Dec 31, 2017	Dec 31, 2016
Cash, cash equivalents and bank overdrafts at period-end	144,539	200,043
Other current financial assets	13,018	28,000
Cash, cash equivalents, other current financial assets and bank overdrafts at period-end	157,557	228,043

Cash flows from discontinued operations are presented below for 2016:

€'000	Dec 31, 2016
OPERATING CASH FLOW	
Earnings for the period	5,245
Depreciation and amortization	5,532
Capital gains and losses on disposals	10
Tax charges	2,042
Cost of share-based payments	685
Net finance costs	7
Cash flow from operations before net finance costs and tax	13,520
Change in working capital requirements	(6,716)
Tax paid	(1,124)
Cash flow from operations held for sale	**5,680**
INVESTING CASH FLOW	
Acquisition of property, plant and equipment and intangible assets	(498)
Acquisition of financial assets	(1)
Cash flow from operations held for sale	**(499)**
FINANCING CASH FLOW	
Equity contributions	-
Dividends paid	(8,766)
Net finance costs	(7)
Repayment of short-term financial debt (net)	1,487
Cash flow from operations held for sale	(7,285)

20.1.5. Change in consolidated shareholders' equity

€'000	Capital	Additional paid-in capital	Exchange gains or losses	Treasury stock	Group consolidated reserves	Total shareholders' equity	Minority interests	Total
Position at end Dec. 2015	**4,593**	**331,134**	**4,956**	**(6,253)**	**90,549**	**424,978**	**613**	**425,591**
Net income for the period					(137,907)	(137,907)	(3,466)	(141,373)
Other comprehensive income			239		92	331	22	353
Comprehensive income	-	-	239	-	(137,814)	(137,576)	(3,444)	(141,019)
Changes in capital	7	544		(5,143)		(4,592)		(4,592)
Share-based payments					2,276	2,276	43	2,319
Securities buyback options					5,838	5,838		5,838
senseFly securities buyback options					26,258	26,258		26,258
Transactions between shareholders					(26,798)	(26,798)	622	(26,176)
Other					(82)	(82)		(82)
Position at end Dec. 2016	4,600	331,678	5,195	(11,396)	(39,773)	290,303	(2,166)	288,137
Net income for the period					(38,218)	(38,218)	(700)	(38,918)
Other comprehensive income			(1,178)		225	(953)	(34)	(987)
Comprehensive income	-	-	(1,178)	-	(37,994)	(39,171)	(733)	(39,904)
Cancellation of treasury stock				1,508	(1,568)	(60)		(60)
Share-based payments					1,242	1,242	31	1,273
Securities buyback options (1)					(6,560)	(6,560)		(6,560)
Airinov securities buyback options (2)					4,967	4,967		4,967
Pix4D securities buyback options (2)					22,459	22,459		22,459
Transactions between shareholders					(19,469)	(19,469)	249	(19,220)
Other					144	144	(44)	100
Position at end Dec. 2017	**4,600**	**331,678**	**4,017**	**(9,888)**	**(76,551)**	**253,855**	**(2,662)**	**251,193**

(1) The change in buy-out options for securities in 2017 factors in the revaluation of the commitment to buy out the minority shareholders in Micasense Inc and the new commitment made to buy out Pix4D's minority interests. See Note 27.2 – "Other non-current liabilities".

(2) The transactions between shareholders during the first half of 2017 are linked to the unwinding of the put on Pix4D minority interests and the early buyout of the interests of a minority shareholder in the subsidiary Airinov. See Note 12 "Business combinations".

20.2. Notes

20.2.1. Note 1 – The Company

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

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

The financial statements for the year ended December 31, 2017 were approved by the Board of Directors on March 14, 2018. They will be submitted for approval at the General Meeting on June 12, 2018.The financial statements are presented in thousands of euros. All the financial data are rounded off to the nearest K€.

20.2.2. Note 2 – Significant events for the period

Reorganization of the Drone business

On January 9, 2017, consulting with its employee representatives, and following the legal framework applicable, the Group put in place a project to reorganize and redeploy its business, notably reducing its workforce by 257 people. These reductions concerned employees both in France and internationally. The costs incurred in connection with this reorganization represent over 12 M€ at December 31, 2017 (see Note 7 – Other operating income and expenses).

Through this reorganization, Parrot has taken on board the changes in the consumer drone market, considering that the management of its development in this segment required it to adapt its range against a backdrop of cost reductions. The action plan rolled out has focused on four key areas:

- Focusing the capacity for innovation on a reduced number of new products with a view to making a significant technological leap forward;
- Redeploying the product offering, capitalizing in particular on the expertise built up in commercial drones;
- Realigning sales and marketing resources around the most profitable distribution channels and most promising markets;
- Adjusting support functions in line with the level of business.

Partnership with Faurecia

At December 31, 2016, following the exclusive talks opened with Faurecia to set up the industrial partnership for Parrot’s OEM Automotive business, all the conditions were met for the business to be classed as discontinued under IFRS, including the material nature of the business concerned and the highly probable nature of the operation. In accordance with IFRS 5, the corresponding assets and liabilities were isolated on dedicated lines, in the same way as income from the corresponding activities for the full year in 2016.

At December 31, 2017, the first stage was completed. Faurecia Investment subscribed for a capital increase in Parrot Automotive SAS for 20% for 27 M€ on March 31, 2017. As Faurecia acquired a 20% interest in the subsidiary Parrot Automotive SAS on March 31, 2017, earnings from the corresponding activities for the first quarter of 2017 have been isolated on a dedicated line “Income from discontinued operations, net of tax”, in the same way as the dilution effect and the fair value remeasurement of interests held, net of costs and tax. This interest was acquired by subscribing for a 27 M€ capital increase, enabling Faurecia to hold a 20% stake in its subsidiaries Parrot Automotive SAS (now Parrot Faurecia Automotive SAS), Parrot Automotive Asia Pacific Ltd and Parrot Automotive Shenzhen, taking the Group’s non-controlling interest in the companies to 80%. As Parrot has lost exclusive control of the OEM Automotive business, the subsidiaries Parrot Automotive SAS (now Parrot Faurecia Automotive SAS), Parrot Automotive Asia Pacific Ltd and Parrot Automotive Shenzhen have been consolidated on an equity basis for 80% since April 1, 2017. The impact of this loss of control has been recognized in profit and loss under “Income from discontinued operations, net of tax” for 43 M€.

In addition, Parrot SA has issued 41 M€ of convertible bonds that can be converted into existing Parrot Automotive SAS shares (recently renamed Parrot Faurecia Automotive SAS), subscribed for by Faurecia (see Note 22 – Financial liabilities).

20.2.3. Note 3 – Accounting methods and rules

The consolidated financial statements for 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and as adopted by the European Union at December 31, 2017. These standards are available on the European Union website at:

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

Standards, interpretations and amendments applicable from the financial year started January 1, 2017 and concerning the Group:

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses;
- Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiative
- Annual Improvements to IFRS (2014-2016)

Standards and interpretations applied early at December 31, 2017 and compulsory for financial years starting on or after January 1, 2018:

NA.

Standards and interpretations in force at January 1, 2018 and compulsory after December 31, 2017:

- **IFRS 9 - Financial Instruments:** this standard covers the classification, valuation and derecognition of financial assets and liabilities.

The impact analysis is currently being finalized. The impacts primarily concern the accounting classification of non-consolidated securities, in the category "fair value through other comprehensive income without recycling to profit and loss", subject to exceptions, following the elimination of the category for "available-for-sale financial assets", which these equity interests were recorded in until December 31, 2017.

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

The impact analysis is currently being finalized, with compulsory application from January 1, 2018. The standard does not call into question the revenue recognition method. However, certain marketing costs that are currently recognized as operating costs will need to be restated and reclassified as a deduction against revenues.

- IFRS 16 - Leases

A list of the leases is currently being prepared. The Group expects to be able to provide more detailed information in 2018.

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

- Annual improvements to IFRS (2015-2017)
- Amendments to IFRS 2 - Classification and measurement of share-based payment transactions
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration
- IFRIC 23 - Uncertainty over Income Tax Treatments
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

A) Consolidation methods

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

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

The Group's consolidated companies drew up their financial statements at December 31, 2016 and 2017 in line with the accounting rules and methods applied by the Group. Transactions between consolidated companies, and any in-house profits are eliminated.

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

IFRS 5 Discontinued Operations

As Faurecia acquired a 20% interest in the subsidiary Parrot Automotive SAS on March 31, 2017 (see Note 2 – Significant events for the period), earnings from the corresponding activities for the first quarter of 2017 have been isolated on a dedicated line "Income from discontinued operations, net of tax", in the same way as the dilution effect and the fair value remeasurement of interests held, net of costs and tax. This interest was acquired by subscribing for a 27 M€ capital increase, enabling Faurecia to hold a 20% stake in its subsidiaries Parrot Automotive SAS (now Parrot Faurecia Automotive SAS), Parrot Automotive Asia Pacific Ltd and Parrot Automotive Shenzhen, taking the Group's non-controlling interest in the companies to 80%. As Parrot has lost exclusive control of the OEM Automotive business, the subsidiaries Parrot Automotive SAS (now Parrot Faurecia Automotive SAS), Parrot Automotive Asia Pacific Ltd and Parrot Automotive Shenzhen have been consolidated on an equity basis for 80% since April 1, 2017. The impact of this loss of control has been recognized in profit and loss under "Income from discontinued operations, net of tax" for 43 M€.

B) Use of estimates

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

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

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

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

C) Conversion methods

Transactions denominated in foreign currencies

Transactions in foreign currencies are converted into euros based on the exchange rate in force on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies on the closing date are converted based on the exchange rate in force on the closing date. Any exchange rate differences resulting from such transactions are recorded under income or expenses unless they arise from long-term inter-company financing operations that can be considered as capital transactions: in this case, they are recognized through equity under exchange gains or losses.

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

- Financial statements denominated in foreign currencies

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

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

The conversion rates for the main currencies used within the Group over 2017 and 2016 were as follows:

Taux de clôture	31/12/2017	31/12/2016	Taux moyen	31/12/2017	31/12/2016
Dollar australien	0,652	0,685	Dollar australien	0,679	0,672
Franc suisse	0,855	0,931	Franc suisse	0,900	0,917
Yuan	0,128	0,137	Yuan	0,131	0,136
Euro	1,000	1,000	Euro	1,000	1,000
Couronne Danoise	0,134	0,135	Couronne Danoise	0,134	0,134
Livre Sterling	1,127	1,168	Livre Sterling	1,141	1,220
Dollar de Hong Kong	0,107	0,122	Dollar de Hong Kong	0,114	0,116
Yen	0,007	0,008	Yen	0,008	0,008
Dollar US	0,834	0,949	Dollar US	0,885	0,903

D) Income statement

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

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

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

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

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

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

E) Earnings per share

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

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

F) Revenues

Income from the sale of goods is recorded on the income statement when the significant benefits and risks inherent in ownership of the goods have been transferred to the buyer.

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

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

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

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

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

G) Operating lease payments

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

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

H) Cost of net financial debt

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

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

I) Corporate income tax

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

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

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

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

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

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

J) Segment reporting

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

Since the first quarter of 2017, the Group has reorganized its activities and reporting structure around a single operating segment, representative of its cash generating unit (CGU). The CGU identified by the Group is now exclusively the Drones CGU, whereas its previous segmentation in 2016 differentiated between the Drones and OEM Automotive activities.

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

K) Intangible assets

- Goodwill

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

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

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

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

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

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

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

- Either at its fair value on the acquisition date, resulting in the recognition of goodwill on this non-acquired fraction ("full goodwill" method),
- Or based on its share in the identifiable net assets of the acquired entity, measured at fair value, exclusively recognizing the goodwill attributable to the parent company's owners ("partial goodwill" method).

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

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

Research and development costs

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

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

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

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

Other intangible assets

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

L) Property, plant and equipment

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

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

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

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

- Fixtures and fittings 3 to10 years

–	Technical facilities	10 years
–	Plant and equipment	3 years
–	Office equipment and IT	3 years
–	Transport equipment	3 years

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

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

M) Depreciation of tangible and intangible assets

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

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

- The CGU identified within the Group is the Drones CGU.

The CGU's recoverable value is the higher of its fair value less sales costs and its value in use. The CGU's value in use is determined based on the net discounted cash flow generated by the activities that the goodwill relates to, in line with the most probable assumptions retained. The assumptions retained are based on the 2018 budget and the management team's strategic plan for 2019, 2020 and 2021, including rates of growth and profitability that are considered to be reasonable. The 2018 budget and the 2019 and 2020 strategic plan are approved by the Board of Directors.

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

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

When the recoverable value of a cash generating unit is lower than its net book value, the corresponding impairment in value is allocated in priority to goodwill, then to reducing the unit's other assets on a pro rata basis in line with the book value of each one of the unit's assets, and recognized under EBIT.
Any impairments in value recorded on goodwill cannot be written back.

N) Deferred tax

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

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

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

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

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

O) Inventories

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

In accordance with IAS 2, inventories are valued at the lower of their cost or their net realizable value:
- The cost of inventories is determined in line with the weighted average price method, and comprises the acquisition costs for inventories and the costs incurred for transporting them in the state and to the place where they are located.

- The net realizable value is the estimated net sales price for the subsequent period for each distribution platform (EMEA, Americas, Asia) less the estimated costs required for carrying out the sale

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

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

P) Non-derivative financial instruments

– P1) Trade and other receivables

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

– P2) Trade and other payables

All such accounts payable are initially recorded at their fair value, and then at their amortized cost.
Following their initial recording, the Parrot Group values all financial liabilities other than those held for trading at their amortized cost.

– P3) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, in addition to undertakings for collective investment in transferable securities (UCITS) that are compliant with the definition under IAS 7. Any UCITS that do not comply with the definition of cash and cash equivalents are recorded under other current financial assets.
Bank overdrafts that are repayable on demand and are an integral part of the Group's cash management represent a cash and cash equivalent component for the purposes of the cash-flow statement.

– P4) Cash-flow hedging and rate hedging

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

– P5) Share buyback commitments

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

P6) Convertible bonds

The convertible bonds issued at Group level are made up of a bond liability and a derivative instrument. The bond liability is valued at its amortized cost, while the derivative instrument is measured at fair value. This fair value is adjusted through profit or loss, depending on changes in the value of the company concerned, i.e. Parrot Faurecia Automotive.

Q) Other current financial assets

Financial instruments classed as other current financial assets are recorded in accordance with IAS 39 based on the categories which they correspond to. Any unrealized profit or loss resulting from them is recognized either directly through profit and loss, or temporarily through equity until the financial instrument is divested.

Investments that are not consistent with the IAS 7 definition are classed as other current financial assets.

Borrowings accruing interest are initially measured at fair value after deducting the amounts of any transaction costs attributable. Following the initial recognition, they are measured at their amortized cost; the difference between the cost and the repayment value is recognized through profit and loss over the duration of the borrowings.

R) Net finance costs

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

S) Treasury stock

When Company securities are held by the Company itself or by consolidated entities, they are deducted against consolidated shareholders' equity based on their acquisition cost. Conversely, income from any sale of treasury stock is recorded directly under shareholders' equity for the impact net of tax. As a result, the capital gain or loss recorded in this way does not affect earnings for the year.

T) Share-based payments

Share warrants or bonus shares may be awarded to a certain number of the Group's employees. Share warrants entitle beneficiaries to subscribe for Parrot SA shares over a one or two-year period at a fixed exercise price, set at the time they are awarded. In accordance with IFRS 2, they represent an additional form of remuneration paid by the Group for beneficiaries.
Warrants and bonus shares are valued based on the fair value of the benefits granted to staff on the allocation date. The expense evaluated is recognized in profit or loss under staff costs, over the vesting period for entitlements to options, deducted from shareholders' equity. In connection with the function-based presentation of the income statement, the corresponding staff costs are broken down based on the functions of the employees concerned.

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

The fair value of options is determined in line with the "Black and Scholes" model, the parameters for which notably include the exercise price for options, their term, the reference share price on the allocation date, the implied volatility for the share price, and the risk-free interest rate. The expense recorded also factors in assumptions for the turnover of staff benefiting from the allocation of options.
The fair value of the bonus shares associated with market performance conditions includes the probability of certain conditions being met and is determined based on the optional binomial model.

U) Employee benefits

- Pension scheme

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

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

The Group is also subject to various defined benefit systems, notably for end-of-career benefits paid to staff.
The Group applies the revised version of IAS 19. Any actuarial gains or losses relating to defined benefit pension plans are recognized in other comprehensive income items.

V) Provisions

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

- Warranty provisions

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

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

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

Employment tribunal provisions

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

Litigation and claims

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

20.2.4. Note 4 – Basis for consolidation

The Parrot Group's basis for consolidation comprises 26 companies, with 21 fully consolidated and five consolidated on an equity basis.

The changes in scope during the year were as follows:

Dilution with loss of control:

The companies from the OEM Automotive sector classed as “assets held for sale” at December 31, 2016: 20% dilution of the capital of Parrot Automotive SAS (now Parrot Faurecia Automotive) through a 27 M€ capital increase subscribed for in full by Faurecia on April 1, 2017, enabling it to hold a 20% interest in its subsidiaries Parrot Faurecia Automotive SAS, Parrot Automotive Asia Pacific Ltd and Parrot Automotive Shenzhen, taking the Group’s non-controlling interest in the companies to 80%. The equity consolidation method has been applied for 80% since this date. The impact of this loss of control has been recognized in profit and loss under “Income from discontinued operations, net of tax” for 43 M€.

Faurecia’s entry in the capital of Parrot Automotive SAS with a 20% interest marks the completion of the first stage leading to Faurecia acquiring 100% of the interest held by Parrot SA in Parrot Automotive SAS.

In addition, on February 28, Faurecia subscribed for bonds that can be converted into existing Parrot Automotive SAS shares, issued by Parrot SA with a five-year maturity, marking the start of the second stage, i.e. Faurecia raising its interest to 50.01% of Parrot Automotive SAS’ capital.

Lastly, when Faurecia has raised its stake to 50.01% of the capital, it will have a call option, able to be exercised until 2022, enabling it to acquire 100% of the capital of Parrot Automotive SAS.

Acquisitions of capital interests without any changes in control:

Acquisition of Pix4d and its subsidiary Pix4D Inc on June 21, 2017, following the 56% interest held at December 31, 2016 and 95% at December 31, 2017. This additional stake was acquired in line with the initial agreement signed between the shareholders. A founder shareholder has retained 5% of the capital, with conditions for exercising in 2020 and 2021.

Creation of Pix4D GmbH on May 24, 2017, a subsidiary of Pix4D, which is 95%-owned.

Airinov SAS was 73.5%-owned at December 31, 2016 and 99.3% at December 31, 2017 following the operation to buy out minority interests on July 12, 2017.

Deconsolidation of the 73.5%-owned subsidiary Airinov NL following its liquidation.

Acquisitions of capital interests with changes in control:

On January 19, 2017 and December 21, 2017, Parrot, through its American subsidiary Parrot Inc., acquired a further 23.5% (3.4 M$) stake in Planck Aerosystems Inc. These investments follow a previous investment in March 2016, taking Parrot’s total interest up to around 49% of Planck Aerosystems’ capital. The company is now consolidated on an equity basis.

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

Company name	Address	Country	Dec 31, 2017 % interest	Dec 31, 2017 Consolidation method	Dec 31, 2016 % interest	Dec 31, 2016 Consolidation method
PARENT COMPANY						
Parrot SA	174 quai de Jemmapes 75010 Paris	France				
FULLY CONSOLIDATED COMPANIES						
Parrot Gmbh.	Maximilianstraße 27 80539 München	Germany	100.0%	FC	100.0%	FC
Parrot Anz Ltd Limited	68 72 York street South Melbourne Victoria 3205	Australia	100.0%	FC	100.0%	FC
Parrot Trading Shenzhen Ltd (subsidiary of Parrot Asia Pacific Ltd.)	2401, Xinhua Insurance Building, 171 Mintian Road, FuTian CBD, Futian Qu, Shenzhen Shi, Guangdong Sheng, 518048	China	100.0%	FC	100.0%	FC
Parrot Iberia SL.	Calle Orense 81-7 Madrid - 28020	Spain	100.0%	FC	100.0%	FC
Parrot Inc.	535 Mission Street San Francisco, CA 94105	USA	100.0%	FC	100.0%	FC
MicaSense Inc	1055 N 38th St. Seattle, WA 98103	USA	56.0%	FC	56.0%	FC
Pix4D Inc. (subsidiary of Pix4D)	150 Post street, Suite 650 San Francisco, CA 94108	USA	95%	FC	56.0%	FC
senseFly Inc. subsidiary of Parrot Inc.)	205 New York Avenue NW Washington, DC 20001	USA	100.0%	FC	100%	FC
Airinov SAS	174 Quai de Jemmapes 75010 Paris	France	99.3%	FC	73.5%	FC
Chez Parrot SARL	30-34 rue du Quatre Septembre, 75002 Paris	France	100.0%	FC	100.0%	FC
Parrot Drones SAS	174 quai de Jemmapes 75010 Paris	France	100.0%	FC	100.0%	FC
Parrot Shmates SAS	174 quai de Jemmapes 75010 Paris	France	80.0%	FC	80.0%	FC
Parrot Air Support	174 quai de Jemmapes 75010 Paris	France	100.0%	FC	100.0%	FC
Parrot Asia Pacific Ltd	Suite 707-9, 7/F. Wharf T&T Centre 7 Canton Road Tsim Sha Tsui, Kowloon Hong Kong	Hong Kong	100.0%	FC	100.0%	FC
Parrot Italia Srl.	Via Giuseppe Revere 16 20123 Milano, Italia	Italy	100.0%	FC	100.0%	FC
Parrot Japan KK	PMC Building 1-23-5 Higashi-	Japan	100.0%	FC	100.0%	FC

	Azabu, Minato-ku, Tokyo					
Airinov NL	Agrobusiness Park 696708 PV Wageningen	Netherlands	-	-	73.5%	FC
Parrot UK Ltd	Park View One Central Boulevard Blythe Valley Business Park Solihull B90 8BG Birmingham	UK	100.0%	FC	100.0%	FC
senseFly SA	Route de Genève 38 1033 Cheseaux-sur-Lausanne	Switzerland	100.0%	FC	62.0%	FC
Pix4D SA	EPFL Innovation Park Building D, 1015 Lausanne	Switzerland	95.0%	F	56.0%	FC
Pix4D GMBH (subsidiary of Pix4D)	Alte Jakobstraße 85, 86 (Neue GrünstaBe 17, 18) 10179 Berlin	Germany	95.0%	FC	-	-

COMPANIES CONSOLIDATED ON AN EQUITY BASIS						
Parrot Faurecia Automotive SAS	174 Quai de Jemmapes 75010 Paris	France	80.0%	EM	100.0%	FC
Parrot Automotive Asia Pacific Ltd (Subsidiary of Parrot Faurecia Automotive SAS)	Suite 707-9, 7/F., Wharf T&T Centre,7 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hong Kong	80.0%	EM	100.0%	FC
Parrot Automotive Shenzhen (Subsidiary of Parrot Automotive Asia Pacific Ltd)	2401, Xinhua Insurance Building, 171 Mintian Road, FuTian CBD, Futian Qu, Shenzhen Shi, Guangdong Sheng, 518048	China	80.0%	EM	100.0%	FC
EOS Innovation	7 rue Montespan 91000 Evry	France	49.1%	EM	49.1%	EM
Iconem	6 Rue Jules Chaplain 75006 Paris	France	45.0%	EM	45.0%	EM
Planck Aerosystems Inc	710 13th St #307 San Diego, CA 92101	USA	49.3%	EM	49.3%	-

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

20.2.5. Note 5 – Segment reporting

– Following the sale of the OEM Automotive business, the Group has reorganized its activities and reporting structure around a single operating segment (Drones), whereas its previous segmentation in 2016 differentiated between the Drones and OEM Automotive activities.

The following tables present the information concerning this operating segment that is used by the Chief Operating Decision Maker to assess segment performance and decide on the allocation of resources, i.e. revenues and income from ordinary operations.

€'000	OEM Automotive	Drones	IFRS 5 reclass.	Dec 31, 2017
Revenues	18,009	151,871	(18,009)	151,871
% of Group revenues	0%	100%	0%	100%
Income from ordinary operations	(623)	(57,579)	623	(57,579)

€'000	OEM Automotive	Drones	IFRS 5 reclass.	Dec 31, 2017
Revenues	66,751	166,446	(66,751)	166,446
% of Group revenues	*0%*	100%	0%	100%
Income from ordinary operations	6,269	(131,191)	(6,269)	(131,191)

In accordance with IFRS 5, the earnings generated by the OEM Automotive business in the first quarter of 2017 have been recorded under income from discontinued operations, net of tax and the dilution effect and fair value remeasurement of the OEM Automotive business.

Since the first quarter of 2017, the OEM Automotive business has been consolidated on an equity basis (see Note 15 – Associates).

Statement of financial position

€'000	Drones	Dec 31, 2017
Non-current assets	**160,949**	**160,949**
Goodwill	41,749	41,749
Other intangible assets	1,484	1,484
Property, plant and equipment	4,061	4,061
Investments in associates	107,299	107,299
Financial assets	**6,023**	**6,023**
Deferred tax assets	334	334
Current assets	**241,740**	**241,740**
Inventories	23,260	23,260
Trade receivables	40,218	40,218
Other receivables	20,706	20,706
Other current financial assets	13,018	13,018
Cash and cash equivalents	144,539	144,539
Non-current liabilities	**71,732**	**71,732**
Non-current financial liabilities	42,199	42,199
Provisions for pensions and other employee benefits	1,033	1,033
Deferred tax liabilities	1,690	1,690
Other non-current provisions	-	-
Other non-current liabilities	26,911	26,911
Current liabilities	79,**765**	**79,765**
Current financial liabilities	-	-
Current provisions	13,996	13,996
Trade payables	37,587	37,587
Current tax liabilities	250	250
Other current liabilities	27,931	27,931

€'000	OEM Automotive	Drones	Dec 31, 2016
Non-current assets	**-**	**61,206**	**61,206**
Goodwill	-	43,652	43,652
Other intangible assets		3,872	3,872
Property, plant and equipment		8,066	8,066
Investments in associates	-	1,243	1,243
Financial assets	-	3,652	3,652
Deferred tax assets	-	720	720
Current assets	**-**	**355,306**	**355,306**
Inventories	-	46,368	46,368
Trade receivables	-	52,533	52,533
Other receivables	-	28,362	28,362
Other current financial assets	-	28,000	28,000
Cash and cash equivalents	-	200,043	200,043
Assets held for sale	**82,848**	**-**	**82,848**
Non-current liabilities	**-**	**31,311**	**31,311**
Non-current financial liabilities	-	1,161	1,161
Provisions for pensions and other employee benefits	-	1,748	1,748
Deferred tax liabilities	-	465	465
Other non-current provisions	-	15	15
Other non-current liabilities	-	27,922	27,922
Current liabilities	**-**	**173,432**	**173,432**
Current financial liabilities	-	42,032	42,032

Current provisions	-	15,637	15,637
Trade payables	-	52,099	52,099
Current tax liabilities	-	2,450	2,450
Other current liabilities	-	61,214	61,214
Liabilities held for sale	**13,761**	**-**	**13,761**

Analysis of the Group's sales by region

Breakdown by region (€'000)	Dec 31, 2017	Dec 31, 2016
EMEA	73,855	84,585
AMERICA	23,169	34,076
ASIA	10,659	12,697
Total Consumer products	**107,683**	131,358
Key Account products (1)	44,188	35,088
Total Group revenues	**151,871**	**166,446**

(1) Key Account products include Varioptic products (in 2016) and Commercial Drone products.

Analysis of the Group's sales by main contributors

	Dec 31, 2017	Dec 31, 2016
USA	42,142	43,455
France	32,557	29,372
Spain	10,982	12,549
Germany	10,715	14,917
UK	10,408	12,176
Italy	6,823	6,622
Australia & New Zealand	4,718	3,890
Latin America	4,201	2,631
Eastern Europe	3,745	5,151
Middle East & India (Asia platform)	3,367	2,905
Top 10	**129,660**	**133,668**
Other	22,211	32,778

Headcount at year-end

Employees	OEM Automotive	Drones	Total
2016 Group headcount	194	854	1,048
2017 Group headcount		597	597

These headcounts include apprenticeship contracts.

20.2.6. Note 6 – Operating expenses by kind

€'000	Dec 31, 2017	Dec 31, 2016
Consumption of raw materials and goods, and outsourcing purchases	(86,758)	(120,680)
Other external expenses	(44,799)	(80,401)
Staff costs	(66,680)	(70,372)
Tax	(3,392)	(4,015)
Depreciation and amortization	(12,908)	(25,174)
Stored production	(6,009)	2,373
Other operating income and expenses	11,095	632
Total operating expenses	**(209,451)**	**(297,637)**

The 3.7 M€ "CIR" research tax credit (5.4 M€ in 2016) and the 0.1 M€ "CICE" tax credit for competitiveness and employment are deducted from operating expenses.

Staff costs can be broken down as follows:

€'000	Dec 31, 2017	Dec 31, 2016
Salaries and wages	(51,580)	(48,064)
Payroll taxes	(13,153)	(15,533)
Employee profit sharing	339	(1,218)
Share warrant expenses	(2,287)	(5,667)
Total staff costs	**(66,680)**	**(70,372)**

20.2.7. Note 7 – Other operating income and expenses

€'000	Dec 31, 2017	Dec 31, 2016
Income from sale of Varioptic	-	8,153
Impairment of Drone assets	-	(12,053)
Income and expenses linked to the restructuring plan	(12,259)	-
Other	535	(1,459)
Other operating income and expenses	**(11,724)**	**(5,359)**

At December 31, 2017, other operating income and expenses represent 11.7 M€ and primarily concern costs linked to the restructuring plan, i.e. compensation, support measures and related management costs. The other operating expenses concerning costs for the Drone Technologies litigation proceedings (1,359 K€) have been offset through reversals of provisions recorded in previous years.

The Other line at December 31, 2016 primarily includes costs relating to the proposed partnership with Faurecia for (1,649 K€).

20.2.8. Note 8 – Financial income

€'000	Dec 31, 2017	Dec 31, 2016
Cost of gross financial debt	(369)	(605)
Income from cash and cash equivalents	50	1
Cost of net financial debt	**(319)**	**(604)**
Exchange gains	6,202	3,749
Exchange losses	(11,175)	(3,763)
Other financial income and expenses	(26)	(1,368)
Total other financial income / expenses	**(4,999)**	**(1,382)**
Total	**(5,318)**	**(1,986)**

20.2.9. Note 9 – Tax

Tax expense

€'000	Dec 31, 2017	Dec 31, 2016
Current tax	(1,037)	(171)
Deferred tax	(48)	(7,973)
Total	**(1,085)**	**(8,144)**

The current tax expense for 2017 primarily includes the 15% royalties tax, the withholding tax and other tax in Hong Kong, and the French CVAE business value added tax, as well as tax consolidation income relating to Parrot Automotive SAS, presented under operations held for sale. Deferred tax assets are recorded based on the assumption for the transfer of Parrot S.A.'s tax losses to Parrot Automotive S.A.S. The deferred taxes on Parrot Inc. loss carryforwards recognized in 2015 were depreciated in 2016.

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

€'000	Dec 31, 2017	Dec 31, 2016
Earnings for the period	(38,918)	(141,372)
Net income from associates	(6,695)	62
Income from discontinued operations, net of tax	(43,483)	(5,245)
Tax charges	1,085	8,144
- of which CVAE	96	195
Pre-tax earnings	**(74,621)**	**(138,535)**
Actual tax rate	-1,45%	-5,88%
Theoretical tax rate of 34.40%	(25,692)	(47,398)
Reconciliation:		
Permanent differences	313	2,630
Reduced tax operations	-	-
Tax rate difference	(4,535)	(119)
Tax losses	31,508	46,167
Research tax credit	(1,279),	(2,559)
Withholding tax that cannot be allocated	-	-
Other	772	990
Actual tax expense	**1,085**	**8,144**

20.2.10. Note 10 – Goodwill

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

The Group has reorganized its activities and reporting structure around a single operating segment, representative of its cash generating unit (CGU). The operating segment represents the level at which goodwill is monitored by the Group's management. The CGU identified by the Group is now exclusively the Drones CGU.

The Group carries out value tests annually or when any evidence of impairments arises. With the discounted cash flow method, the impairment tests carried out by the Group are based on business and earnings assumptions that are considered to be the most probable.

In accordance with the principles described in Note 3, Point "M", the cash flow beyond the four-year period is extrapolated with a perpetuity growth rate of 1.5% (1% in 2016). The increase in the rate of growth for the period primarily reflects the recognition of the higher rate of inflation compared with 2016. The cash flow is discounted based on a rate of 11% after tax, in line with the rate used in 2016. The tax rate used is 20%, in line with the rate from 2016. The tax rate assumptions retained for 2017 are identical to those used in 2016.

If the rate of pre-tax operating income for 2021 was 1% lower than the cash flow estimates retained or if the revenues retained for 2021 were 10% lower than the estimates retained, these variations would not have any impact on the value of goodwill for the CGU. Moreover, a + or – 0.5% change in the discount rate and the perpetuity growth rate would not have any impact on the value of the CGU's goodwill.

At December 31, 2016, the breakdown of goodwill was as follows:

€'000	Dec 31, 2015	Acquisitions	Changes in scope(1)	Exchange gains or losses and reclass.(2)	IFRS 5 reclass.	Dec 31, 2016
Gross values						
OEM Automotive CGU	36,648	-	-	(21,652)	(14,997)	-
Drones CGU	21,501	-	-	22,151	-	43,652
Other CGU	3,434	-	(3,434)	-	-	-
Total	**61,583**	**-**	**(3,434)**	500	(14,997)	43,652
Depreciation						
OEM Automotive CGU	-	-	-	-	-	-
Drones CGU	-	-	-	-	-	-
Other CGU	(3,434)	-	3,434	-	-	-
Total	**(3,434)**	**-**	**3,434**	-	-	-
Net book values						
OEM Automotive CGU	36,648	-	-	(21,652)	(14,997)	-
Drones CGU	21,501	-	-	22,151	-	43,652
Other CGU	-	-	-	-	-	-
Total	**58,149**	**-**	**-**	**500**	**(14,997)**	**43,652**

(1) The main reclassification concerns the reallocation of the residual Automotive goodwill (Car Kits), following the reclassification of the OEM Automotive business under IFRS 5, to the Drones CGU.

(2) Sale of Varioptic's business.

20.2.11. Note 11 – Intangible assets

€'000	Dec 31, 2016	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	Dec 31, 2017
Gross values						
Development costs	16,087				(369)	15,719
Patents	19,616	495			(462)	19,650
Software	2,911	40	(26)		67	2,992
Fixed assets under construction	67	476			(67)	476
Other intangible assets	8					8
Total	**38,690**	**1,010**	**(26)**		**(831)**	**38,844**
Depreciation and amortization						
Development costs	(14,360)	(1,477)			280	(15,556)
Patents	(17,821)	(1,813)			570	(19,065
Software	(2,637)	(127)	26		0	(2,738)
Fixed assets under construction						
Other intangible assets						
Total	**(34,818)**	**(3,417)**	**26**		**850**	**(37,359)**
Net book values						
Development costs	1,728	(1,477)			(89)	162
Patents	1,795	(1,318)			108	585
Software	274	(88)			67	254
Fixed assets under construction	67	476			(67)	476
Other intangible assets	8					8
Total	**3,872**	**(2,407)**	**-**		**19**	**1,484**

Depreciation charges are recorded under operating expenses.

At December 31, 2016, intangible assets can be broken down as follows:

€'000	Dec 31, 2015	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	IFRS 5 reclass.	Dec 31, 2016
Gross values	,	,	,	,	,	,	,
Development costs	63,851	4,873	-	-	(1,518)	(51,118)	16,087
Patents and brands	22,028	924	(910)	(544)	680	(2,561)	19,616
Software	3,667	135	-	-	136	(1,026)	2,911
Fixed assets under construction	168	681	-	-	(783)	-	67
Other intangible assets	8	-	(0)	-	0		8
Total	**89,722**	**6,613**	(910)	**(544)**	**(1,485)**	**(54,706)**	38,690
Depreciation and amortization	,	,	,	,	,	,	,
Development costs	(29,970)	(14,307)	-	-	(45)	29,962	(14,360)
Patents and brands	(15,312)	(2,919)	910	490	(81)	(909)	(17,821)
Software	(3,374)	(160)	(0)	-	(1)	898	(2,637)
Fixed assets under construction	(90)	-	-	-	90	-	-
Other intangible assets	-	-	-	-	-		-
Total	**(48,746)**	**(17,386)**	910	**490**	**(37)**	**29,951**	(34,818)
Net values	,	,	,	,	,	,	,
Development costs	33,881	(9,435)	-	-	(1,563)	(21,156)	1,728
Patents and brands	6,716	(1,995)	-	(55)	599	(3,470)	1,795
Software	293	(25)	(0)	-	135	(129)	274
Fixed assets under construction	79	681	-	-	(693)	-	67
Other intangible assets	8	-	(0)	-	0	-	8
Total	**40,976**	**(10,773)**	**(1)**	**(55)**	**(1,522)**	**(24,754)**	**3,872**

20.2.12. Note 12 – Business combinations

Pix4D

On June 21, 2017, Parrot Drones exercised the put to buy out minority interests in Pix4D for 22.5 M€. Following this transaction, Parrot Drones owns 95% of Pix4D and its subsidiary Pix4D Inc.

Airinov

On March 15, 2017, Parrot Drones acquired 12.89% of Airinov SAS' shares for 0.1 M€, taking its interest up to 86.4%.

On July 12, 2017, Parrot Drones acquired a further 12.89% of Airinov SAS for 0.4 M€, taking its interest up to 99.3%.

20.2.13. Note 13 – Property, plant and equipment

€'000	Dec 31, 2016	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	Dec 31, 2017
Gross values						
Buildings	341	51	(118)		(29)	246
Plant and equipment	20,040	587	(367)	(0)	(1,502)	18,758
Other property, plant and equipment	13,012	520	(272)	(6)	(146)	13,114
Total	**33,393**	**1,159**	**(757)**	**(6)**	**(1,677)**	**32,118**
Depreciation and amortization						
Buildings	21	(49)	28		3	(38)
Plant and equipment	(15,440)	(3,096)	383	6	1,273	16,879
Other property, plant and equipment	(9,866)	(1,487)	179		34	(11,140)
Total	**(25,326)**	**(4,632)**	**591**	**6**	**1,310**	**28,057**
Net values						
Buildings	321	3	(90)		(26)	208
Plant and equipment	4,600	(2,508)	16	6	229	1,879
Other property, plant and equipment	3,146	(967)	(93)	(6)	(112)	1,973
Total	**8,067**	**(3,473)**	**(166)**	**-**	**(367)**	**4,061**

At December 31, 2016, the breakdown of property, plant and equipment was as follows:

€'000	Dec 31, 2015	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	IFRS 5 reclass.	Dec 31, 2016
Gross values							
Buildings	-	332	-	-	9	-	341
Plant and equipment	26,216	4,566	(172)	(3,654)	808	(7,725)	20,040
Other property, plant and equipment	11,713	2,332	(206)	(513)	(500)	186	13,012
Total	**37,930**	**7,231**	**(378)**	**(4,167)**	**317**	**(7,539)**	**33,393**
Depreciation and amortization							
Buildings	-	(20)	-	-	(1)	-	(21)
Plant and equipment	(20,602)	(6,759)	110	3,157	(262)	8,915	(15,440)
Other property, plant and equipment	(7,535)	(969)	104	498	27	(1,990)	(9,866)
Total	**(28,137)**	**(7,748)**	**214**	**3,655**	**(236)**	**6,925**	**(25,326)**
Net values							
Buildings	-	312	-	-	9	-	321
Plant and equipment	5,614	(2,192)	(61)	(497)	546	1,191	4,600
Other property, plant and equipment	4,178	1,362	(102)	(15)	(474)	(1,805)	3,146
Total	**9,792**	**(518)**	**(163)**	**(512)**	**81**	**(614)**	**8,067**

20.2.14. Note 14 – Financial assets

€'000	Dec 31, 2016	Increase	Decrease	Change in scope	Exchange gains or losses and reclass.	Dec 31, 2017
Gross values						
Other receivables attached to equity interests	500	-	-	-	-	500
Security deposits	1,577	51	(197)	-	(77)	1,354
Other long-term financial investments	5,163	3,551	(90)	45	(959)	7,710
Total	**7,240**	**3,603**	**(287)**	**45**	**(1,036)**	**9,565**
Depreciation						
Other receivables attached to equity interests	(500)	-	-	-	-	(500)
Security deposits	-	-	-	-	-	-
Other long-term financial investments	(3,087)	-	45	-	-	(3,042)
Total	**(3,587)**	**-**	**45**	**-**	**-**	**(3,542)**
Net book values						
Other receivables attached to equity interests	-	-	-	-	-	-
Security deposits	1,577	51	(197)	-	(77)	1,354
Other long-term financial investments	2,075	3,551	(45)	45	(959)	4,667
Total	**3,652**	**3,603**	**(242)**	**45**	**(1,036)**	**6,023**

On June 17, 2017, Parrot Drones SAS acquired a further 9.4% stake in Biocarbon for 1.1 M€, taking its total interest up to 23% for 2.2 M€. As this interest is not significant, this company is not consolidated on an equity basis in the Group's accounts.

On July 28, 2017, Parrot Drones SAS acquired 23.02% (0.4 M€) of Chouette SAS.

On December 21, 2017, Parrot Drones subscribed for a 2 M€ capital increase carried out by the Belgian-law company Sky-Hero, enabling it to hold 33.34% of this company's capital and voting rights. As this interest is not significant, this company is not consolidated on an equity basis in the Group's accounts.

The securities of NanoRacing SAS, a French company that is developing a racing UAV, acquired by Parrot Drones SAS on March 24, 2016 (1.0 M€) are still written down in full at December 31, 2017.

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

At December 31, 2016, Parrot Inc held a 25.5% stake in Planck Aerosystems Inc (1.0 M$), an American company that is developing UAV surveillance solutions for the fishing industry. On December 21, 2017, Parrot, through its US subsidiary Parrot Inc., acquired a further 2,499,950 shares in the San Diego-based company Planck Aerosystems Inc for 2.5 M$, taking Parrot's total interest up to around 49% of Planck Aerosystems' capital. The company is now consolidated on an equity basis (see Note 4) and has been reclassified for 1 M€.

20.2.15. Note 15 – Associates

The financial position and value of investments in associates at December 31, 2017 are presented below:

€'000	% of capital held	Revenues (100% basis)	Shareholders' equity (100% basis)	Income from associates (share of income)
EOS	49.1%	-	(0)	-
Iconem	45%	405	1,375	86
Parrot Faurecia Automotive SAS.	80%	18,837	62,778	(7,678)
Parrot Automotive Asia Ltd, (Parrot Faurecia Automotive subsidiary)	80 %	35,075		2,469
Parrot Automotive Shenzhen (Parrot Automotive Asia Ltd subsidiary)	80%	2,307	1,264	512
Planck Aerosystems Inc	49.3%	-	2,252	-
Total				**(6,695)**

€'000	Dec 31, 2016 (100% basis)	Inclusion in scope	Earnings	Other	Dec 31, 2017 (100% basis)
EOS	0	-	-	-	0
Iconem	1,243	-	86	-	1,329
Parrot Faurecia Automotive SAS	-	106,974	(7,678)	152	99,448
Parrot Automotive Asia Ltd, (Parrot Faurecia Automotive subsidiary)	-	1,654	386	(197)	1,842
Parrot Automotive Shenzhen (Parrot Automotive Asia Ltd subsidiary)	-	533	512	(34)	1,011
Planck Aerosystems Inc	-	4,021	-	(352)	3,669
Total	**1,243**	**113,182**	**(6,695)**	**(432)**	**107,299**

€'000	2017		2016
Book value of equity securities at January 1		**1,243**	**1,181**
Parrot Faurecia Automotive's transfer to equity basis consolidation	109,160		-
Planck Aerosystems Inc's transfer to equity basis consolidation		4,021	
Share in income of associates	(6,695)		62
Exchange gains or losses	(584)		-
Share-based payments	132		
Change in actuarial gains or losses concerning employee benefits - net of tax	20		
Share in other comprehensive income of associates	152		
Book value of equity securities at December 31	**107,299**		**1,243**

20.2.16. Note 16 – Deferred tax

Change in deferred tax assets

€'000	Dec 31, 2017	Dec 31, 2016
At January 1	720	9,057
Income (expense) for the year	(386)	(8,734)
Impact on reserves	-	397
At December 31	**334**	**720**

Change in deferred tax liabilities

€'000	Dec 31, 2017	Dec 31, 2016
At January 1	**465**	**1 049**
Income (expense) for the year	(337)	(761)
Impact on reserves	-	431
Deferred tax liabilities to be discontinued or sold	1,562	-
IFRS 5 reclassification	-	(254)
At December 31	**1,690**	**465**

Detailed breakdown of deferred tax assets and liabilities by kind

€'000	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Intangible assets	-	-	256	249	256	(249)
Property, plant and equipment	-	65	-	-	-	65
Depreciation of treasury stock	-	-	-	-	-	-
Inventories	2,610	8,119	1,916	-	693	8,119
Capitalization of development costs	-	-	69	465	(69)	(465)
Capitalization of loss carryforwards	-	-	-	-	-	-
Restriction of deferred tax assets	(2,008)	(4,985)	-	-	(2,008)	(4,985)
Investment subsidies	(1,619)	-	(1,622)	-	3	-
Other assets	-	-	-	-	-	-
Provisions:	931	647	-	-	931	647
Of which pensions	420	498	73	-	348	498
Of which other social provisions	264	498	73	-	191	498

Of which depreciation of subsidiary receivables	-	-	-	-	-	-
Of which other provisions	-	-	-	-	-	-
Other liabilities	157	-	-	-	157	-
Tax loss carryforwards	-	-	1 509	3 376	(1 506)	(3 376)
Net deferred tax assets (liabilities)	-	-	-	-	-	-
Intangible assets	**334**	**4,344**	**1,690**	**4,089**	**(1,356)**	**255**

Non-capitalized losses represent 181.1 M€ for the tax consolidation group, with 38.8 M€ for Parrot Drones and 52.3 M$ for Parrot Inc.

20.2.17. Note 17 – Inventories

€'000	Dec 31, 2016	Change	Exchange gains or losses and reclass.	Dec 31, 2017
Gross values	63,155	(15,072)	(4,103)	43,980
Depreciation	(16,788)	(5,316)	1,384	(20,720)
Net value of inventories	**46,368**	**(20,389)**	**(2,720)**	**23,260**

The value of net inventories decreased by half over the period as a result of stock clearance operations for older generation products and a balanced management of production levels.

20.2.18. Note 18 – Trade receivables

€'000	Dec 31, 2017	Dec 31, 2016
Trade receivables	43,159	63,275
Depreciation	(2,941)	(3,460)
Total	**40,218**	**59,815**

The lower level of trade receivables at December 31, 2017 compared with the previous year reflects the contraction in the Group's revenues.

Receivables do not bear interest and are in general due to be paid within 30 to 90 days.

20.2.19. Note 19 – Other receivables

€'000	Dec. 31, 2017	Dec. 31, 2016
VAT receivables	10,353	12,808
Tax receivables	5,563	11,352
Prepaid expenses	2,271	1,936
Sundry debtors	1,585	1,884
Advances and deposits paid	867	219
Social security receivables	67	164
Total	**20,706**	**28,362**

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

Tax receivables correspond to the research tax credit. Parrot SA has transferred out and derecognized its receivables from the French State relating to the 2016 research tax credit for a total of 9.1 M€ (95% of the total receivable). The cash received represents 8.9 M€. The cost of these transfers, recognized in net finance costs, represents 0.2 M€. These transfers were made without any appeals.

In accordance with IAS 39, the company no longer records receivables on which the contractual rights to cash flow have been transferred, and substantially all the risks and benefits associated with these receivables.

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

20.2.20. Note 20 – Net finance costs

At December 31, 2017, net finance costs represent (115,357) K€.

Cash, cash equivalents and other current financial assets came to 157,557 K€, including 13,018 K€ of other current financial assets, down 70,486 K€ compared with the previous year's closing position.

- Cash equivalents primarily comprise risk-free investments, such as interest-bearing current accounts and guaranteed term deposits / accounts maturing within a maximum of three months.
- Other current financial assets (with guaranteed capital) consist of progressive term accounts maturing in:
- March 2018 for 3.0 M€

– December 2018 for 10.0 M€

Current and non-current financial liabilities represent 42,199 K€ (refer to Note 22 for further details).

20.2.21. Note 21 – Shareholders' equity

20.2.21.1. Share capital

At December 31, 2017, the capital comprised 30,174,671 fully paid-up ordinary shares, representing 4,599 K€. Changes in the number of shares outstanding can be broken down as follows:

	Dec 31, 2016	Issues	Reductions	Dec 31, 2017
Number of securities	30 174 671			30 174 671
Rounded off par value (€)	0,15 €			0,15 €
Share capital (€)	4 599 258	-	-	4 599 258

20.2.21.2. Stock option warrant and bonus share scheme

Stock options (SO)

Date of Board meeting and type of plan	Duration	Adjusted number of SO at Dec 31, 2016	SO awarded during period	SO exercised during period	SO cancelled or lapsed	Number of SO at Dec 31, 2017
July 28, 2011: SO	7 years	4,318	-	-	-	4,318
Nov 10, 2011: SO	7 years	68,092	-	-	-	68,092
Feb 15, 2012: SO	7 years	249,670	-	-	-	249,670
May 12, 2012: SO	7 years	24,178	-	-	-	24,178
Nov 10, 2012: SO	7 years	31,086	-	-	-	31,086
Feb 20, 2013: SO	7 years	8,635	-	-	-	8,635
May 15, 2013: SO	7 years	23,027	-	-	-	23,027
Total		**409,006**	**-**	**-**	**-**	**409,006**

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

Number of SO	2017	2016
Number of options at Jan 1	409,006	474,925
SO awarded during the period	0	0
SO exercised during the period	0	-44,619
SO maturing during the period	0	-21,300
Post-capital increase adjustments	0	0
Number of SO at year-end	**409,006**	**409,006**

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

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

Bonus shares (BS)

Date of Board meeting and type of plan	Duration	Adjusted BS at Dec 31, 2015	BS awarded during period	BS delivered during period	BS cancelled or lapsed	Number of BS at Dec 31, 2016
Jan 15, 2014: BS	3 years	65,442	-	-50,366	-15,076	0
Mar 1, 2014: BS	3 years	30,367	-	-24,909	-5,458	0
Oct 1, 2014: BS	3 years	5,757	-	-3,742	-2,015	0
Mar 1, 2015: BS	3 years	36,702	-	-	-15,833,	20,869
Mar 1, 2015: BS	3 years	133,976	-	-7,195	-35,257	91,524
Nov 20, 2015: BS	3 years	29,500	-	-	-10,300	19,200
May 13, 2016: BS	1 year	-	25,000	-	-	25,000
May 13, 2016: BS	2 years	-	222,750	-	-7,000	215,750
July 27, 2017: BS	2 years	-	20,750	-	-	20,750
Nov. 9, 2017: BS	2 years	-	14,500	-	-	14,500
TOTAL		**301,744**	**283,000**	**-86,212**	**-90,939**	**407,593**

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

Number of bonus shares	2016	2015
Number of BS at Jan 1	301,744	338,052
BS awarded during the period	283,000	29,500
BS exercised during the period	-86,212	-17,414
BS cancelled at maturity during the period	--90,939	-48,394
Post-capital increase adjustments	0	0
Number of BS at year-end	**407,593**	**301,744**

Characteristics of bonus share schemes in 2017

Board meeting date	Date awarded	Initial number	Start of vesting	Vesting period	Vesting date
13/05/2017	13/05/2017	25,000	13/05/2017	1 year	13/05/2018
13/05/2017	13/05/2017	222,750	13/05/2017	2 years	13/05/2019
27/07/2017	27/07/2017	20,750	27/07/2017	2 years	27/07/2019
09/11/2017	09/11/2017	14,500	09/11/2017	2 years	09/11/2019

Conditions for awarding bonus shares in 2017

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.

On May 13, 2017, the Board of Directors validated the proposal, terms and conditions for the Remuneration and Incentive Plan Regulations submitted by the Appointments and Compensation Committee. The Appointments and Compensation Committee has set up a plan for awarding units settled in Parrot shares at the end of a two-year period subject to presence conditions for all beneficiaries.

Impact on the financial statements

The expense recognized for awards of stock options and bonus shares represents 2,287 K€ in 2017 (versus 5,667 K€ in 2016).

20.2.21.3. Treasury shares

	Dec. 31, 2016	Acquisition	Disposal	Reclassi-fication	Cancellation	Awarded on registered basis	Dec. 31, 2017
Number of securities	800,432	618,775	(698,145),	-	-	-	721,062
Value (€)	11,396	-	-	-	-	-	9,888

The number of securities at December 31 comprises:

	Dec 31, 2016	Acquisition	Disposal	Reclass.	Cancellation	Awarded on registered basis	Dec 31, 2017
Unallocated treasury stock	433,423			(283,000)			150,423
Bonus shares awarded and not delivered to staff	301,744		(86,212)	192,061			407,593
Shares to be cancelled	57,198			90,939			148,137
Subtotal	**792,365**	**-**	**(86,212)**	**0**	**-**	**-**	**706,153**
Liquidity agreement	8,067	618,775	(611,933)				14,909
Total	**800,432**	**618,775**	**(698,145)**	**-**	**-**	**-**	**721,062**

The general shareholders' meeting on June 27, 2017 authorized a share buyback program. The shares bought back may be used with a view to:

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

Liquidity agreement

	Quantity (shares)	Acquisition/sale price (€)
Number of securities at Jan. 1, 2017	8,067	82,005
Purchase in 2017	618,775	6,056,619
Sales in 2017	(611,933)	(6,007,188)
Number of securities at Dec. 31, 2017	**14,909**	**131,436**

– Share buyback program

The value of the various programs corresponds to the balance for shares awarded to staff and not served, as well as the remaining shares purchased at December 31, 2017.

Share buyback program	Remaining shares at Dec. 31, 16	Cancelled in 2016	Awarded and served in 2016	Buybacks	Awarded and not served	Remaining shares at Dec. 31, 2017
No. 6	2,200	-	-	-	-	2,200
No. 10	128,685	-	(86,212)	-	-	42,473
No. 11	75,270	-	-	-	-	75,270
No. 12	149,700	-	-	-	-	149,700
No. 13	436,510	-	-	-	-	436,510
Total	**792,365**	**-**	**(86,212)**	**-**	**-**	**706,153**

Dividends

There are no plans to pay out any dividends relative to 2017.

20.2.22. Note 22 – Financial liabilities

€'000	Dec 31, 2017	Dec 31, 2016
Borrowings and debt with credit institutions	-	-
Convertible bonds	41,019	-
Liabilities relating to leased fixed assets	15	-
Sundry borrowings and financial debt	1,165	1,161
Non-current financial liabilities (long-term)	**42,199**	**1,161**
Borrowings and debt with credit institutions	-	42,016
Sundry borrowings and financial debt	-	-
Accrued interest on borrowings	-	17
Current financial liabilities (short-term)	**-**	**42,032**

– Sundry borrowings and financial debt

Parrot Drones accounts for an interest-free repayable advance from BPI France was also recorded in connection with the FELIN ("*Future integrated LTE equipment with virtualization*") project, aiming to develop new-generation integrated circuits and equipment for 4G connected devices, for a total of 1,162 K€. This advance will be repayable in four installments from June 2018 to June 2021.

– Bank loans and debts

On February 20, 2017, Parrot SA made an early repayment covering all the outstanding sums due under the external growth credit agreement set up on July 24, 2015 for a total of 41.3 M€.

As a result, the company secured the release of the agreement pledging financial securities as collateral for 35.5 M€, signed on July 24, 2015 between Parrot SA and the banks involved in the syndicated credit facility for external growth.

Parrot Faurecia Automotive convertible bonds

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

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

To hedge this exposure, the Parrot Group decided to take out a 0% capped swap rate agreement to protect itself against interest rate fluctuations.

This is a hybrid instrument made up of a bond liability and a derivative instrument. The bond liability is valued at its amortized cost, while the derivative instrument must be measured at fair value. This fair value will be adjusted through profit or loss, depending on changes in the value of Parrot Faurecia Automotive.

However, at December 31, 2017, the value of Parrot Faurecia Automotive had not changed significantly since the transaction. The derivative's value is therefore considered to be equal to 0 at December 31, 2017.

At December 31, 2017, the breakdown of the Faurecia bond issue was as follows:

– Liability: 41,021 K€ maturing on December 31, 2021;
– Rate swap fair value: 2 K€;
– Fair value of derivative instruments at year-end

€'000	Dec. 31, 2017	Dec. 31, 2016
Current liabilities		814
Non-current liabilities	(2)	

Change in liabilities from financing activities

€'000	Dec 31, 2016	Cash flow		Non-monetary changes		Dec 31, 2017
		Receipts linked to new loans	Repayment of financial debt	Foreign exchange effects	Reclassification	
Non-current liabilities						
Borrowings and debt with credit institutions	-	-	-	-	-	-
Convertible bonds	-	41,019	-	-	-	41,019
Liabilities relating to leased fixed assets	-	16	-	(1)	-	15
Sundry borrowings and financial debt	1,161	42	-	(39)	-	1,165
Non-current financial liabilities (long-term)	**1,161**	**41,078**	**-**	**(40)**	**-**	**42,199**
Current liabilities						
Borrowings and debt with credit institutions	42,016	-	(42,016)	-	-	-
Accrued interest on borrowings	17	-	(17)	-	-	-
Current financial liabilities (short-term)	**42,032**	**-**	**(42,032)**	**-**	**-**	**-**
Financial liabilities	**43,194**	**41,078**	**(42,032)**	**(40)**	**-**	**42,199**

In terms of the cash flow relating to the repayment of liabilities for (42,032) K€, the (17) K€ difference with the cash flow statement takes into account the accrued interest on borrowings presented on a separate line in relation to the cash flow statement (Interest paid - Change in working capital requirements).

20.2.23. Note 23 – Earnings per share

Basic earnings per share

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

	Dec 31, 2017	Dec. 31, 2016
Net income (Group share, €)	(81,700,703)	(143,151,628)
Weighted average number of shares outstanding	30,174,671	30,165,351
Basic net earnings per share (€)	**-2.71 €**	**-4.75 €**

	Dec 31, 2017	Dec. 31, 2016
Net income (Group share) in euros	43,482,536	5,244,779
Weighted average number of shares outstanding	30,174,671	30,165,351
Basic net income per share from discontinued operations	**1.44 €**	**0.17 €**

Diluted earnings per share

Diluted earnings per share factor in any diluting instruments outstanding at the end of the period. Following the negative result recorded for 2017, existing potentially dilutive instruments have not been taken into account to calculate diluted earnings per share.

In €	Dec 31, 2017	Dec. 31, 2016
Net income (Group share) used to determine diluted earnings per share	(81,700,703)	(143,151,628)
Weighted average number of shares outstanding retained to determine diluted net earnings per share	30,174,671	30,165,351
Diluted net income per share from continuing operations	**-2.71€**	**-4.75€**

In €	Dec 31, 2017	Dec. 31, 2016
Net income (Group share) used to determine diluted earnings per share	43,482,536	5,244,779
Weighted average number of shares outstanding retained to determine diluted net earnings per share	30,174,671	30,165,351
Diluted net income per share from discontinued operations	**1.44€**	**0.17€**

20.2.24. Note 24 – Non-controlling interests

Parrot has awarded Pix4D's minority shareholders put options to sell their 5% minority interests in Pix4D. It has also awarded put options for MicaSense Inc's minority shareholders to sell their 44% minority interests in MicaSense Inc (see Note 27.2 "Other non-current liabilities").

20.2.25. Note 25 – Provisions for pensions and related commitments

25.1 Introduction

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

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

25.2 Financial information

- Supplementary employee benefits primarily concern provisions for retirement benefits (PRB).
- At December 31, 2017, the provisions primarily included:
- 724 K€ of provisions for retirement benefits for Parrot Drones (1,280 K€ at December 31, 2016);
- 183 K€ of provisions for retirement benefits for Parrot SA (287 K€ at December 31, 2016).

(Expenses) / income for the year - €'000	Total 2017	Total 2016
Net cost of services	(163)	(233)
Net interest on the liability / asset	(21)	(39)
Plan change during the year	-	-
Reduction / liquidation effects	468	-
(Expenses) / Income for the year	**284**	**(272)**

The 468 K€ reduction effect, including 425 K€ for Parrot Drones, relates to the impact of the job protection plan launched in January 2017.

Experience gains and losses show a gain of around 14.1% of the commitment expected at December 31, 2017. This gain reflects a higher level of outflows than forecast with the assumptions, particularly for Parrot SA, with one employee leaving our scope for assessment to become a corporate officer as Parrot SA's Executive Vice President.

The actuarial gains and losses relating to demographic assumptions are linked to the change in the mortality table.

Change in provisions	2017	2016
(Provision) / amount paid in advance at start of period	**(1,608)**	**(1,573)**
Income (expense) for the year	284	(272)
Amount recognized in OCI for the year	284	94
Contributions paid by employer	-	-
Benefits paid by employer	-	70
(Acquisition) / sales	98	73
(Provision) / amount paid in advance	**(942)**	**(1,608)**

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

Change in actuarial liability over the year	2017	2016
Actuarial liability (DBO) at start of period*	**(1,608)**	**(1,573)**
Net cost of services	(163)	(233)
Net interest on the liability / asset	(21)	(39)
Plan change	-	-
Reduction / liquidation effects	468	-
Experience gains (losses) generated over the period	286	95
Gains (losses) relating to changes in demographic assumptions	(2)	171
Gains (losses) relating to changes in financial assumptions	-	(171)
Benefits paid	-	-
(Acquisition) / sale	-	70
Transfers	98	73
Actuarial liability (DBO) at end of period	**(942)**	**(1,608)**

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

Main assumptions	2017	2016
Discount rate	2.00%	2.00%
Inflation rate	2.00%	2.00%
Rate for increase in pay	**3.00%**	**3.00%**

20.2.26. Note 26 – Current provisions

€'000	Dec 31, 2016	Allowance	Reversals	Changes in scope	Translation difference	Dec 31, 2017
Provisions for customer warranties	8 550	1 117	(3 639)	-	(515)	5 512
Other prov. for contingencies and liabilities	7 087	6 112	(4 527)	-	(188)	8 484
Total current provisions	**15 637**	**7 229**	**(8 166)**	**-**	**(704)**	**13 996**

Other provisions for contingencies and liabilities primarily concern:

- Provisions for disputes: the main dispute involving Parrot was underway since 2014 and concerned patent infringement litigation proceedings with the company Drones Technologies. These proceedings ended during the first half of 2017 following a ruling by the Federal Judge for the Western District of Pennsylvania. The corresponding 1.3 M€ provision was written back in full at December 31, 2017. Parrot and its subsidiaries are still involved in other disputes in the US and elsewhere, for which a total of 2 M€ of provisions have been recorded;
- 3.2 M€ of restructuring provisions, corresponding primarily to support measures and risks relating to disputes;
- Provisions for supplier commitments for 1.9 M€;
- Other provisions: 1.3 M€.

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

27.1 Trade payables, current tax liabilities and other current liabilities

Trade payables represented 38.1 M€ at December 31, 2017, compared with 52.1 M€ at December 31, 2016, with this reduction primarily reflecting the contraction in business.

The change in other current liabilities primarily factors in the reduction in liabilities on acquisitions of minority interests for (26.4) M€, following the reversal of the liability relating to the call option for securities of the subsidiary Pix4D and the reduction in the provision for margin guarantees for Parrot Inc for 5.8 M€.

The 2017 business value added tax (CVAE), totaling 203 K€ (versus 679 K€ in 2016), is presented under current tax liabilities.

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

€'000	Dec. 31, 2017	Dec. 31, 2016
Trade payables	37,587	52,099
Current tax liability	250	2,450
Advances	6,291	11,723
Tax and social security liabilities	12,682	13,715
Liabilities on acquisitions of minority interests	0	26,373
Advances and deposits received	1,400	1,124
Other liabilities	7,559	8,279
Other current liabilities	**27,931**	**61,214**

27.2 Other non-current liabilities

€'000	Dec. 31, 2017	Dec. 31, 2016
Liabilities on acquisitions of minority interests	26,811	27,922
Other non-current liabilities	**26,811**	**27,922**

Details of liabilities on acquisitions of minority interests

€'000	Dec 31, 2016	Change through equity	Change through P&L	Exchange gains or losses	Dec 31, 2017
Put options: Pix4D, MicaSense, Airinov	26,308	1,592	-	(2,753)	25,147
Other	1,614	-	242	(192)	1,664
Total	**27,922**	**1,592**	**242**	**(2,945)**	**26,811**

Parrot's obligations to buy back Pix4D and MicaSense securities are recognized under liabilities relating to acquisitions of minority interests, classed as current and non-current liabilities depending on the exercise date. These call options are measured at fair value based on operational performance, i.e. the discounted value of the estimated exercise price, in line with the levels of margins and revenues. The discount rate reflects the marginal cost of debt for Parrot. Other non-current liabilities include 26.8 M€ relating to these call options. The liabilities relating to the call options for Pix4D was classed as current liabilities at December 31, 2017.

The reduction in these current liabilities is linked to the operation to buy out further minority shareholders in Pix4D during the first half of 2017 (see Note 12 – Business combinations). The liability relating to the remaining 5% is presented under other non-current liabilities at December 31, 2017. The liability relating to the Airinov call options was presented under non-current liabilities at December 31, 2016. Following the early buyout of minority shareholders on July 12, 2017, this liability is now zero.

20.2.28. Note 28 – Financial instruments

28.1 Category and fair value of financial assets and liabilities

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

At December 31, 2016 (€'000)	Fair value through P&L	Fair value through equity	Assets available for sale	Loans and receivables	Debt at amortized cost	Derivatives	Balance sheet value	Fair value
Financial assets	-	-	3,652	-	-	-	3,652	-
Trade receivables	-	-	-	59,815	-	-	59,815	-
Other current receivables	-	-	-	28,362	-	-	28,362	-
Other current fin. assets	28,000	-	-	-	-	-	28,000	28,000
Cash and cash equivalents	200,043	-	-	-	-	-	200,043	200,043
Total financial assets	**228,043**	**-**	**3,652**	**88,177,**	**-**	**-**	**319,872**	**228,043**
Other financial liabilities	-	-	-	-	42,380	814	43,194	-
Other non-current liabilities	-	27,922	-	-	-	-	27,922	-
Trade payables	-	-	-	-	52,099	-	52,099	-
Other current liabilities	-	26,373	-	-	34,841	-	61,214	-
Total financial liabilities	**-**	**54,295**	**-**	**-**	**129,320**	**814**	**184,428**	**-**

– Fair value hierarchy

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

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

– Assets / liabilities measured at fair value through profit or loss and through equity;
– Available-for-sale assets;
– Future cash-flow hedging derivative instruments.

The fair value hierarchy is based on the following levels:

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

We did not make any transfers between the various levels between 2016 and 2017.

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

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

At Dec. 31, 2016 - €'000	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value, of which:				
Other current financial assets	28,000	28,000	-	-
Cash and cash equivalents	200,043	200,043	-	-
Total assets	**228,043**	**228,043**	**-**	**-**
Financial liabilities measured at fair value, of which:				
Other financial liabilities	814	-	814	-
Other current liabilities	-	-	-	-
Other non-current liabilities	-	-	-	-
Total liabilities	814	-	**814**	-

28.2 Schedule for financial liabilities

Financial liabilities are detailed in Note 22 "Financial liabilities".

28.3 Analysis of trade receivables and their seniority

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

At December 31, 2015 (€'000)	Current	Trade receivables for which the payment due date has passed 0-3 months	3-6 months	6-12 months	Current	0-3 months
Trade receivables	51,760	5,478	1,886	1	4,150	63,275
Total financial assets	**51,760**	**5,478**	**1,886**	**1**	**4,150**	**63,275,**
Of which COFACE cover	28,239	3,043	1,226	-	-	32,508
Trade receivables not covered	23,521	2,435	659	1	4,150	30,766
Provisions for trade receivables and related	-	-	-	-	,	3,460
Total trade receivables	**51,760**	**5,478**	**1,886**	**1**	**689**	**59,815**

Overdue receivables concern a limited number of customers, which are closely monitored and analyzed. As relevant, provisions for depreciation have been recorded for a total of 2,941 K€, including a 519 K€ decrease for 2017.

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

28.4 Hedging instruments

In connection with the new bond issue set up on February 28, 2017, the Parrot Group is exposed to the rate risk, and more specifically fluctuations in the three-month Euribor.

To hedge this exposure, the Parrot Group decided to take out a 0% capped swap rate agreement to protect itself against interest rate fluctuations.

The Company also decided to apply hedge accounting at December 31, 2017 in order to limit volatility on the income statement.

The hedging instrument is an external derivative financial element. It corresponds to the interest rate swaps taken out to ensure that all or part of the drawdowns made by Parrot SA are covered by fixed rates.

At each quarter-end, swaps are remeasured at their fair value.

When a derivative financial instrument is designated as a hedging instrument for changes in cash flow on a recognized asset or liability, or a planned transaction that is highly probable, the effective portion of the profit or loss on the derivative financial instrument is recognized directly through equity. The ineffective portion of the profit or loss is recognized immediately through profit and loss.

20.2.29. Note 29 – Market risks

29.1 Foreign exchange risks

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

In 2017, 30% of the Group's revenues, 85% of its cost of sales and 19% of its operating costs were denominated in USD or currencies linked to the dollar, with the Group exposed to this currency's fluctuations against the euro. The Group has not hedged its net exposure to changes in the USD.

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

At the end of December 2017, 21% of the Group's cash and other financial asset position was in US dollars or related currencies.

Foreign exchange risk exposure:

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

'000	Dec. 31, 2016			
	USD	HKD	GBP	CNY
Trade receivables	676	3,138	-	200
Trade payables	(13,748)	(572)	(384)	(51)
Other equity interest-related receivables	43,206	-	-	-
Current account	25,000	-	-	-
Financial derivatives	-	-	-	-

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

€'000	Dec 31, 2016			
	P&L Impact	*Impact of FV adjustment on reserves*	*P&L Impact*	*Impact of FV adjustment on reserves*
	10% appreciation for currencies against euro		10% appreciation for euro against the currencies	
Trade receivables	117	-	(96)	-
Other equity interest-related receivables	-	4,554	-	(3,726)
Current account	-	2,635	-	(2,156)
Trade payables	(1,507)	-	1,233	-
Financial derivatives	-	-	-	-

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

29.2 Rate risk

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

The impact of a 1% variation in the average rate of return would represent an 897 K€ loss on the level of consolidated financial income.

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

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

29.3 Risk relating to treasury stock

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

Parrot's share price has historically been subject to significant variations, both upwards and downwards. These variations, which may continue, are dependent on numerous factors, such as the Group's financial performance levels, the sector's financial performance levels, technological innovations and more generally fluctuations on the stock market.

The value of treasury stock reclassified as equity represents 9,889 K€ for 721,062 shares.

29.4 Liquidity and counterparty risk

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

The Company has carried out a specific review of its liquidity risk and considers that it is in a position to cover its upcoming maturities. Parrot's financing policy aims to ensure that the Group has the liquidity needed to finance its assets, its short-term cash requirements and its development at all times, in terms of both the duration and the amounts, at the lowest possible cost.

Financial assets at December 2017

The counterparty risk represents the risk of a financial loss for the Group in the event of a customer or counterparty for a financial instrument failing to uphold its contractual obligations. This risk stems primarily from trade receivables. The net book value of financial assets represents the Group's maximum exposure faced with the credit risk. At December 31, 2017, the maximum credit risk exposure can therefore be broken down as follows:

- Trade receivables: 40.2 M€
- Other receivables: 20.7 M€
- Other financial assets: 13.0 M€
- Cash and cash equivalents: 144.5 M€

Since 2016, the Parrot Group's policy is to diversify its counterparty risk management by distributing investments among first-rate banking institutions and over various timeframes, in addition to regularly monitoring developments.
Faced with the counterparty risk on trade receivables, a provision is recorded for bad debt, which may correspond to all or part of the amount, determined in view of the probability of the debt being collected.

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

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

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

- Financial liabilities at December 31

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

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

Dec. 31, 2016 €'000	Book value	Contractual cash flow	< 1 year	1-2 years	2-5 years	> 5 years
Financial liabilities						
Non-convertible bonds	-	-	-	-	-	-
Debt with credit institutions	42,016	-	42,016	-	-	-
Sundry borrowings and financial debt	1,177	-	16	290	871	-
Bank borrowings	-	-	-	-	-	-
Trade payables	52,099	-	52,099	-	-	-
Other liabilities	81,854	-	55,138	-	26,716	-
Current tax liability	2,450	-	2,450	-	-	-
Total	**179,596**	**-**	**151,719**	**290**	**27,587**	**-**
Derivative financial liabilities						
Rate instruments	814	-	814	-	-	-
Currency instruments		-	-	-	-	-
Total	**814**	**-**	**814**	**-**	**-**	**-**

20.2.30. Note 30 – Executive compensation

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

€'000	Dec. 31, 2017	Dec. 31, 2016
Fixed pay	1,802	2,110
Variable pay	372	746
Short-term benefits	2,175	2,856
Post-employment benefits	-	-
Payments in shares	662	386
Total	**2,837**	**3,242**

The management committee is made up of 10 people who perform the following functions: Chairman and Chief Executive Officer, Executive Vice President, VP Legal, VP New Product Development, VP Software Development, VP Finance, VP Human Resources, VP Sales and Marketing, VP Core Portfolio Program and VP Procurement and Industry.

20.2.31. Note 31 – Related parties

The Group is subject to transition agreements with its subsidiary Parrot Faurecia Automotive SAS, focused primarily on support services: IT services, accounting services, human resources, legal resources, subletting and related services. For 2017, the Group invoiced its subsidiary 4.8 M€ for all the services mentioned. Parrot SA also charges the subsidiary brand royalties representing 2.1% of its annual external revenues, with 1.4 M€ for 2017.

For 2017, the subsidiary Parrot Faurecia Automotive SAS invoiced Parrot Drones SAS for 1.6 M€ of royalties on sales of Aftermarket Automotive products.

20.2.32. Note 32 – Commitments given or received

Commitments given

Commitments relating to operating leases that cannot be terminated represented 1.1 M€.

- At December 31, the amount of firm orders placed with our main suppliers came to a total of 10.4 M€.

On July 20, 2012, the company Parrot S.A. granted a joint and several guarantee to the company Jade SAS for a maximum of 500 K€ for the effective fulfillment by its subsidiary Chez Parrot S.A.RL of its commitments in relation to its lease for the premises at 30 rue du Quatre-Septembre in Paris (75002).

A parent company guarantee for USD 2,770,049 was signed on January 29, 2016 with the company Matrix Partners Management Services LP, guaranteeing rental commitments for the American subsidiary Parrot Inc.

For the first half of 2017, an agreement pledging securities accounts as collateral was signed on March 31, 2017, under which Parrot SA pledges to grant Faurecia Investments SAS the 35,507,913 ordinary shares it holds in Parrot Automotive SAS (renamed Parrot Faurecia Automotive SAS) with a par value of 1 €.

Under the terms of the partners agreement entered into on March 31, 2017, Parrot and Faurecia have signed cross put and call option agreements. In this way, Faurecia has made a commitment to buy (first and second call option) and Parrot has made a commitment to sell (first, second and third put option) the shares held by Parrot SA in Parrot Faurecia Automotive.

20.2.33. Note 33 – Assets and liabilities held for sale and discontinued operations

A fixed asset is held for sale when its book value will be recovered primarily through a sale, rather than continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly likely.

These assets are presented separately from other assets under "assets held for sale" on the consolidated balance sheet when they are significant. These assets are measured at the lower of their book value or their estimated sales price, net of costs relating to their sale. Liabilities relating to assets held for sale are presented under "liabilities held for sale" on the consolidated balance sheet.

The breakdown of the contribution for discontinued operations is as follows: 18 M€ of revenues, (0.6) M€ of income from ordinary operations and (0.3) M€ of net income.

20.2.34. Note 34 – Statutory auditing fees

Amounts excluding VAT (€'000)	KPMG AUDIT IS	Network members	2017 total	2016 total	EY et Autres	Network members	2017 total	2016 total
Account certification	**145**	**25**	**170**	**288**	**292**	**42**	**334**	**274**
Services other than account certification								
- Legislative and regulatory requirements	3	-	3	97	4	-	4	181
- Other	-	16	16	-	30	-	30	-
TOTAL	**148**	**41**	**189**	**385**	**326**	**42**	**368**	**455**

20.2.35. Note 35 – Post-balance sheet events

No material events have occurred since the close of accounts for 2017.

20.3. Statutory auditors' report on the consolidated financial statements for 2017

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

Statutory Auditors
Member of the Compagnie Régionale de Versailles

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

Statutory Auditors
Member of the Compagnie Régionale de Versailles

Dear Shareholders,

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, 2017, as appended to this report.

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

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

Basis for our opinion

■ **Audit standards**

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

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

■ **Independence**

We conducted our audit in accordance with the rules governing us in terms of independence for the period from January 1, 2017 to the date of our report. More specifically, we have not provided any services forbidden by Article 5, Paragraph 1, of EU Regulation 537/2014 or by the professional code of conduct for statutory auditors.

Basis for our opinions - Key points from the audit

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

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

Value of goodwill

Risk identified	Our response
In connection with its development, the Group carries out external growth operations and recognizes goodwill as an asset on its balance sheet. Goodwill is recorded on the consolidated balance sheet for 41.7 M€ at December 31, 2017. As indicated in Note M, the book value of goodwill is tested if there are any indications of impairments in value on the reporting date and at least once a year. The value test is based on determining the recoverable value of each unit generating its own cash flow (cash generating unit, CGU). At December 31, 2017, the only CGU identified within the Parrot Group is the Drones CGU. During each reporting period, management ensures that the book value of this goodwill is not higher than its recoverable value and does not involve any risk of impairments. Any unfavorable change in expected returns for the Drone business is likely to significantly affect the recoverable value of this goodwill. The conditions for the value testing carried out and details of the assumptions retained are presented in Notes M and 10 to the consolidated financial statements. The recoverable value has been determined with reference to the CGU's value in use, based on the net discounted cash flow generated by the activities that the goodwill relates to. A poor assessment of the cash flows or a change in the assumptions retained is likely to significantly affect the recoverable value of this goodwill and require an impairment to be recorded. We consider that the value of the Drone goodwill represents a key audit point on account of (i) its significant amount in the Group's accounts, and (ii) the management team's estimates, assumptions and assessments required to determine its recoverable value, based on discounted cash flow forecasts, the outcome of which is inherently uncertain.	We have analyzed the compliance of the company's methodology with the accounting standards in force. We have obtained the value test carried out by the company and we have also analyzed the conditions for applying this methodology and specifically: ► The exhaustive nature of the items included in the book value of the Drones CGU tested, while ensuring that the determination of this value is consistent with the approach for determining cash flow forecasts for the value in use; ► The reasonable nature of the cash flow forecasts prepared for 2018 to 2021 in relation to the economic and competitive environment in which the Drone business operates; ► The consistency of the cash flow forecasts used for the impairment tests for 2018 to 2020 with the 2018 budget and the 2019-2020 strategic plan approved by the Board of Directors on March 14, 2018; ► The consistency of the perpetuity growth rate retained for the cash flow forecasts with the market analysis and consensuses among leading operators; ► The calculation of the discount rate applied for the estimated cash flows expected for the Drone business, while checking that the various discounting parameters taken into account in the weighted average cost of capital for the Drones CGU (gearing, risk-free rate, market premium, economic asset beta, "specific" risk premium, and cost of debt) made it possible to get close to the rate of return that market participants would currently require from such activities. We have obtained and checked management's analysis of the sensitivity of the CGU's value based on the main assumptions retained, which we have compared with our own calculations to assess whether a reasonable change in the assumptions would be likely to require an impairment to be recorded for goodwill. We have assessed the appropriate nature of the financial information provided in Note 10 to the consolidated financial statements. Our work was carried out with our firms' valuation experts.

Depreciation of inventories

Risk identified	Our response
Inventories of finished products are recorded on the consolidated balance sheet at December 31, 2017 for a gross total of 44 M€ and a net total of 23.3 M€.	Our work involved assessing the data and assumptions used by management to determine the provisions reducing inventories to their net realizable value. We have:

As indicated in Note O to the consolidated financial statements, inventories are valued at the lower of their cost or their net realizable value. The net realizable value is the estimated net sales price for the subsequent period for each distribution platform (EMEA, Americas, Asia) less the estimated costs required for carrying out the sale. More specifically, end-of-life products and returned or damaged products are written off in full. Products that are in a sellable condition are subject to statistical depreciation on a case-by-case basis in line with the slow-moving approach.

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

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

- reviewed the procedures put in place to identify items whose realizable value would be lower than their weighted average unit cost;
- analyzed the launch plans for new products;
- compared, based on samples, the cost of inventory items based on the net sales price applied, as well as the promotional sales price retained at the end of the season, in order to confirm the amount of impairments;
- analyzed the provisions for slow moving items, end-of-life products or returned and damaged products;
- analyzed the specific operations with certain retailers to clear stocks of products.

As part of our work, we have analyzed the outlook for clearing products estimated by management based on past performance and the budget to corroborate the resulting amounts of impairments.

Evaluation of credit notes to be issued

Risk identified	Our response
As indicated in Note F, revenues from the sale of goods are recorded when the significant risks and benefits inherent in ownership of the items have been transferred to the buyer. At Group level, the risk of commercial returns is covered by provisions. These provisions for returns are calculated per customer and per product range, based on retailer stock levels at year-end and the level of sales and historical data for previous returns. Returns are deducted from revenues and the cost of products sold is booked against inventories. The estimation process also takes into consideration the market's specific features. Revenues are also affected by a provision for margin guarantees calculated per customer and per product range. This estimate covers the price differences observed between the catalogue prices and the discounted prices set up as part of previous or future promotional plans in order to protect retailer margins. These provisions are deducted from revenues and booked against credit notes to be issued included in "Other liabilities". Provisions for commercial returns and margin guarantees represent 3 M€ and 3.3 M€ respectively at December 31, 2017 and are recorded in "Credit notes to be issued". A poor assessment of provisions for commercial returns and margin guarantees would result in a poor assessment of the level of revenues. We have therefore considered this as a key audit point because the use of judgement by the Group's management team to estimate these credit notes to be issued are complex faced with the diverse commercial agreements and practices, the prices at which the various products may be able to be sold off, and the determination of future promotional offers for each product range.	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. To assess the estimation of provisions for "commercial returns", we have: ► analyzed the main commercial agreements and reviewed retailers' commercial practices with management; ► reviewed the process to estimate requests for commercial returns by retailers and the estimation of credit notes already issued for these requests; ► analyzed the estimated rate for returns; ► compared the historical level of sales used for calculating provisions with the monitoring of revenues; ► compared the actual returns in a subsequent period with the returns provisioned at the previous year-end in order to assess the consistency of provisions. For the margin guarantee provisions, we have: ► reviewed the process for estimating retailer stock levels at year-end; ► analyzed the consistency of the estimation of retailer stock levels at year-end; ► reviewed the commercial agreements, if applicable, detailing the margin guarantee clauses and specific agreements to sell off products; ► 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. Lastly, we have assessed the appropriate nature of the accounting principles applied by the Group for the recognition and classification of provisions for returns and margin guarantees.

Verification of disclosures concerning the Group in the management report

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

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

Information resulting from other legal and regulatory requirements

Appointment of the statutory auditors

KPMG was appointed as Parrot's statutory auditor at the general meeting on June 18, 1996, which acknowledged the merger of the company François Kimmel – André Touati into KPMG on March 15, 1996. ERNST & YOUNG et Autres was appointed as the company's statutory auditor on June 6, 2012.

At December 31, 2017, KPMG Audit IS was in the 22nd year of its mission as a statutory auditor for the company and its seventh year since Parrot has been a public-interest entity (*Entité d'Intérêt Public*), while ERNST & YOUNG et Autres is in its sixth year.

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

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

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

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

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

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

Audit approach and objective

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

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

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

- They identify and assess the risks that the consolidated financial statements include material misstatements, that these are the result of fraud or errors, define and put in place audit procedures faced with these risks, and collect the elements that they consider sufficient and appropriate to form a basis for their opinion. The risk of a material misstatement resulting from fraud not being detected is higher than for a material misstatement resulting from an error, because fraud may imply collusion, falsification, voluntary omissions, misrepresentation or a bypassing of internal control arrangements;

- They review the relevant internal control arrangements for the audit in order to define audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;

- They assess the appropriate nature of the accounting methods applied and the reasonable nature of any accounting estimates made by management, in addition to the information concerning them provided in the consolidated financial statements;

- They assess the management team's appropriate application of the accounting convention for continuous operations and, depending on the elements collected, whether or not there is any significant uncertainty relating to events or circumstances that might call into question the company's capacity to continue operating. This assessment is based on the elements collected up until the date of their report, while noting however that subsequent circumstances or events might call into question the continuity of operations. If they conclude that there is any significant uncertainty, they draw the attention of readers of their report to the information provided in the consolidated financial statements relating to this uncertainty or, if this information is not provided or is not relevant, they issue their certification with reservations or refuse to certify the accounts;

- They assess the overall presentation of the consolidated financial statements and evaluate whether the consolidated financial statements accurately reflect the underlying events and operations;

- With regard to the financial information for parties or entities included in the basis for consolidation, they collect the elements that they consider sufficient and appropriate to express an opinion on the consolidated accounts. They are responsible for the management, supervision and performance of the audit of the consolidated financial statements, as well as the opinion expressed concerning these accounts.

Report for the audit committee

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

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

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

Paris-La Défense, April 27, 2018

The statutory auditors

KPMG Audit IS	ERNST & YOUNG et Autres
Nicolas Piofret	Pierre Jouanne

20.4. Parrot SA 2017 financial statements

20.4.1. Parrot SA Balance sheet

BALANCE SHEET: ASSETS

	GROSS	Depreciation and provisions	Net Dec 31, 2017	Net Dec 31, 2016
INTANGIBLE ASSETS				
Research and development costs	-	-	-	-
Concessions, patents and related	3,145,368	3,023,652	121,715	233,060
Goodwill	7,622	-	7,622	7,622
Other intangible assets	1,286,765	1,248,142	38,623	84,328
TOTAL intangible assets	4,439,756	4,271,794	167,961	325,010
PROPERTY, PLANT AND EQUIPMENT				
Technical facilities, plant and equipment	-	-	-	-
Other property, plant and equipment	8,621,763	7,615,874	1,005,889	1,865,457
Fixed assets under construction	-	-	-	43,276
TOTAL property, plant and equipment	8,621,763	7,615,874	1,005,889	1,908,733
LONG-TERM FINANCIAL INVESTMENTS				
Equity securities	227,959,776	126,058,550	101,901,226	97,664,226
Equity interest-related receivables	48,432,051	-	48,432,051	-
Other long-term financial investments	3,002,242	-	3,002,242	1,562,849
TOTAL long-term financial investments	279,394,070	126,058,550	153,335,520	99,227,076
FIXED ASSETS	**292,455,588**	**137,946,218**	**154,509,370**	**101,460,819**
INVENTORIES AND WORK-IN-PROGRESS				
Inventories of raw materials	-	-	-	-
Inventories of intermediate and finished products	-	-	-	-
TOTAL inventories and work-in-progress	**-**	**-**	**-**	**-**
RECEIVABLES				
Advances and deposits paid on orders	5,021	-	5,021	31,942
Trade receivables and related	5,462,384	-	5,462,384	2,422,703
Other receivables	123,492,344	1,951,115	121,541,229	131,370,686
TOTAL receivables	**128,959,749**	**1,951,115**	**127,008,634**	**133,825,330**
CASH AND CASH EQUIVALENTS				
Marketable securities	56,516,201	583,571	55,932,630	163,043,397
Cash at bank and in hand	21,169,588	-	21,169,588	11,970,008
Prepaid expenses	615,379	-	615,379	410,982
TOTAL cash and cash equivalents	**78,301,168**	**583,571**	**77,717,597**	**175,424,387**
CURRENT ASSETS	**207,260,917**	**2,534,686**	**204,726,231**	**309,249,717**
Deferred expenses over several years	-	-	-	-
Bond redemption premiums	-	-	-	-
Translation gains	14,291,865	-	14,291,865	3,350
GENERAL TOTAL	**514,008,370**	**140,480,904**	**373,527,465**	**410,713,885**

BALANCE SHEET: LIABILITIES

	Net Dec 31, 2017	Net Dec 31, 2016
NET POSITION		
Share or individual capital, of which 4,599,258 paid	4,599,258	4,599,258
Issue, merger, contribution premiums	331,677,756	331,677,756
Revaluation differences	-	-
Legal reserve	203,512	203,512
Statutory or contractual reserves	-	-
Regulated reserves	-	-
Other reserves	-	-
Retained earnings	7,528,879	81,561,783
Earnings for the year	-39,161,859	-74,032,905
Investment subsidies	-	-
SHAREHOLDERS' EQUITY	**304,847,546**	**344,009,404**
Income from issues of equity securities	-	-
Conditional advances	-	-
OTHER EQUITY	**-**	**-**
Provisions for contingencies	17,434,352	2,750,320
Provisions for liabilities	183,000	556,000
PROVISIONS FOR CONTINGENCIES AND LIABILITIES	**17,617,352**	**3,306,320**
FINANCIAL LIABILITIES		
Convertible bonds	41,021,315	-
Other bonds	-	-
Bank borrowings and debt	615,320	41,216,634
Sundry borrowings and financial debt	1,513	3,550,506
TOTAL FINANCIAL LIABILITIES	41,638,147	44,767,140
ADVANCES AND DEPOSITS RECEIVED ON CURRENT ORDERS	-	-
SUNDRY LIABILITIES		
Trade payables and related	3,253,607	3,283,173
Tax and social security liabilities	2,433,759	4,198,570
Fixed asset payables and related	-	-
Other liabilities	3,674,547	11,149,265
TOTAL SUNDRY LIABILITIES	9,361,913	18,631,007
PREPAID INCOME	-	-
LIABILITIES	**51,000,060**	**63,398,147**
Translation losses	62,506	13
GENERAL TOTAL	**373,527,465**	**410,713,885**

20.4.2. Income statements for the years ended December 31, 2016 and 2017

INCOME STATEMENT - Section 1

	France	Export	Dec 31, 2017	Dec 31, 2016
Sales of goods	-	-	-	-
Production sold: goods	-	-	-	-
Production sold: services	14,528,840	111,398	14,640,237	15,737,681
NET REVENUES	**14,528,840**	**111,398**	**14,640,237**	**15,737,681**
Stored production			-	-
Capitalized production			-	-
Operating subsidies			-	-
Reversal of depreciation and provisions, transferred expenses			1,277,552	79,000
Other income			3,514,165	3,089,512
OPERATING INCOME			**19,431,954**	**18,906,193**
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			11,212,105	13,834,697
TOTAL EXTERNAL EXPENSES			**11,212,105**	**13,834,697**
TAX AND RELATED			685,827	1,183,161
STAFF COSTS				
Salaries and wages			5,660,489	5,670,436
Payroll taxes			1,675,566	1,197,439
TOTAL STAFF COSTS			**7,336,054**	**6,867,875**
OPERATING PROVISIONS				
Provisions for depreciation on fixed assets			1,177,260	1,473,887
Provisions on fixed assets			-	-
Provisions on current assets			-	-
Provisions for contingencies and liabilities			-	225,000
TOTAL OPERATING PROVISIONS			**1,177,260**	**1,698,887**
OTHER OPERATING EXPENSES			252,205	301,539
OPERATING EXPENSES			**20,663,452**	**23,886,159**
EBIT			**-1,231,498**	**-4,979,966**

INCOME STATEMENT - Section 2

	Dec 31, 2017	Dec 31, 2016
EBIT	**-1,231,498**	**-4,979,966**
Profit allocated or loss transferred		
Loss incurred or profit transferred		
Financial income from equity interests	8,669,425	8,766,023.21
Income from other marketable securities and fixed asset receivables	-	-
Other interest and related income	474,539	376,517
Reversal of provisions and transferred financial expenses	81,543,902	1,256,212
Foreign exchange gains	490,679	786,849
Net income from disposal of marketable securities	526,159	1,129,085
FINANCIAL INCOME	**91,704,704**	**12,314,686**
Financial depreciation and provisions	124,270,801	80,726,614
Interest and related expenses	1,024,812	1,205,338
Foreign exchange losses	2,617,146	593,656
Net expenses on sale of marketable securities	130,264	439,660
FINANCIAL EXPENSES	**128,043,023**	**82,965,268**
FINANCIAL INCOME / EXPENSE	**-36,338,319**	**-70,650,582**
INCOME FROM ORDINARY OPERATIONS BEFORE TAX	**-37,569,817**	**-75,630,548**
Non-recurring income on management transactions	468,061	5,956.46
Non-recurring income from previous year	-	-
Non-recurring income on capital transactions	990	1,272,326
Reversal of provisions and transferred non-recurring expenses	1,557,286	314,575
NON-RECURRING INCOME	**2,026,337**	**1,592,857**
Non-recurring expenses on management transactions	1,584,253	563,672
Non-recurring expenses on capital transactions	1,558,648	254,800
Non-recurring depreciation and provisions	475,477	-
NON-RECURRING EXPENSES	**3,618,378**	**818,472**
NON-RECURRING INCOME / EXPENSE	**-1,592,041**	**774,385**
Employee profit-sharing	-	-
Corporate income tax	-	-823,259
TOTAL INCOME	**113,162,995**	**32,813,735**
TOTAL EXPENSES	**152,324,854**	**106,846,640**
PROFIT OR LOSS	**-39,161,859**	**-74,032,905**

20.5. 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, 2017 to December 31, 2017, 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, 2017 were approved by the Board of Directors on March 14, 2018.

20.5.1.1. Main events over the year

In January 2017, the Group launched a project to reorganize and redeploy its operations in the consumer drone sector to adapt its product range faced with the need to reduce costs, which notably resulted in a reduction in staffing levels by around 257 employees at Group level, including 11 employees from Parrot SA. The costs incurred in connection with this reorganization represent nearly 12 M€ at December 31, 2017, with 1.5 M€ for Parrot SA, and primarily concern compensation, support measures and related management costs.

Following talks at the end of 2016 concerning a partnership between Parrot SA and Faurecia, an agreement was signed on March 24, 2017, with Faurecia acquiring a 20% capital interest in Parrot Automotive SAS. The funds from the capital increase have been deployed for Parrot Automotive's business, focused on further strengthening R&D and commercial operations.

The price for new shares was set based on an enterprise value of 109 M€ for Parrot Automotive.

On March 31, 2017, Faurecia subscribed for 41,021,315 € of bonds issued by Parrot SA that will be able to be converted into existing Parrot Automotive SAS shares. These bonds, accruing interest with a margin of 200 basis points over the 3-month Euribor rate, will mature on December 31, 2021 and will be convertible from January 1, 2019, which would result in Faurecia holding 50.01% of the capital of Parrot Automotive SAS.

Faurecia and Parrot SA are respectively covered by call and put options that may be exercised in 2022 allowing Faurecia to acquire or Parrot SA to sell the remaining Parrot Automotive SAS shares still held by Parrot SA.

As a result of these changes:

- Parrot Faurecia Automotive SAS was removed from the Parrot SA tax consolidation group with effect from January 1, 2017.
- Parrot Faurecia Automotive SAS is consolidated on an equity basis in Parrot SA's consolidated accounts.

Parrot SA, the sole partner of the companies Chez Parrot SARL and Parrot Drones SAS, decided to increase the share capital for its two subsidiaries:

On June 29, 2017, it increased the share capital of Chez Parrot SARL from 10,000 € to 771,050 € by creating 76,105 new shares with a par value of 10 €, representing a total of 761,050 €. The new shares were paid up with a cash payment for 160,000 € and offsetting receivables for 601,050 €.

On June 30, 2017, it increased the share capital of Parrot Drones SAS by increasing the total nominal amount by 1,090,000 €, up from 59,537,825 € to 60,627,825 €, issuing 1,090,000 ordinary shares with a par value of 1 €. These shares were issued at a price of 100 €, including a 99 € issue premium, with total proceeds of 109,000,000 €, including an issue premium of 107,910,000 €. The new shares were paid up in full in cash through offsetting liquid receivables on Parrot Drones in accordance with Article L.225-128 of the French commercial code.

20.5.1.2. Post-balance sheet events

NA. There are no events to report up until the reporting date for the financial statements.

20.5.1.3. Accounting methods and rules

The financial statements for the year ended December 31, 2017 have been prepared and presented in accordance with French accounting principles and rules (French general chart of accounts), including the French accounting standards board's (Comité de règlementations comptable) new accounting rules.

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

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

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

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

The main methods used are presented hereafter:

20.5.1.3.1. 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

20.5.1.3.2. 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 stem from differences between the sales price and the net book value of assets sold off.

20.5.1.3.3. Long-term financial investments

Equity securities are recognized based on the following approach:

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

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

When they correspond to long-term investments, the receivables on subsidiaries are reclassified as receivables relating to equity interests.

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

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

At each year-end, the net book value is compared with the value in use.

When the value in use is assessed based on future prospects, this value is estimated in line with the cash flow forecasts. 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.

20.5.1.3.4. 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.

20.5.1.3.5. Foreign currency transactions

Transactions in foreign currencies are converted into euros based on the exchange rate in force on the date of the transaction. Assets and liabilities denominated in foreign currencies on the closing date are converted at the exchange rate in force on the closing date.

Any exchange differences resulting from such operations are recorded under translation gains for unrealized exchange losses and translation liabilities for unrealized exchange gains. A provision for contingencies and liabilities is booked for translation gains.

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

20.5.1.3.6. Cash, cash equivalents and marketable securities

Cash and cash equivalents comprise cash in hand and demand deposits. Marketable securities are valued at their acquisition cost. When the inventory value is lower than the gross value, a provision for depreciation is recorded for the amount of any difference.

20.5.1.3.7. Provisions for contingencies and liabilities

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

Provision for bonus shares awarded:

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

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

Provisions for restructuring:

Parrot SA has recorded 475 K€ of provisions for liabilities in connection with the restructuring.

Provisions for retirement benefits:

Provisions for retirement benefits: a provision for retirement benefits is 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%
- Discount rate: 2%
- Payroll tax rate: 45%

This provision came to 183 K€ at December 31, 2017, compared with 287 K€ in 2016.

20.5.1.3.8. Revenues

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

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

The transfer pricing agreement is based on a “cost plus 5%” approach, except for the transfer costing of rent, facilities management services and bonus shares. Other income primarily concerns transfer costing for brand royalties for 3 503K€.

20.5.1.3.9. Breakdown of corporate income tax

The tax income includes the French tax credit promoting competitiveness and employment (CICE). As recommended by the French accounting standards board (ANC), it is credited to staff costs.

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

20.5.1.3.10. 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.

20.5.1.3.11. Taxation

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

Following the reduction of Parrot SA’s stake to less than 95% of the share capital of Parrot Faurecia Automotive SAS, this subsidiary has been removed from the tax consolidation group because it no longer meets at least one of the conditions for the group system to apply.

This deconsolidation was confirmed with the signing of the tax deconsolidation agreement on March 31, 2017, backdated to January 1, 2017.

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

The income from this tax credit aims to improve competitiveness, particularly through initiatives focused on investment, innovation, research, training, recruitment and prospecting for new markets. The amount recorded in the accounts for the year represents 34 K€.

20.5.1.4. Assets

20.5.1.4.1. Fixed assets

	Gross value at year-start	Acquisitions, mergers, creations, transfers	Reduction through disposals and retirements	Transfers	Gross value at year-end
INTANGIBLE ASSETS					
Patents and related rights	3,061,655	40,437	-	43,276	3,145,368
Goodwill	7,622	-	-	-	7,622
Other intangible assets	1,265,574	21,191	-	-	1,286,765
Total intangible assets	**4,334,852**	**61,628**	-	**43,276**	**4,439,756**
PROPERTY, PLANT AND EQUIPMENT					
Technical facilities, plant and equipment	-	-	-	-	-
Other property, plant and equipment	5,942,625	3,840	-	-	5,946,465
Transport equipment	-	-	-	-	-
Office equipment and furniture	2,648,578	53,262	-26,542	-	2,675,298
Fixed assets under construction	43,276	-	-	-43,276	-
Total property, plant and equipment	**8,634,479**	**57,102**	**-26,542**	**-43,276**	**8,621,763**
LONG-TERM FINANCIAL INVESTMENTS					
Equity securities	118,174,226	109,785,550	-	-	227,959,776
Equity interest-related receivables	78,289,279	48,432,051	-78,289,279	-	48,432,051
Other long-term financial investments	1,562,849	1,439,393	-	-	3,002,242
Total long-term financial investments	**198,026,355**	**159,656,994**	**-78,289,279**	-	**279,394,069**
General total	**210,995,685**	**159,775,724**	**-78,315,821**	-	**292,455,588**

20.5.1.4.2. Depreciation and amortization

	Value at year-start	Provisions	Reversals	Value at year-end	Straight-line
INTANGIBLE ASSETS					
Concessions, patents and related rights	2,828,595	195,057	-	3,023,652	195,057
Goodwill	-	-	-	-	-
Other intangible assets	1,181,246	66,896	-	1,248,142	66,896
Total intangible assets	**4,009,841**	**261,953**	-	**4,271,794**	**261,953**
PROPERTY, PLANT AND EQUIPMENT					
Technical facilities, plant and equipment	-		-	-	-
Other property, plant and equipment	5,026,115	465,563	-	5,491,678	465,563
Transport equipment	-	-	-	-	-
Office equipment and furniture	1,699,631	449,744	-25,179	2,124,196	449,744
Fixed assets under construction	-	-	-	-	-
Total property, plant and equipment	**6,725,746**	**915,307**	**-25,179**	**7,615,874**	**915,307**
LONG-TERM FINANCIAL INVESTMENTS					
Equity securities	20,510,000	105,548,550	-	126,058,550	-
Equity interest-related receivables	78,289,279	-	78,289,279	-	-
Other long-term financial investments	-	-	-	-	-
Total long-term financial investments	**98,799,279**	105,548,550	**78,289,279**	**126,058,550**	**-**
General total	**109,534,866**	**106,725,810**	**78,264,100**	**137,946,218**	**1,177,260**

The provision for equity interest-related receivables for 78 M€ was reversed following Parrot Drones' capital increase on June 30, 2017, incorporating this receivable.

The provision for depreciation of securities for 21 M€ in the accounts at the start of the year corresponds to the depreciation of Parrot Iberia securities, with the charge for the year corresponding to the depreciation of the securities of the subsidiaries Chez Parrot for 771 K€, Parrot Shmates for 25 K€ and Parrot Drones for 104,753 K€.

Considering the equity position of its subsidiary Parrot Shmates, Parrot SA has fully written off the amount of its interest, representing 24,500 €, and the current account advance based on the amount of the negative net position, representing 1,951,115 €.

Impairment test assumptions:

The value in use of Parrot Drones securities is assessed based on future prospects, which are estimated based on cash flow forecasts, a discounted terminal value, a perpetuity growth rate of 1.5% and a discount rate of 11% (rate after tax applied to flows after tax).

The assumptions retained are based on the 2018 budget and the management team's strategic plan for 2019, 2020 and 2021, including rates of growth and profitability that are considered to be reasonable. The 2018 budget and the 2019 and 2020 strategic plan are approved by the Board of Directors.

20.5.1.4.3. Subsidiaries and equity interests

Subsidiaries and equity interests	SIREN code	Capital	Shareholders' equity excl. earnings for year	Capital stake (%)	Net book value of securities			Loans and advances			Revenues	Earnings	Dividends received
Detailed information concerning subsidiaries and equity interests in euros													
					Gross	Provisions	Net	Gross	Provisions	Net			
CHEZ PARROT	751 758 848	10,000	-426,059	100	10,000		10,000	600,984	345,000	255,984	1,053,955	18,301	
PARROT GmbH (Germany)		25,000	239,369	100	25,000		25,000			-	3,776,976	634,929	
PARROT SRL (Italy)		10,000	200,589	100	10,000		10,000			-	1,916,774	193,897	
PARROT UK Ltd (UK)		128	838,966	100	145		145			-	3,101,640	491,758	
PARROT IBERIA (Inpro)		63,063	2,040,845	100	22,996,160	20,510,000	2,486,160			-	2,424,571	439,715	
PARROT JAPAN (KK)		68,860	332,369	100	77,950		77,950			-	871,030	45,966	
PARROT AUSTRALIA		6,743	91,074	100	8,236		8,236			-	1,835,298	280,707	8,766,023
PARROT AUTOMOTIVE	808 381 156	35,507,913	35,507,913	100	35,507,913		35,507,913	-1,490,256		-1,490,256	27,982,142	9,227,393	
PARROT DRONE	808 408 074	59,537,824	59,537,824	100	59,537,824		59,537,824	191,419,797.17	78,289,279	113,130,518	129,596,086	-126,092,335	
PARROT INVEST 4	815 201 587	1,000		100	1,000		1,000			-	-	-	
Total					**118,174,228**	**20,510,000**	**97,664,228**	**190,530,525**	**78,634,279**	**111,896,246**	**172,558,472**	**-114,759,669**	**8,766,023**

In addition to the depreciation of Parrot Iberia securities (existing) for 20,510 K€, a 104,753 K€ provision for impairment was recorded for Parrot Drones during the year. The Chez Parrot securities were also written down for 771 K€, and a 25 K€ depreciation was recorded for the Parrot Shmates securities.

During 2017, Parrot SA received 8,669K€ in dividends from its subsidiary Parrot Faurecia.
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.

20.5.1.4.4. Change in marketable securities

	Number	Unit price	Unrealized gain/loss	Total
SG Monétaires	7	5,310	-	37,168
CIC Tempo 3 mois à préavis	2	10,000,000	3,556	20,000,000
CIC Tempo 3 mois à préavis	1	5,000,000	889	5,000,000
LCL CAT Trésorerie Libre	1	1,024,034	64	1,024,034
BNP Potentiels 1.2.3.	1	10,000,000	0	10,000,000
Crédit Agricole DAT Prof Revenus 5 ans	1	3,000,000	2,173	3,000,000
LCL Ressources Plus Privilèges	1	10,000,000		10,000,000
Sub-total: Investments			**6,682**	**49,061,202**

	Number	Buyback value	Depreciation	Net value
Treasury shares allocated	407,593	5,433,552	-	5,433,552
Treasury shares to be allocated	150,423	1,889,242	-583,571	1,305,672
Treasury shares to be cancelled	148,137	2,434,477		2,434,477

Liquidity agreement	14,909	131,436		131,436
Sub-total: Treasury shares	**721,062**	**9,888,707**	**-583,571**	**9,305,137**

Transaction date	Quantity	Capital gains	Acquisition/sale price
Number of securities at Dec 31, 2016	8,067		82,005
Purchases in Year N	618,775		6,056,619
Sales in Year N	611,933		6,007,188
Sub-total: Liquidity agreement	**14,909**	**11,863**	**131,436**
Total marketable securities			**58,497,774**

20.5.1.4.5. Share buyback programs

	Remaining shares at Dec 31, 16	Value (€)	Shares cancelled in 2017	Value (€)	Shares awarded served in 2017	Value (€)	Shares bought back	Value (€)	Shares awarded unserved	Shares remaining	Shares to be cancelled in 2018	Value (€)
Share buyback program no. 6	2,200	40,098								2,200	2,200	40,098
Share buyback program no. 10	128,685	2,324,495			-86,212	1,557,286				42,473	42,473	767,209
Share buyback program no. 11	75,270	1,200,120								75,270	75,270	1,200,120
Share buyback program no. 12	149,700	2,267,483								149,700	28,194	2,267,483
Share buyback program no. 13	436,510	5,482,361								436,510	-	5,482,361
TOTAL	**792,365**	**11,314,557**	**-**	**-**	**-86,212**	**1,557,286**	**-**	**-**	**-**	**706,153**	**148,137**	**9,757,271**

20.5.1.4.6. Liquidity agreement

Transaction date	Quantity	Acquisition/sale price
Number of securities at Dec 31, 2016	8,067	82,005
Purchases in Year N	618,775	6,056,619
Sales in Year N	611,933	6,007,188
Number of securities at Dec 31, 2017	**14,909**	**131,436**

20.5.1.4.7. Accounts receivable

Breakdown of accounts receivable on the balance sheet	Amount
Long-term financial investments	-
Equity interest-related receivables	
Other long-term financial investments	
Receivables	**3,416,142**
Trade receivables and related	
Staff & social organizations	
State	2,182,394
Sundry receivables & other receivables	1,233,748
Marketable securities	-
Cash and cash equivalents	**-**
Accrued interest receivable	
TOTAL	**3,416,142**

20.5.1.4.8. Prepaid expenses and income

	Expenses	Income
Operating income or expenses	615,379	-
Financial income or expenses		
Non-recurring income or expenses		
TOTAL	**615,379**	**-**

20.5.1.5. Liabilities

20.5.1.5.1. Change in shareholders' equity

	2016	Change	2017
Capital	4,599,258	-	4,599,258
Issue premium	331,677,756	-	331,677,756
Legal reserve	203,512		203,512
Retained earnings	81,561,783	-74,032,904	7,528,879
2016 earnings	-74,032,904	74,032,904	-
2017 earnings		-39,161,859	-39,161,859
TOTAL	**344,009,405**	**-39,161,859**	**304,847,546**

The changes in shareholders' equity during 2017 reflect the allocation of the loss for the year ended December 31, 2016 to retained earnings and the recognition of earnings for 2017.

20.5.1.5.2. Share capital

	Number	Par value in €
1-Shares or rights comprising the capital at year-start	30,174,671	0.1524
2-Shares or rights issued during the year	-	0.1524
3-Shares or rights cancelled during the year	-	0.1524
4-Shares or rights comprising the capital at year-end	**30,174,671**	**0.1524**

20.5.1.5.3. Stock options and bonus shares

STOCK OPTIONS

Board of Directors decision date	Situation at end 2016	Quantity exercised in 2017	Quantity expired in 2017	New schemes in 2017	Situation at end 2017	Exercise limit date
Feb 10, 11	-				-	Feb 9, 16
May 12, 11	-				-	May 11, 16
Jul 28, 11	4,318				4,318	Jul 27, 18
Nov 10, 11	68,092				68,092	Nov 9, 18
Feb 15, 12	249,670				249,670	Feb 14, 17
May 12, 12	24,178				24,178	May 9, 17
Nov 10, 12	31,086				31,086	Nov 15, 17
Feb 20, 13	8,635				8,635	Feb 19, 18
May 15, 13	23,027				23,027	May 14, 18
	409,006	**-**	**-**	**-**	**409,006**	

BONUS SHARES

Board of Directors decision date	Situation at end 2016	Quantity exercised in 2017	Quantity expired in 2017	New schemes in 2017	Situation at end 2017	Exercise limit date
Aug 1, 13	-				-	Jul 31, 16
Nov 15, 13	-				-	Nov 14, 16
Jan 15, 14	65,428	-50,366	-15,062		-	Jan 14, 17
Mar 1, 14	30,381	-24,909	-5,472		-	Feb 28, 17
Oct 1, 14	5,757	-3,742	-2,015		-	Sep 30, 17
Mar 1, 15	36,702		-15,833		20,869	Feb 28, 18
Nov 20, 15	133,976	-7,195	-35,257		91,524	Nov 19, 18
May 1, 16	29,500		-10,300		19,200	Apr 30, 19
May 13, 17				25,000	25,000	May 13, 18
May 24, 17			-7,000	222,750	215,750	May 13, 19
Jul 27, 17				20,750	20,750	Jul 27, 19
Nov 9, 17				14,500	14,500	Nov 9, 19
	301,744	**-86,212**	**-90,939**	**283,000**	**407,593**	

20.5.1.5.4. 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	210,000			50,000	160,000
For exchange rate loss	3,350	14,291,865		3,350	14,291,865
For depreciation schedule on shares distributed	-				-
For depreciation schedule on shares distributed (unqualified)	1,756,433	160,774	1,427,319	194,491	295,397
For depreciation schedule on Macron Act shares	765,537	1,566,791	129,966	158,884	2,043,478
For financial risks for Chez Parrot	-	168,135			168,135
For financial risks for Parrot Shmates	-				-
For employment disputes	15,000	475,477	15,000		475,477
For retirement benefits	287,000			104,000	183,000
For tax	269,000			269,000	-
FOR CONTINGENCIES AND LIABILITIES	**3,306,319**	**16,663,042**	**1,572,285**	**779,725**	**17,617,351**
For intangible assets	-				-
For property, plant and equipment	-				-
For fixed assets: equity-consolidated securities	-				-
For equity securities	20,510,000	105,548,550			126,058,550
For other long-term financial investments	78,289,279			78,289,279	-
For current accounts	345,000	1,951,115		345,000	1,951,115
For inventories and work-in-progress	-				-
For trade receivables	-				-
For impairment of marketable securities	1,178,708	583,571		1,178,708	583,571
For impairment of Varioptic goodwill	-				-
FOR DEPRECIATION	**100,322,987**	**108,083,236**	**-**	**79,812,987**	**128,593,236**
TOTAL	**103,629,306**	**124,746,278**	**1,572,285**	**80,592,712**	**146,210,587**

20.5.1.5.5. Financial liabilities

FINANCIAL LIABILITIES	Dec 31, 2017	Dec 31, 2016
Convertible bonds	41,021,315	
Borrowings and debt with credit institutions	-	41,213,200
Accrued interest payable	615,320	20,127
Cash pooling: Group advance / borrowings	1,513	3,533,813
TOTAL	**41,638,147**	**44,767,140**

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

On February 20, 2017, Parrot SA made an early repayment covering all the outstanding sums due under the external growth credit agreement set up on July 24, 2015 for a total of 41.3 M€. As a result, the company secured the release of the agreement pledging financial securities as collateral for 35.5 M€, signed on July 24, 2015 between Parrot SA and the banks involved in the syndicated credit facility for external growth.

Cash pooling: Group advance / borrowings

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

20.5.1.5.6. Accrued expenses

ACCRUED EXPENSES INCLUDED IN BALANCE SHEET ITEMS	Amount
Convertible bonds	
Other bonds	
Borrowings and debt with credit institutions	
Sundry borrowings and financial debt	-
Trade payables and related	2,135,979
Tax and social security liabilities	1,164,366
Liabilities on fixed assets and related	
Accrued expenses	615,320
Other liabilities	67,500
TOTAL	**3,983,165**

20.5.1.5.7. Translation gains or losses

Type	Amount assets: unrealized loss	Difference offset through forex hedging	Provision for forex loss	Amount liabilities: unrealized gain
On non-financial fixed assets				
On long-term financial investments				
On trade receivables	3,149		3,149	-
On current account receivables	14,288,564		14,288,564	-
On financial liabilities				
On operating liabilities	152		152	-202
On current account liabilities				-62,304
On fixed asset-related liabilities				
TOTAL	**14,291,865**	**-**	**14,291,865**	**-62,506**

20.5.1.6. Information on the income statement

20.5.1.6.1. Revenues

Breakdown by region	Amount
Europe excluding France	-
France	14,528,840
Other countries	111,398
Total	**14,640,237**

20.5.1.6.2. Other income

	Amount
Royalties billed to Parrot Faurecia Automotive	1,366,789
Royalties billed to Parrot Drones	2,135,937
Other	11,439
Total	**3,514,165**

20.5.1.6.3. Financial income and expenses

FINANCIAL INCOME	Amount	Allocated to
	8,669,425	Financial income from equity interests
	474,539	Other interest and related income
	81,726,997	Reversal of provisions
	-183,095	Transferred expenses
	490,679	Foreign exchange gain
	406,927	Capital gain on other marketable securities
	119,232	Capital gain on treasury stock
TOTAL	**91,704,704**	

FINANCIAL EXPENSES	Amount	Allocated to
	14,291,865	Provisions for exchange gains or losses
	160,774	Depreciation of shares distributed (unqualified)
	1,566,791	Depreciation of shares distributed under Macron Act
	583,571	Depreciation of marketable securities
	107,499,665	Depreciation of equity securities
	168,135	Depreciation for financial risk
	1,024,812	Interest
	2,617,146	Foreign exchange loss
	130,264	Capital loss on treasury stock
TOTAL	**128,043,023**	

Financial income and expenses reflect a 36,338 K€ loss, linked primarily to the reversal of the depreciation of the Parrot Drones receivable for 78,289 K€, the depreciation of Parrot Drones securities for 104,753 K€, the dividends received from Parrot Automotive for 8,669 K€ and the foreign exchange losses on current account receivables for 14,289 K€.

20.5.1.6.4. Non-recurring income and expenses

NON-RECURRING INCOME	Amount	Allocated to
	990	Income from disposal of asset items
	-	Non-recurring income from previous years
	468,061	Misc. non-recurring income
	-	Reversal of provisions for non-recurring expenses
	1,557,286	Transferred non-recurring expenses
TOTAL	**2,026,337**	

NON-RECURRING EXPENSES	Amount	
	93	Penalties
	1,584,160	Non-recurring expenses (linked to restructuring)
	1,362	Book values of assets divested
	1,557,286	Merger loss from the acquisition of shares issued by the Company
	475,477	Non-recurring depreciation and provisions
TOTAL	**3,618,378**	

20.5.1.6.5. Corporate income tax

BREAKDOWN	Pre-tax earnings	Tax
Income from ordinary operations	**-37,569,817**	
Common law tax		
Discount rate tax		
Withholding tax		
Tax credit		
Provisions for tax		
Non-recurring income / loss (excluding equity interests)	**-1,592,041**	
Pre-tax earnings	**-39,161,859**	
Tax		-
Net income		**-39,161,859**

20.5.1.6.6. Unrealized taxes

	Base	Tax
Temporarily taxable transactions		
Losses carried forward	19,630,301	
Loss for the year	18,312,849	
ORGANIC (national fund for independent organization of old-age insurance for non-salaried industrial and commercial workers)		
Unrealized capital gains on UCITS		
Foreign exchange gains		
Provisions for retirement benefits	183,000	
Total	38,126,150	
Future tax savings (based on a rate of 33.33%)		12,707,446
Total	**38,126,150**	**12,707,446**

20.5.1.7. Other information

20.5.1.7.1. Payables and receivables

RECEIVABLES	Gross amount	Under 1 year	Over 1 year
FIXED ASSETS			
Equity interest-related receivables	48,432,051		48,432,051
Loans	-		
Other long-term financial investments	3,002,242	-	3,002,242
TOTAL	**51,434,293**	-	**51,434,293**
CURRENT ASSETS			
Bad or disputed receivables	-		
Other trade receivables	5,462,384	5,462,384	
Advances and deposits paid	5,021	5,021	
Receivables representative of loaned securities	-		
Staff and related	4,980	4,980	
Social security and related	7,911	7,911	
State - corporate income tax	4,861,243		4,861,243
State - value-added tax	642,030	642,030	
State - other taxes, duties and related	2,182,394	2,182,394	
Group and related	115,793,785	115,793,785	
Sundry receivables	-		
TOTAL	**128,959,749**	**124,098,505**	**4,861,243**
Prepaid expenses	615,379	615,379	
GENERAL TOTAL	**181,009,421**	**124,713,884**	**56,295,537**

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

The other long-term financial investments primarily concern rental security deposits for 553 K€ and treasury stock in the process of being cancelled for 2,434 K€.

The tax receivables (State – corporate income tax) primarily concern the research tax credit for the year for 3,651 K€, as well as the section of the research tax credits not funded from previous years:

- 335 K€ for 2014
- 395 K€ for 2015
- 480 K€ for 2016

The Group receivables primarily concern the current account receivables (net of current account payables) on Parrot Drones for 111,928 K€.

PAYABLES	Gross amount	Under 1 year	1 to 5 years	Over 5 years
Convertible bonds	41,021,315		41,021,315	
Borrowings from credit institutions	615,320	615,320		
Sundry borrowings and financial debt	1,513	1,513		
Trade payables and related	3,253,607	3,253,607		
Staff and related	639,286	639,286		
Social security and related	673,573	673,573		
Corporate income tax				
Value-added tax	930,107	930,107		
Surety bonds		-		
Other taxes and related	190,792	190,792		
Fixed asset payables and related				
Group and related	3,603,593	3,603,593		

Other payables	70,955	70,955		
Debt representative of borrowed securities				
Prepaid income				
GENERAL TOTAL	**51,000,061**	**9,978,746**	**41,021,315**	**-**

20.5.1.7.2. Off-balance sheet commitments

- The main off-balance sheet commitments at December 31, 2016 are as follows:
- Future payment commitments relating to operating lease agreements, staggered from 2015 to 2021, for a total of 1.1 M€.
- Under the terms of the partners agreement entered into on March 31, 2017, Parrot and Faurecia have signed cross put and call option agreements. In this way, Faurecia has made a commitment to buy (first and second call option) and Parrot has made a commitment to sell (first, second and third put option) the shares held by Parrot SA in Parrot Faurecia Automotive.
- Parrot SA has given financial support to its subsidiary Parrot Drones
- On July 20, 2012, Parrot SA granted Jade SAS a joint and several guarantee for up to 0.5 M€ for the effective fulfilment by its subsidiary Chez Parrot SARL of its commitments under its lease for the premises at 30 rue du Quatre-Septembre in Paris (75002).
- A parent company guarantee for USD 2,770,049 was signed on January 29, 2016 with the company Matrix Partners Management Services LP, guaranteeing rental commitments for the American subsidiary Parrot Inc.

20.5.1.7.3. Retirement benefits

Main assumptions	2017	
Discount rate	2.00%	
Inflation rate	2.00%	
Rate of wage growth	3.00%	
Mortality tables	INSEE TH/TF 11-13	
Retirement approach	Voluntary	
Retirement age	**Executive-grade staff**	**Non-executives**
	65	63
Turnover		
Aged 25 or less	27.00%	14.00%
25-29	18.00%	10.00%
30-34	11.75%	6.75%
35-39	6.50%	4.25%
40-44	3.00%	1.90%
45-49	1.50%	0.80%
Aged 50 and over	0.00%	0.00%
Employer payroll taxes rate	45.00%	45.00%
Valuation method	Projected unit credits with prorated entitlements at term	
Change in provisions at Dec 31, 2017		

(Provision) / amount paid in advance at start of period	287,000
Income / expense for 2017	-104,000
Benefits paid by employer	
(Provision) / amount paid in advance at Dec 31, 2017	**183,000**

20.5.1.7.4. Headcount

Headcount at December 31	2017	2016
	48	60
Average headcount	2017	2016
	49	57

20.5.1.7.5. Executive compensation

The global compensation for administrative and management bodies totaled 867,153 euros.

20.5.1.7.6. Statutory auditors' fees

The breakdown of statutory auditors' fees is as follows:

In €	**KPMG SA**	**EY**
Accounts certification	105,000	192,000
Services other than accounts certification:		
Services other than accounts certification required by legislation and regulations	2,500	3,500
Other services other than accounts certification		30,000
TOTAL	**107,500**	**225,500**

20.6. Statutory auditors' report on the annual financial statements for 2017

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

Statutory Auditors
Member of the Compagnie Régionale de Versailles

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

Statutory Auditors
Member of the Compagnie Régionale de Versailles

Dear Shareholders,

Opinion

- In accordance with the terms of our appointment by your general meetings, we have audited Parrot's annual financial statements for the year ended December 31, 2017, as appended to this report.
- We certify that the annual financial statements present fairly, in all material respects, the financial position of the company, its assets and liabilities, and the results of its operations for the year ended in accordance with the accounting rules and principles in force in France.

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

Basis for our opinion

Audit standards

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

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

Independence

We conducted our audit in accordance with the rules governing us in terms of independence for the period from January 1, 2017 to the date of our report. More specifically, we have not provided any services forbidden by Article 5, Paragraph 1, of EU Regulation 537/2014 or by the professional code of conduct for statutory auditors.

Basis for our opinions - Key points from the audit

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

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

■ **Valuation of equity securities and related receivables**

Risk identified	Our response
The equity securities presented on the balance sheet for a net total of 101.9 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 Parrot Automotive 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 the subsequent capital increases. The related receivables, presented on the balance sheet for 48.4 M€ net, are recorded at their nominal value. They are depreciated based on their value in use. At each year-end, the net book value is compared with the value in use. As indicated in Note 3.3.3, the value in use of securities and related receivables is estimated, depending on the securities concerned, based on the value of their portion of shareholders' equity held or their future prospects. The estimation of the value in use requires management to exercise its judgement concerning its choice of the elements to be considered depending on the securities concerned: depending on the case, these elements may correspond to historic elements (shareholders' equity) or forward-looking elements (outlook for profitability and economic environment). 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. We considered that the correct valuation of equity securities and related receivables was a key point for the audit due to their significant amount and the fact that their value in use, based on discounted cash flow forecasts, is dependent to a great extent on the management team's assumptions, estimates or assessments.	To assess the reasonable nature of estimates for the value in use of equity securities and related receivables, based on the information provided to us, our work involved checking that the estimation of these values by management is based on an appropriate justification for the valuation method and figures used. For valuations based on the portion of shareholders' equity, we have checked that the levels of shareholders' equity retained were consistent with the accounts of the entities subject to an audit or analytical procedures. For valuations based on future prospects, we have obtained the impairment test based on discounted cash flow and analyzed: ► The reasonable nature of the cash flow forecasts for 2018 to 2021 in relation to the economic and competitive environment in which the subsidiary operates; ► The consistency of the cash flow forecasts used for the impairment test for 2018 to 2020 with the 2018 budget and the 2019-2020 strategic plan approved by the Board of Directors on March 14, 2018; ► The consistency of the assumptions retained and particularly the discount rate and perpetuity growth rate; ► That the value resulting from the cash flow forecasts has been adjusted for the amount of net debt for the entity in question; ► This work was carried out with our firms' valuation experts. In addition to assessing the value in use of equity securities, our work involved: ► Assessing the recoverable nature of related receivables based on the analyses carried out on the equity securities; ► Reviewing the correct recognition of a provision for contingencies if the company would be required to cover the losses; ► Reviewing the appropriate nature of the financial disclosures provided in Note 3.4.3 to the annual financial statements.

Verification of the management report and other documents provided to shareholders

In accordance with the industry standards applicable in France, we also performed the specific procedures required under French law.

■ **Disclosures in the management report and in the other documents provided to shareholders on the financial position and annual financial statements**

We have no observations to make regarding the fair presentation and consistency with the annual financial statements of the information given in the Board of Directors' management report and the other documents provided for shareholders with respect to the financial position and the annual financial statements.

■ **Corporate governance report**

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

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

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

■ Other information

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

Information resulting from other legal and regulatory requirements

■ Appointment of the statutory auditors

KPMG was appointed as Parrot's statutory auditor at the general meeting on June 18, 1996, which acknowledged the merger of the company François Kimmel – André Touati into KPMG on March 15, 1996. ERNST & YOUNG et Autres was appointed as the company's statutory auditor on June 6, 2012.

At December 31, 2017, KPMG was in the 22nd year of its mission as a statutory auditor for the company and its seventh year since Parrot has been a public-interest entity (*Entité d'Intérêt Public*), while ERNST & YOUNG et Autres is in its sixth year.

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

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

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

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

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

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

■ Audit approach and objective

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

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

- They identify and assess the risks that the annual financial statements include material misstatements, that these are the result of fraud or errors, define and put in place audit procedures faced with these risks, and collect the elements that they consider sufficient and appropriate to form a basis for their opinion. The risk of a material misstatement resulting from fraud not being detected is higher than for a material misstatement resulting from an error, because fraud may imply collusion, falsification, voluntary omissions, misrepresentation or a bypassing of internal control arrangements;

- They review the relevant internal control arrangements for the audit in order to define audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;

- They assess the appropriate nature of the accounting methods applied and the reasonable nature of any accounting estimates made by management, in addition to the information concerning them provided in the annual financial statements;

- They assess the management team's appropriate application of the accounting convention for continuous operations and, depending on the elements collected, whether or not there is any significant uncertainty relating to events or circumstances that might call into question the company's capacity to continue operating. This assessment is based on the elements collected up until the date of their report, while noting however that subsequent circumstances or events might call into question the continuity of operations. If they conclude that there is any significant uncertainty, they draw the attention of readers of their report to the information provided in the annual financial statements relating to this uncertainty or, if this information is not provided or is not relevant, they issue their certification with reservations or refuse to certify the accounts;

- They assess the overall presentation of the annual financial statements and evaluate whether the annual financial statements accurately reflect the underlying events and operations.

Report for the audit committee

We provide a report to the audit committee which notably presents the scope of the audit work and the program of work carried out, as well as the conclusions based on our work. If applicable, we also bring to the committee's attention any significant shortcomings with internal control that we have identified with the procedures applied for the preparation and processing of accounting and financial information. The elements provided in the report for the audit committee include the risks of material misstatements which we considered to be most significant for the audit of the annual financial statements and which therefore constitute the key points from the audit, which it is our responsibility to present in this report.

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

Paris-La Défense, April 27, 2018

The statutory auditors

KPMG Audit IS	ERNST & YOUNG et Autres
Nicolas Piofret	Pierre Jouanne

20.7. Interim financial information

Not applicable.

20.8. Dividend payment policies

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

On the filing date for the present reference 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 dividends to its shareholders in the near future.

20.9. Arbitration and judicial proceedings

Parrot SA and its subsidiaries Parrot Drones SAS and Parrot Inc. are currently subject to several patent infringement proceedings in the United States concerning the Drone business. To date, the risk has not been able to be accurately evaluated.

There are no other governmental, arbitration or legal 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 of the Company and/or the Group.

20.9. Significant changes in the commercial or financial position

The Group has not seen any significant change in its commercial or financial position since December 31, 2017.

For information on the current financial year, readers are invited to also refer to sections XII “Information on trends” and XIII “Financial outlook”.

XXI. Additional information

21.1. Share capital

On the date for the present reference document, Parrot is a French-law limited company ("société anonyme") governed by the laws and regulations in force, as well as its status as a publicly traded company whose shares are admitted for trading on a regulated market.

21.1.1. Amount of the share capital

At December 31, 2016, the share capital was split into 30,174,671 fully paid-up ordinary shares, all of the same category, with a par value of 0.1524 euros, representing a total of 4,598,258 euros.

21.1.2. Non-capital securities

On the filing date for this reference document, the Company had not issued any securities that are not representative of its capital.

21.1.3. Shares bought back over the year

21.1.3.1. Share buyback policy and objectives

The Company entered into a first liquidity agreement with Natixis on July 31, 2008, in accordance with the AFEI compliance charter, approved by the French securities regulator (AMF), for a one-year period, tacitly renewable subject to the renewal of the authorization given to the Board of Directors to implement a share buyback program by the aforementioned general meeting.

Since the Ordinary General Meeting on June 21, 2017 renewed the authorization for the Board of Directors to implement a share purchase program, the Board acknowledged during its meeting on June 21, 2017 this contract's tacit renewal as from this same day. The latest mandate still in place with Natixis is due to end on the day of the general meeting convened to approve the annual financial statements for 2017.

As authorized by the general meeting on June 21, 2017, the maximum purchase price for shares has been set at 40 euros. Acquisitions made by the Company under these authorizations may not result in the Company directly or indirectly holding more than 10% of the shares comprising its capital (while noting that the number of shares acquired with a view to being issued again subsequently in connection with a merger, spin-off or contribution operation may not exceed 5% of the capital).

The shares bought back may be used with a view to:

- Continuing to implement the liquidity agreement;
- Allocating stock options and/or bonus shares;
- Being allocated in exchange, in payment or otherwise in connection with external growth operations;
- Reducing the Company's capital through cancellations.

21.1.3.2. Liquidity agreement in connection with the share buyback programs

The means made available to Natixis Securities so that it can perform its market making activity have been set at a maximum of 650 K€, paid up in full, with the maximum unit price for purchases not to exceed 80.00 euros.

As decided by the Board of Directors on June 21, 2017, the Company acknowledged the automatic renewal of the liquidity agreement set up with Natixis for a one-year period from July 31, 2017 to July 31, 2018.

- In 2016, in connection with the liquidity agreement:
- Number of shares bought and sold:
  - 618,775 shares bought;
  - 611,933 shares sold.
- Average price for purchases and sales:
  - Average purchase price: 9.78808 euros;
  - Average sales price: 9.79871 euros.
- Number and value of shares registered in the Company's name at year-end:
  - 14,909 shares registered;
  - Value based on the purchase price: 131,497.38 euros;
  - Average purchase price: 8.82 euros;
  - Reasons for acquisitions made: market making or liquidity of the Company's share;

- Percentage of the capital they represent: not significant.

– Resources available for the liquidity account at December 31, 2017:
  - 111,688.11 euros.

– Amount of trading fees with Natixis:
  - Annual flat rate: 25 K€.

21.1.3.3. Treasury share buybacks in connection with the share buyback programs

The Company did not apply any share buyback programs other than the Liquidity Agreement in 2017.

21.1.4. Potential capital

The total number of Company shares that may be issued if all the securities entitling holders to access the Company's capital at December 31, 2017 were exercised represents:

– BSA1 and BSA2 equity warrants issued for the capital increase in December 2015: 3,347,672 shares, representing a maximum potential dilution of 11.1% of the Company's capital, which could occur if the equity warrants are exercised under the planned conditions from December 16, 2020 to December 15, 2022;

– Stock options: 409,006 shares, representing a potential dilution of approximately 1.4% of the Company's capital; traditionally, the Company offsets issues of stock options by cancelling treasury shares;

Bonus shares: 407,593 shares, with no potential dilution: traditionally the Company acquires the bonus shares awarded to staff on the financial market through its share buyback program authorized by the General Shareholders' Meeting.

The breakdown of the Company's capital and voting rights following the exercising of securities entitling holders to access the Company's capital is indicated in Section 18.1.1. "Breakdown of the share capital and voting rights" in this reference document.

21.1.4.1. Information concerning the Class 1 and Class 2 warrants issued in 2015

The warrants will be non-transferrable and therefore non-tradable until December 15, 2020 (inclusive), subject to certain exceptions indicated in the Prospectus for the capital increase (available on www.parrot.com and www.amf-france.org), which include the right for any BSA warrant holder to sell all or part of their Class 1 warrants and/or Class 2 warrants to employees or executive officers of the Company and/or its current or future subsidiaries following the Company's publication of a reference value for the Class 1 warrants and Class 2 warrants within 10 calendar days of the Company's publication of its press release relating to its full-year or half-year financial results, as applicable. Such sales (see below) may occur, under certain conditions, within 60 calendar days of the publication of these reference values, and in any event no later than December 15, 2020 (the warrants become transferable and exercisable from December 16, 2020).

From December 16, 2020 to December 15, 2022 (inclusive):

– Holders of the warrants will be entitled to receive new Company shares by exercising their warrants; 24 Class 1 warrants carry the right to subscribe for two new shares, at a unit price of 32.66 €, and 28 Class 2 warrants carry the right to subscribe for three new shares at a price of 42.34 €; warrants not exercised during this period will become void and lose all value;

– The Class 1 warrants and the Class 2 warrants will be listed separately from the Company's existing shares. The Class 1 warrants will be listed under the ISIN code FR0013054269, and the Class 2 warrants will be listed on a separate listing line under the ISIN code FR0013054335.

The Company's shares resulting from the exercising of the warrants (which represent a total potential dilution of 11.1% of the capital following the capital increase) will be ordinary shares of the same class as the Company's existing shares. They will carry the same rights, including, with effect from their issue, to all distributions decided by the Company from that date. These shares will be subject to periodical requests for admission to trading on Euronext Paris on the same listing line as the Company's existing shares and under the same ISIN code FR0004038263.

21.1.4.2. Results of transferability windows for warrants for the year

During the third transferability window, open from March 7, 2017 to May 5, 2017 (inclusive), 50,000 Class 1 warrants with a unit price of 0.07 € were subject to purchase orders and transferred to eligible managers, while no Class 2 warrants were subject to purchase orders and transferred to eligible managers.

During the fourth transferability window, open from August 8, 2017 to October 6, 2017 (inclusive), no warrants were subject to purchase orders and transferred to eligible managers.

Since the first transferability window, a total of 55,000 Class 1 warrants and 5,000 Class 2 warrants have been transferred to eligible managers.

21.1.5. Authorized capital not issued

The following table summarizes the valid delegations granted by general shareholders' meetings, as well as the uses made of them during previous financial years and 2017.

- **Extraordinary General Meeting on November 6, 2015**

Delegation given to Board of Directors	Term of delegation	Maximum nominal amount of capital increase	Use made in 2016
1 – Delegation of authority for the Board to issue ordinary Company shares and/or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities entitling holders to access capital securities to be issued, with preferential subscription rights maintained for shareholders	26 months from Nov 6, 2015, i.e. through to Jan 5, 2018	3,810 K€	NA
2 – Delegation of authority for the Board to issue ordinary Company shares and/or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities entitling holders to access capital securities to be issued, with preferential subscription rights waived for shareholders in connection with a public offering	26 months from Nov 6, 2015, i.e. through to Jan 5, 2018	750 K€	NA
3 – Delegation of authority for the Board to issue ordinary Company shares and/or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities entitling holders to access capital securities to be issued, with preferential subscription rights waived, in connection with an offer covered by Section II of Article L.411-2 of the French monetary and financial code	26 months from Nov 6, 2015, i.e. through to Jan 5, 2018	20% of the capital/year	NA
4 - In the event of a capital increase with or without preferential subscription rights for shareholders, authorization for the Board to increase the number of securities to be issued	26 months from Nov 6, 2015, i.e. through to Jan 5, 2018	15% of the amount of the initial issue	NA
5 – Delegation of authority for the Board to issue ordinary Company shares and/or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities entitling holders to access capital securities to be issued, with preferential subscription rights waived, in the event of a public exchange offer initiated by the Company	26 months from Nov 6, 2015, i.e. through to Jan 5, 2018	750 K€	NA
6 – Delegation of authority for the Board to issue ordinary Company shares in return for contributions in kind made to the Company and comprising capital securities or marketable securities with an equity component	26 months from Nov 6, 2015, i.e. through to Jan 5, 2018	10% of the capital on Nov 6, 2015	NA
7 – Delegation of authority for the Board to increase the Company's capital through the incorporation of reserves, profits or premiums	26 months from Nov 6, 2015, i.e. through to Jan 5, 2018	750 K€	NA

- **Overall cap on authorizations: 3,810 K€.**

Extraordinary General Meeting on June 16, 2016

Delegation given to Board of Directors	Term of delegation	Maximum nominal amount of capital increase	Use made in 2016
1 - Authorization for the Board to reduce the capital through the cancellation of shares in accordance with Article L.225-209 of the French commercial code	18 months from Jun 16, 2016, i.e. through to Dec 15, 2017	10% per 24-month period (capital reduction)	NA
2 – Authorization for the Board to award stock options and/or warrants to employees and/or certain corporate officers of the Company or related companies	From Jun 16, 2016 to the General Meeting to approve the financial statements for the year ended Dec 31, 2016	1% of the capital on June 16, 2016	NA
3 – Authorization for the Board to freely award shares to employees and/or certain corporate officers of the Company or related companies	From Jun 16, 2016 to the General Meeting to approve the financial statements for the year ended Dec 31, 2016	2% of the capital on June 16, 2016	Awarding of 247,750 Company shares decided by the Board on May 13, 2017

Extraordinary General Meeting on June 21, 2017

Delegation given to Board of Directors	Term of delegation	Maximum nominal amount of capital increase	Use made in 2017
1 - Authorization for the Board to reduce the capital through the cancellation of shares in accordance with Article L.225-209 of the French commercial code	18 months from Jun 21, 2017, i.e. through to Dec 20, 2018	10% per 24-month period (capital reduction)	NA
2 – Authorization for the Board to award stock options and/or warrants to employees and/or certain corporate officers of the Company or related companies	From Jun 21, 2017 to the General Meeting to approve the financial statements for the year ended Dec 31, 2017	1% of the capital on Jun 21, 2017	NA
3 – Authorization for the Board to freely award shares to employees and/or certain corporate officers of the Company or related companies	From Jun 21, 2017 to the General Meeting to approve the financial statements for the year ended Dec 31, 2017	2% of the capital on Jun 21, 2017	Awarding of 20,750 Company shares decided by the Board on Jul 27, 2017 Awarding of 14,500 Company shares decided by the Board on Nov 9, 2017
4 – Delegation of authority for the Board to issue ordinary Company shares and/or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities entitling holders to access capital securities to be issued, with preferential subscription rights maintained for shareholders	26 months from Jun 21, 2017, i.e. through to Aug 20, 2019	2,299 K€	NA
5 – Delegation of authority for the Board to issue ordinary Company shares and/or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities	26 months from Jun 21, 2017, i.e. through to Aug 20, 2019	750 K€	NA

entitling holders to access capital securities to be issued, with preferential subscription rights waived for shareholders in connection with a public offering			
6 – Delegation of authority for the Board to issue ordinary Company shares and/or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities entitling holders to access capital securities to be issued, with preferential subscription rights waived, in connection with an offer covered by Section II of Article L. 411-2 of the French monetary and financial code	26 months from Jun 21, 2017, i.e. through to Aug 20, 2019	15% of the capital/year	NA
7 - In the event of a capital increase with or without preferential subscription rights for shareholders, authorization for the Board to increase the number of securities to be issued	26 months from Jun 21, 2017, i.e. through to Aug 20, 2019	15% of the amount of the initial issue	NA
8 – Delegation of authority for the Board to issue ordinary Company shares and/or capital securities entitling holders to access other capital securities or the awarding of debt securities and/or marketable securities entitling holders to access capital securities to be issued, with preferential subscription rights waived, in the event of a public exchange offer initiated by the Company	26 months from Jun 21, 2017, i.e. through to Aug 20, 2019	750 K€	NA
9 – Delegation of authority for the Board to issue ordinary Company shares in return for contributions in kind made to the Company and comprising capital securities or marketable securities with an equity component	26 months from Jun 21, 2017, i.e. through to Aug 20, 2019	10% of the capital on Jun 21, 2017	NA
10 – Delegation of authority for the Board to increase the Company's capital through the incorporation of reserves, profits or premiums	26 months from Jun 21, 2017, i.e. through to Aug 20, 2019	750 K€	NA

- Overall cap on authorizations:
- 2,299 K€ (14th to 19th resolutions)
- 750 K€ (15th to 19th resolutions)

21.1.6. Information on conditions governing the capital

NA.

21.1.7. Change to the share capital

At December 31, 2017, the share capital was split into 30,174,671 fully paid-up ordinary shares, representing a total of 4,599 K€. The number of shares outstanding has not changed since December 31, 2016.

Details of changes to the share capital during the last two fiscal years

Date	Operation	Volume	Par value (€)	Nominal amount of change in capital (€)	Issue, contribution or merger premium (€)	Aggregate amount of share capital (€)	Aggregate number of shares
January 2016	Exercising of stock options	23,890	0.1524	3,641	253,368	4,596,098	30,153,942
March 2016	Exercising of stock options	6,217	0.1524	947	90,830	4,597,045	30,160,159
April 2016	Exercising of stock options	2,878	0.1524	439	42,052	4,597,484	30,163,037
July 2016	Exercising of stock options	5,756	0.1524	877	84,104	4,598,361	30,168,793
Sept. 2016	Exercising of stock options	5,878	0.1524	896	73,869	4,599,257	30,174,671

21.2. Updated bylaws from February 28, 2017

The bylaw provisions that have been adopted by the general shareholders' meeting and are in force following their latest update from February 28, 2017 are presented hereafter in full. They have not been amended since then.

The provisions set out in the French securities regulator (AMF) recommendation 2008-12 "Guide for preparing reference documents for small and mid-caps" are detailed below.

Article 1 - Form

The company is limited.

It is governed by the laws and regulations in force, and more specifically the provisions of the French commercial code (Code de commerce) relating to commercial companies, in addition to these bylaws.

Article 2 – Corporate purpose

The Company's purpose, both in France and abroad, is as follows:

- Design, development, verification, control, manufacturing, marketing, distribution and leasing of electronic and IT products (particularly integrated chipsets) for industry and consumers;
- Performance and marketing of technical and economic research in the electronics and IT sectors;
- Design, development, manufacturing, marketing and distribution of optical components, optical subsets or optoelectronics for industry or consumers;
- Development, manufacturing and sale of optical instruments for industry and consumers;
- Research, development and marketing of all systems using the electrowetting principle or related electrokinetic principles in all areas of interest for such systems: medical, biological, physics or chemical instrumentation;
- All directly or indirectly, on its own behalf or on behalf of third parties, either alone or with third parties, through the creation of new companies, contributions, partnerships, subscriptions, purchases of securities or corporate rights, mergers, alliances, joint ventures, leasing, takeover, management leasing of any business assets, establishments, property, rights or other elements;
- And generally, any financial, commercial, industrial, civil, real estate or property operations that may be directly or indirectly related to any of the specific purposes or any similar or related purposes, or likely to facilitate the development of corporate assets.

Article 3 – Company name

The company name is "Parrot".

In all documents originating from the Company and intended for third parties, the company name must be preceded or followed immediately by the words "société anonyme" ("limited company") or the abbreviation "S.A.", with a statement indicating the amount of the share capital.

Article 4 – Registered office

The registered office is located at 174-178, Quai de Jemmapes, 75010 Paris, France.

It may be relocated to any other venue in the same *département* or a neighboring *département* following a decision by the Board of Directors, subject to such a decision being ratified at the next Ordinary General Meeting, or to any other location following a decision by an Extraordinary General Meeting.

When a relocation is decided by the Board of Directors in accordance with French law, the Board may amend the bylaws accordingly.

Article 5 - Duration

The duration of the Company has been set at 99 years, starting from the date of its entry into the trade and companies register, unless extended or dissolved earlier.

Article 6 – Share capital

The share capital is set at 4,599,257.54 euros, split into 30,174,671 fully paid-up shares.

Article 7 – Change to the share capital

The share capital may be increased, reduced or redeemed by any means and in any way authorized under French law.

Article 8 – Conditions for shares to be paid-up

The shares subscribed for in cash either on incorporation or as part of a capital increase must be paid up for at least half of their par value on subscription at the time of incorporation and one quarter of their par value for subsequent capital increases in addition to, when applicable, the entire issue premium.

The remaining balance must be paid up on one or more occasions as called by the Board of Directors within five years either from the Company’s entry into the trade and companies register, or from the day when the capital increase became definitive.

Calls for funds are brought to the attention of subscribers at least 30 days before the date set for each payment in a notice published in a legal announcement journal or the French official gazette (BALO), followed by a recorded delivery letter for any shareholders who have not paid up the outstanding balance 15 days before the end of the period set.

Any late payment of sums due on the amount not paid up for shares is automatically subject to interest at the legal rate, without the need for any formalities, from the due date, without prejudice to any personal legal action that the Company may take against the defaulting shareholder and any legal enforcement measures.

Article 9 – Form of the shares

Shares may be held on a registered or bearer basis, as selected by their holders. Their materiality results from their registration in the names of the holders in accounts held to this effect, under the legal terms and conditions, by the Company or its agent for registered shares, and by an authorized intermediary for bearer shares.

Article 10 - Sale and transfer of shares and other marketable securities issued by the Company

The shares issued by the Company are freely tradable, unless indicated otherwise by any legislative or regulatory provisions.

Ownership of shares results from their registration in an account in the names of their holders in accounts held by the Company or its agent for registered shares, and in accounts held by an authorized intermediary for bearer shares.

With regard to third parties and the Company, shares are transferred based on an inter-account transfer under the legal and regulatory conditions in force. Shares that are not fully paid-up cannot be transferred between accounts.

The stipulations of this article apply in general for all marketable securities issued by the Company.

Article 11 - Rights and duties associated with shares

1) Each share entitles the holder to a part of the profits and corporate assets proportional to the share in the capital that it represents.

In addition, it gives the holder the right to vote and be represented at general meetings, under the legal conditions provided for under French law and the Company bylaws.

Under the 15th resolution at the Extraordinary General Meeting on June 30, 2015, it was decided not to confer double voting rights as established by French Law 2015-384 of March 29, 2014 to holders of shares referred to in Article L. 225-123 paragraph 3 of the French commercial code.

2) Shareholders are only liable for up to the nominal amount of the shares that they own; beyond this, no further funds may be requested.

- The rights and duties associated with shares correspond to the holder at all times.
- Owning one share entitles holders as of right to be covered by the Company’s bylaws and decisions taken by the general meetings.

3) Heirs, creditors, legal claimants or other representatives of a shareholder may not request the stamping of seals on the Company’s assets, request the sharing or licitation of such assets, or interfere in the administration of the Company. For the exercising of their rights, they must do so with reference to the corporate inventories and the decisions of the general meeting.

4) Whenever it is necessary to own several shares to exercise any right, in the event of an exchange, consolidation or allocation of shares, or further to a capital increase or reduction, merger or other corporate operation, the owners of isolated shares, or shares below the number required, will only be able to exercise such rights if they personally ensure the consolidation and, as relevant, the acquisition or sale of any shares required.

Article 12 - Indivisibility of shares – Beneficial ownership – Bare ownership

1) The shares are indivisible with regard to the Company.

Joint owners of shares are required to be represented in relation to the Company by only one of them, who is considered as the sole owner, or by a single proxy. In the event of a disagreement, the sole representative may be appointed by the courts at the request of the first joint owner to refer the matter to the courts.

2) Unless the Company is informed of an agreement indicating otherwise, the voting right belongs to the beneficial owner in Ordinary General Meetings and the bare owner in Extraordinary General Meetings.

Article 13 - Identification of shareholders – Disclosure thresholds

1) With a view to identifying holders of securities on a bearer basis, the Company, under the legal and regulatory terms and conditions in force, may at any time ask, in return for remuneration, the organization responsible for clearing the securities for the name or, if this concerns a legal entity, the corporate name, the nationality and the address or, as relevant, the registered office of holders of securities entitling them immediately or at a later time to vote at its general meetings, as well as the quantity of securities held by each one, and if necessary, any restrictions which may apply to the securities.

2) In addition to the legal disclosure requirement set out in Article L. 233-7 of the French commercial code, any individuals or legal entities acting alone or in concert that directly or indirectly acquire a number of shares representing 2.5% of the Company's capital or voting rights, or any multiple of this percentage, is required to inform the Company of the total number and the percentage of shares and voting rights that they hold, indicating its identity and that of any parties acting in concert with it, by email at ag@parrot.com, confirmed on the same day with a letter sent recorded delivery with delivery receipt to the Company's registered office, within four (4) trading days of any such thresholds being exceeded.

This obligation applies under the same conditions as those set out in the previous paragraph each time the fraction of the share capital or voting rights drops below one of the thresholds mentioned in the previous paragraph.

In the event of failure to comply with the requirements stipulated in the previous two paragraphs, any shares exceeding the fraction that should have been disclosed will forfeit their voting rights for any general meeting held until the end of a two-year period following the date when the disclosure issue was resolved. With the exception of cases when one of the thresholds provided for under Article L. 233-7 of the French commercial code are exceeded, voting rights will only be suspended further to a request by one or more shareholders holding at least 2.5% of the Company's capital and voting rights, recorded in the general meeting's minutes.

Article 14 – Board of Directors

The Company's administration is handled by a Board of Directors made up of a minimum of three and a maximum of 12 members.

For the duration of their term-of-office, each director must own at least ONE share (1).

Directors are appointed for a six (6) year term of office.

In the event of one or more director seats becoming vacant further to their death or resignation, the Board of Directors may, between two general meetings, make provisional appointments as provided for under French law.

However, when the number of directors in office falls below the minimum legally required, the directors still in office or, failing that, the statutory auditors must immediately convene an ordinary general shareholders' meeting with a view to completing the Board's headcount.

The provisional appointments made by the Board of Directors are submitted to be ratified at the next general meeting.

If provisional appointments are not ratified by the general meeting, the deliberations and proceedings carried out by the directors appointed provisionally, or with their support, will nevertheless remain valid.

Directors appointed to replace another member will remain in office for the time left to run on their predecessor's term.

All outgoing members may be reappointed. Notwithstanding the previous provisions, the number of individual directors and permanent representatives of corporate bodies over the age of 70 may not exceed one third of the directors in office (rounded up to the nearest whole number, as relevant) further to each ordinary annual general meeting convened to approve the corporate financial statements.

Article 15 – Board of Director's deliberations

1) Board meetings may be convened by any means, including verbally, either at the registered office or at any other location indicated in the notice to attend.

2) Deliberations are subject to the quorum and majority conditions provided for under French law. In the event of a tie, the Chairman of the session has a casting vote.

3) Except when the Board is convened to carry out the operations provided for under Articles L. 232-1 and L. 233-16 of the French commercial code, the Board of Directors' bylaws may consider directors participating in the meeting using videoconferencing or other telecommunications facilities enabling their identification and guaranteeing their effective participation, under the legislative and regulatory conditions in force, to be present for calculating the quorum and majority.

Article 16 – Powers of the Board of Directors

The Board of Directors determines the strategies for the Company's business and oversees their implementation. Subject to the powers expressly granted for shareholder meetings and in accordance with the corporate purpose, it reviews all matters concerning the Company's effective operations and rules on the affairs concerning it through its deliberations.

In dealings with third parties, the Company is committed by actions taken by the Board of Directors that do not fall within the corporate purpose, unless it is able to prove that the third party knew that the actions in question exceeded this purpose or that it could not be unaware of this in view of the circumstances, with the publication of the bylaws alone not enough to constitute such proof.

The Board of Directors carries out the controls and verifications that it deems necessary. All directors receive all the information required for their missions and may be provided with any documents that they believe necessary.

The Board of Directors may adopt a set of bylaws specifying the conditions under which it operates.

The Board of Directors may decide to create committees tasked with looking into matters submitted to them by the Board or its chairman for their opinion and review. It determines the makeup and remits of the committees operating under its responsibility. It also determines any compensation to be awarded to the people making up such committees.

Article 17 – Chairman of the Board of Directors

From among its individual members, the Board of Directors elects a Chairman and sets his or her term-of-office and compensation.

The Chairman is appointed for a term of office that may not exceed the term of his or her directorship, and may be reappointed.

The age limit for serving as Chairman of the Board of Directors is 65.

The Chairman of the Board of Directors organizes and oversees its work, which he or she reports on at the general meeting. He or she ensures that the Company's various bodies operate effectively and more specifically that the directors are able to perform their missions.

The Chairman of the Board of Directors is informed by the party concerned about agreements concerning day-to-day operations and entered into under normal conditions. The Chairman provides the Board members and the statutory auditors with a list and an indication of the purpose of such agreements.

Article 18 – Executive management

Conditions for performance:

The Company's executive management is performed, under his or her responsibility, either by the Chairman of the Board of Directors, or by any other individual appointed by the Board of Directors, serving as the Chief Executive Officer.

The Board of Directors chooses between the two executive management options available, under the following conditions:

- the choice is made by the Board of Directors ruling based on a majority of its members,
- the option selected will only be able to be called into question when reappointing or replacing the Chairman of the Board of Directors or at the end of the Chief Executive Officer's term of office.

The shareholders and third parties are informed about the Board's choice under the legal conditions in force.

When the Company's executive management functions are performed by the Chairman of the Board of Directors, the provisions relative to the Chief Executive Officer are applicable for the Chairman.

Chief Executive Officer and Deputy Chief Executive Officer:

The Company's executive management is performed by the Chief Executive Officer. As proposed by the Chief Executive Officer, the Board of Directors may appoint one or more individuals to support the Chief Executive Officer, serving as Deputy Chief Executive Officers. Up to five Deputy Chief Executive Officers may be appointed.

The age limit for serving as Chief Executive Officer or Deputy Chief Executive Officer is set at 65.

The Chief Executive Officer may be dismissed by the Board of Directors at any time. The same is true, as proposed by the Chief Executive Officer, for Deputy Chief Executive Officers. If the dismissal decision is taken without any reasonable grounds, it may result in damages, unless the Chief Executive Officer is serving as Chairman of the Board of Directors.

When the Chief Executive Officer ceases or is unable to perform these functions, the Deputy Chief Executive Officers maintain, unless decided otherwise by the Board, their functions and remits until the new Chief Executive Officer is appointed.

The Board of Directors determines the compensation for the Chief Executive Officer and any Deputy Chief Executive Officers.

The Chief Executive Officer has the broadest powers to act under any circumstances on behalf of the Company. He or she exercises these powers within the limits of the corporate purpose and subject to the powers expressly applicable for shareholder meetings and the Board of Directors under French law.

He or she represents the Company in its dealings with third parties. The Company is committed by actions taken by the Chief Executive Officer that do not fall within the corporate purpose, unless it is able to prove that the third party knew that the actions in question exceeded this purpose or that it could not be unaware of this in view of the circumstances, with the publication of the bylaws alone not enough to constitute such proof.

Any decisions by the Board of Directors limiting the Chief Executive Officer's powers are unenforceable against third parties.

As agreed with the Chief Executive Officer, the Board of Directors determines the scope and term of any powers granted to the Deputy Chief Executive Officers. In relation to third parties, the Deputy Chief Executive Officers have the same powers as the Chief Executive Officer.

The Chief Executive Officer or the Deputy Chief Executive Officers may, within the limits set by the legislation in force, delegate the powers that they deem appropriate, for one or more given purposes, to any representatives, even from outside of the Company, taken individually or grouped together in a committee or commission. Such powers may be permanent or temporary, and may or may not include an option to stand in for the person in question. The delegations granted in this way remain fully in force despite the end of office for the person who awarded them.

Article 19 – Statutory auditors

The ordinary general shareholders' meeting appoints one or more incumbent statutory auditors and one or more deputy statutory auditors for the duration, under the conditions and with the mission set by law.

Article 20 – General meetings

Ordinary general meeting:

The Ordinary General Meeting receives the Board of Directors' Reference Document and the statutory auditors' reports, approves the annual financial statements, rules on the appropriation of earnings and the distribution of profits. It appoints and dismisses directors and sets their compensation under the legal and bylaw conditions in force. It appoints the statutory auditors.

The Ordinary General Meeting rules on the appointment of candidates for the Board of Directors as nominated based on a secret ballot with a simple majority by the employee shareholders, convened to a general meeting on the initiative of the Chairman and Chief Executive Officer, with the option to delegate to the head of HR, whenever the staff of the Company and affiliated companies hold at least 3% of the capital at year-end through a collective management structure.

The term of office for the director representing employees is identical to that for the other members of the Board of Directors, it being understood however that the termination of the person's employment contract renders the office null and void.

The Ordinary General Meeting grants the Board of Directors the authorizations which the latter deems relevant to request and which are not reserved for the Extraordinary General Meeting.

In general, the Ordinary General Meeting rules on all matters that do not concern amendments to the bylaws.

An Ordinary General Meeting is held each year within six months of the previous year-end, except for in the event of a court ruling extending this timeframe.

Extraordinary Ordinary General Meeting:

The Extraordinary General Meeting may amend any of the provisions of the bylaws. However, it may not increase the commitments of shareholders or change the Company's nationality, except for under the conditions set out by French law or international agreements.

Only the Extraordinary General Meeting is authorized to check and approve any contributions in kind and specific benefits.

Convening and assembly of general meetings:

General meetings are convened and deliberate under the conditions set by French law.

They are held at the registered office or any other venue indicated in the notice to attend.

Agenda:

The agenda for the general meeting is set by the author of the notice to attend.

However, one or more shareholders or the works' council may, under the conditions determined by the legislative and regulatory provisions in force, ask for points and draft resolutions to be included on the agenda for general meetings.

The meeting may not deliberate on any matters that are not included in the agenda. Nevertheless, it may at any time dismiss and replace one or more directors.

The agenda for a general meeting may not be modified when meetings are convened for a second time.

Access to general meetings – proxies:

1) The general meeting comprises all the shareholders, irrespective of the number of shares held, provided that they have been fully paid-up. All shareholders are entitled to attend general meetings and take part in deliberations, either personally or through a proxy, irrespective of the number of shares held, upon justification of their status.

2) If shareholders are unable to attend general meetings in person, they may choose one of the following three options:

- be represented by another shareholder or their spouse;
- vote by correspondence using a paper or electronic form, in accordance with regulatory requirements, which may be obtained under the conditions indicated in the notice to attend for the meeting; paper correspondence voting forms will only be taken into consideration if they reach the Company at least three (3) days before the meeting date; electronic correspondence voting forms may be received by the Company up until 3 pm (Paris time) on the day before the general meeting;
- send a proxy form to the Company without indicating any representative; the chairman of the general meeting will vote in favor of adopting the draft resolutions put forward or approved by the Board of Directors, and will vote against adopting any other draft resolutions; to vote in any other way, shareholders will need to select a proxy, who agrees to vote as indicated by the shareholders in question.

Holders of securities referred to in Paragraph 7 of Article L. 228-1 of the French commercial code may be represented by a registered intermediary under the terms and conditions required by French law.

3) The right to take part in general meetings is subject to securities being registered in the name of the shareholder or their intermediary by midnight (Paris time) on the second working day before the meeting, either in the registered securities accounts held by the Company, or in the bearer securities accounts held by an authorized intermediary, as justified in accordance with the regulations in force.

Under this condition, all shareholders are entitled to take part in meetings, irrespective of the number of shares held, either in person, using videoconferencing facilities or any other electronic means of communication applicable under the laws and regulations in force, as mentioned in the notice to attend, by returning a correspondence voting form or appointing a proxy.

The Board of Directors may shorten or cancel the timeframes set out above.

The Board of Directors may, if it deems it relevant, provide shareholders with personal admission cards in their names and require them to produce these cards.

Attendance sheet – Office – Minutes:

1) An attendance sheet is filled out for each general meeting containing the information required under French law.

The attendance sheet must be signed by the shareholders that are present and the proxies. It must be certified as accurate by the meeting office. The proxies given to representatives must be appended to the attendance sheet.

The attendance sheet and the proxies appended to it must be kept at the registered office and disclosed upon request under the legal and regulatory conditions in force.

2) Meetings are chaired by the Chairman of the Board of Directors or, in his or her absence, by the longest-standing director present at this meeting. For meetings convened by the statutory auditors or a representative of the courts, the meeting is chaired by the party that convened it. Failing that, the meeting elects its Chairman itself.

- The role of scrutineer is performed by the two present and willing shareholders with the largest number of votes, both through themselves and as proxies.
- The office created in this way appoints a secretary, who may be chosen from outside of the shareholders.
- The members of the office are responsible for checking, certifying and signing the attendance sheet, ensuring that discussions take place effectively, resolving any incidents during sessions, checking the votes made, ensuring that they are compliant, and ensuring that the minutes are drawn up.

3) Minutes are sent out and copies or extracts from deliberations are issued and certified in accordance with French law.

Quorum and voting at meetings:

1) At general meetings, each member of the meeting is entitled to one voting right for each share owned or represented, without any restrictions.

2) An Ordinary General Meeting's deliberations may only be valid if the shareholders present or represented, or voting by correspondence, own at least one fifth of the shares entitled to voting rights at the first meeting convened.

- No quorum is required when convened for the second time. It rules subject to a majority of votes of the shareholders present, represented or voting by correspondence.
- The quorum is calculated based on all the shares comprising the share capital, after deducting any shares not entitled to voting rights under the legal conditions or the stipulations in the present bylaws.

3) The Extraordinary General Meeting's deliberations may only be valid if the shareholders present, represented or voting by correspondence, own at least one quarter of the shares entitled to voting rights at the first meeting convened, and one fifth when convened for a second time. In the event of failure to reach the latter quorum, the second meeting may be postponed by up to two months as of the date on which it had been convened.

- It rules subject to a two-thirds majority of the votes of the shareholders present, represented or voting by correspondence.
- In the event of a capital increase through the incorporation of reserves, profits or issue premiums, the meeting rules under the quorum and majority conditions required for Ordinary General Meetings.

4) Any shareholders taking part in general meetings using videoconferencing or other telecommunications resources making it possible to identify them under the regulatory conditions in force will be deemed to be present for calculating the quorum and majority.

Article 21 – Financial year

The financial year runs from January 1 to December 31 each year.

Article 22 – Distribution of profits

After having approved the financial statements and noted the existence of a distributable profit, as defined by French law, the general meeting decides to allocate this profit to one or more reserve accounts, for which it determines their allocation or use, to retain this profit or to distribute it. After deducting previous losses if relevant, at least five percent (5%) of the profit for the year is deducted to make up the legal reserve fund. This deduction is no longer compulsory when the amount of the reserve fund is equal to one tenth of the share capital.

In addition, the general meeting may decide to pay out any sums deducted against the reserves available to it, expressly indicating the reserve headings against which deductions are made. However, dividends are deducted in priority against the distributable profit for the year.

The general meeting may grant each shareholder, for all or part of the dividend or interim dividends paid out, an option for the dividend or interim dividends to be paid in cash or in shares.

Article 23 - Liquidation

1) Subject to compliance with the mandatory legal provisions in force, the Company's liquidation will be governed by the rules set out hereafter, while noting that Articles L. 237-14 to L. 237-31 of the French commercial code will not apply.

2) At an Ordinary General Meeting, ruling under the quorum and majority conditions applicable for Ordinary General Meetings, the shareholders appoint one or more liquidators, selected from amongst themselves or externally, and determine their duties and remuneration.

This appointment terminates the directors' terms of office and, unless the general meeting decides otherwise, the offices of the statutory auditors.

The Ordinary General Meeting can still dismiss or replace the liquidators and extend or restrict their powers.

Unless indicated otherwise, the liquidators' mandate is given for the duration of the liquidation.

3) Jointly or separately, the liquidators have the broadest powers to realize any of the Company's assets at the prices, costs and conditions they consider relevant, in addition to extinguishing its liabilities.

The liquidator(s) may make interim payments while the liquidation is underway and, at the end of the liquidation process, distribute the balance available without being bound by any formalities in terms of disclosures or depositing funds.

Any sums that are attributable to shareholders or creditors but have not been claimed by them will be transferred to the *Caisse des Dépôts et Consignations* in the year following the end of the liquidation process.

Even separately, the liquidators are authorized to represent the Company in relation to third parties, particularly public or private organizations, and to initiate legal proceedings in all jurisdictions as either claimant or defendant.

4) During the liquidation, general meetings are held as often as required in the Company's best interests, without it being necessary to comply with the terms of Articles L. 237-14 of the French commercial code.

General meetings can be convened under valid conditions by a liquidator or by various shareholders representing at least one tenth of the share capital.

General meetings are chaired by one of the liquidators or, if they are absent, by the shareholder with the highest number of votes. They deliberate under the same quorum and majority conditions as prior to the dissolution.

5) At the end of the liquidation, the shareholders, in an Ordinary General Meeting, rule on the final liquidation account, the discharge for the liquidators' management, and the discharge concerning their mandates.

Under the same conditions, they acknowledge the closing of the liquidation process.

If the liquidators neglect to convene the general meeting, the president of the commercial court, in a summary ruling, may, if requested by any shareholder, appoint a proxy to convene the meeting.

If the closing general meeting can deliberate or if it refuses to approve the liquidation accounts, it is governed by the commercial court's ruling, as requested by the liquidator or any stakeholder involved.

6) The remaining amount of shareholders' equity, following repayment of the par value of shares, is also split between all the shares.

When the share capital is repaid, the cost for any withholding taxes that must be retained by the Company will be split between all the shares indistinctly on a uniform basis in proportion to the capital repaid for each one of them, without having to factor in the different issue dates or the origins of the various shares.

Article 24 - Contestations

Any disputes that may arise during the life of the Company or during its liquidation, either between the shareholders, or between the Company and its shareholders, concerning the interpretation or application of these bylaws, or generally in respect of company business, will be submitted to the jurisdiction of the competent courts under common law.

21.2.1. Company's corporate purpose

See Article 2 of the Company's bylaws, presented in Section 21.2 "Bylaws".

21.2.2. Administrative, management and supervisory bodies

See **Articles 14, 15, 16, 17 and 18** of the Company's bylaws, presented in Section 21.2 "Bylaws".

21.2.3. Rights and obligations associated with the shares

See **Articles 11 and 12** of the Company's bylaws, presented in Section 21.2 "Bylaws".

21.2.4. Change to shareholder rights

The rights of shareholders as presented in the Company's bylaws may only be amended at an Extraordinary General Meeting of the Company's shareholders. Any decision to increase shareholders' commitments must be taken unanimously (see Article 20 in Section 21.2 "Bylaws").

21.2.5. Conditions for convening and admission at general meetings

See **Article 20** of the Company's bylaws, presented in Section 21.2 "Bylaws".

21.2.6. Clause likely to influence the Company's control

The Company's bylaws do not provide for any arrangements making it possible to delay, defer or prevent a change of control.

21.2.7. Disclosure threshold

See **Article 13** of the Company's bylaws, presented in Section 21.2 "Bylaws".

21.2.8. Specific stipulation governing changes to the capital

See **Article 7** of the Company's bylaws, presented in Section 21.2 "Bylaws".

XXII. Significant contracts

In the last three years, the Group has entered into the significant contracts detailed below:

22.1. Contract to acquire the company senseFly

In 2012, Parrot granted senseFly's minority shareholders a put option on their 39.6% stake in senseFly. Following the partial transfer of assets for the Drones Connected Devices branch, Parrot's rights and obligations were transferred to Parrot Drones, including the put options. These options were exercised in 2016 and paid in Swiss francs for a total of 26.2 M€.

22.2. Contract to acquire the company Pix4D

On June 9, 2017, Parrot Drones exercised its call options on Pix4D's capital, raising its stake to 95% of this company's capital, with the balance retained by Christoph Strecha. The Pix4D shares were acquired on June 20, 2017 for a total purchase price of 24.5 million Swiss francs (22.6 M€). A new partners agreement has been set up with Christoph Strecha, with reciprocal put and call options granted enabling Parrot Drones to acquire 100% of Pix4D's capital in 2022.

22.3. Contract to acquire the company MicaSense

In 2015, Parrot Drones (holding Parrot's rights following the partial transfer of assets for the Drones Connected Devices branch) granted MicaSense's minority shareholders put options for the 43.67% interest they hold in MicaSense. These options will be able to be exercised in 2019 and will be payable in US dollars. Early exercising is permitted in certain cases following the departure of minority shareholders who are members of MicaSense's senior management team.

22.4. Contract to acquire the company EOS innovation

In 2015, Parrot Drones (holding Parrot's rights following the partial transfer of assets for the Drones Connected Devices branch) granted EOS innovation's minority shareholders put options for the 32.04% interest they hold in EOS innovation, based on Parrot's total interest of 67.94% factoring in the conversion in 2019 of the convertible bonds subscribed for by Parrot in July 2015. These options will be able to be exercised in 2019. However, EOS Innovation has been in compulsory liquidation following the ruling by Evry Commercial Court on March 6, 2017, these options will no longer be able to be exercised. The closing of the liquidation process is due to be reviewed before March 6, 2019.

22.5. Investment agreement concerning Parrot Automotive

On March 24, 2017, Parrot signed an investment agreement with Faurecia for a proposed capital and strategic partnership concerning Parrot Automotive SAS (and its subsidiaries Parrot Automotive Asia Pacific and Parrot Automotive Shenzhen).

Under this partnership, Faurecia will initially acquire a 20% interest in Parrot Automotive SAS through a reserved capital increase for 27.3 M€. The price for the new shares has been set based on an enterprise value of 100 M€ for Parrot Automotive (109 M€ including cash and cash equivalents). The funds from the capital increase will be deployed for Parrot Automotive's business, notably focusing on further strengthening its R&D and its commercial operations through joint strategic projects. This capital increase was subscribed for by Faurecia Investments on March 31, 2017 (on March 29, 2017 Faurecia was replaced by its subsidiary Faurecia Investments SAS).

Alongside this, Faurecia subscribed for 41 M€ of bonds issued by Parrot SA that will be able to be converted into existing Parrot Automotive SAS shares. These bonds, accruing interest with a margin of 200 basis points over the 3-month Euribor rate, will mature on December 31, 2021 and will be convertible from January 1, 2019. The conversion of these bonds would result in Faurecia holding 50.01% of the capital of Parrot Faurecia Automotive SAS. The funds from the bond issue will be available for Parrot's general needs. In addition, Faurecia and Parrot SA are covered by call and put options that may be exercised in 2022 allowing Faurecia to acquire or Parrot SA to sell the remaining Parrot Faurecia Automotive SAS shares still held by Parrot SA. The exercise price for these options will be set based on an enterprise value determined in line with parameters that are consistent with those retained for this initial investment.

22.6. Contract to acquire the company Planck Aerosystems

On December 21, 2017, Parrot, through its US subsidiary Parrot Inc., acquired a further 2,499,950 shares in the San Diego-based company Planck Aerosystems Inc. This investment follows two previous investments in March 2016 and January 2017, taking Parrot's total interest up to around 49% of Planck Aerosystems' capital.

22.7. Contract to acquire the company Sky-Hero

On December 21, 2017, Parrot Drones subscribed for a 2 M€ capital increase carried out by the Belgian-law company Sky-Hero, giving it a 33.34% stake in this company's capital and voting rights. This investment is combined with a right for Parrot Drones to subscribe in priority for a second investment tranche at the end of a two-year period from December 21, 2017, giving it a 50.1% stake in the Company's capital. If Parrot Drones exercises this option, the other shareholders will have an option to sell Parrot Drones a total number of Company shares determined based on the pre-money value retained for the additional investment. A partners agreement has been set up with Sky-Hero's shareholders, with reciprocal put and call options granted enabling Parrot Drones to acquire 100% of Sky-Hero's capital in 2023.

XXIII. Information from third parties

The sources referred to in this reference document are public information and their sources are detailed as footnotes whenever external sources are given for reference.

XXIV. Public documents

Copies of this reference document are available free of charge from the Company, or may be downloaded from the internet sites of the Company (www.parrot.com) and the AMF (www.amf-france.org).

All of the Company's legal and financial documents that must be made available to shareholders in accordance with the regulations in force may be consulted at the Company's registered office.

Copies may be sent out free of charge after submitting a request to Parrot, Investor Relations, 174 quai de Jemmapes, 75010 Paris, France.

XXV. Equity interests

Equity interests are presented in detail in Section VII "Structure" and the significant contractual elements relating to them are presented in Section XXII "Significant contracts".

In addition, readers can refer to:

- 4.1.4 "The Group may encounter difficulties in integrating the acquired companies and in implementing its external growth strategy in the Commercial Drones market"
- 6.1.3.2.4 "The Group's specialist commercial drone entities and products"
- 6.1.3.2.5 "Group's minority interests in specialized commercial drone companies"
- 20.2.4 "Note 4 - Basis for consolidation"
- 20.2.12 "Note 12 – Business combination"
- 20.2.14 "Note 14 – Financial assets"
- 20.2.15 "Note 15 – Associates"
- 20.4.3.4.3 "Subsidiaries and equity interests"

XXVI. Information published

26.1. Regular and one-off disclosures

In connection with its financial communications, the following information was released in 2016 and until the date when this reference document was published.

Date	Title
Jan 9, 2017	Preliminary results for the fourth quarter of 2016 - Reorganization of consumer drone operations
Jan 11, 2017	Agribotix™ partners with senseFly to offer agricultural clients a professional-grade, end-to-end drone & data processing solution
Jan 16, 2017	Parrot Air Support and Bureau Veritas offer a turnkey drone-based inspection service for professionals
Feb 3, 2017	Airinov: drone efficiency in Precision Farming with the results of a large scale economic study with Ocealia
Feb 3, 2017	Pix4D: New supported devices, flight features for Pix4Dcapture iOS the flight planning app
Feb 24, 2017	senseFly and AirMap Partner to advance safety for commercial drones
Mar 10, 2017	Parrot Air Support: new thermographic inspection tool
Mar 27, 2017	Partnership finalized between Faurecia and Parrot Automotive
Apr 25, 2017	Parrot confirms its PEA-PME eligibility
May 8, 2017	Parrot develops its commercial drone offer
May 12, 2017	Publication of the 2016 reference document
May 15, 2017	Q1 2017 business and earnings
May 22, 2017	U.S. patent case against Parrot dismissed
June 21, 2017	Summary of the Combined General Shareholders Meeting of June 21st 2017
June 26, 2017	Parrot Extends Its Education Offer Worldwide
July 28, 2017	Q2 2017 business and earnings
Sept. 14, 2017	Announcing Parrot Mambo FPV
Sept. 18, 2017	New Parrot Bebop 2 Power
Sept. 25, 2017	Parrot subsidiary senseFly to launch new industry-specific solutions at INTERGEO 2017
Oct. 24, 2017	Parrot Bebop-Pro Thermal: The all-in-one drone solution for thermal imaging
Oct. 24, 2017	Parrot Bluegrass: The multipurpose quadcopter solution for agriculture
Nov. 13, 2017	Q3 2017 business and earnings
March 15, 2018	Q4 2017 business and earnings

The regular and permanent press releases above, as well as the earnings presentations, are available at: www.parrot.com/fr/societeparrot/relationsinvestisseurs.

26.2. Information released to the trade and specialized press

For its product communications, Parrot primarily uses new media. The information distributed to the press is available at:

- http://blog.parrot.com/category/france/
- https://www.facebook.com/Parrot
- https://twitter.com/Parrot
- https://www.youtube.com/user/parrot

26.3. Financial advertising

None.

26.4. Information published in the French official gazette (BALO)

Date	Title	BALO notice number
May 15, 2017	NOTICE TO ATTEND > Shareholders' meeting	1701932
May 31, 2017	NOTICE TO ATTEND > Shareholders' meeting	1702556
July 28, 2017	REGULAR DISCLOSURES > Commercial and industrial companies (Annual financial statements)	1704022

Items published in the official gazette are available on the internet site: http://www.journal-officiel.gouv.fr/balo/.

XXVII. Resolutions for the general meeting on June 12, 2018

27.1. For the Ordinary General Meeting

FIRST RESOLUTION

Approval of the corporate financial statements for the year ended December 31, 2017

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, having reviewed the Board of Directors' report on the Company's management and its appendices, its special reports on the option and warrant schemes and bonus shares awarded, and on the share buyback program, as well as the corporate governance report and the statutory auditors' report on the Company's annual financial statements, approves the balance sheet and the financial statements for the year ended December 31, 2017, as presented, with the accounts for the year showing a (39,161,859) euro loss.

It also approves the transactions reflected in these accounts or summarized in these reports.

It acknowledges that no items of expenditure or expenses covered under Article 39-4 of the French general tax code (Code Général des Impôts) were recorded during the year ended December 31, 2017.

SECOND RESOLUTION

Approval of the consolidated financial statements for the year ended December 31, 2017

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, having reviewed the Board of Directors' report on the management of the group formed by the Company and its subsidiaries and the corresponding appendices, as well as the Chairman of the Board's report and the statutory auditors' report on the consolidated financial statements for the year ended December 31, 2017, approves, as presented to it, the consolidated financial statements as per Article L. 233-16 of the French commercial code, drawn up in accordance with IFRS, showing a loss of (38,218,167) euros (net income, Group share).

THIRD RESOLUTION

Appropriation of earnings for the year

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, approves the Board of Directors' proposal and decides to allocate the loss for the year ended December 31, 2017, totaling (39,161,859) euros, to "retained earnings".

In addition, the General Meeting acknowledges that no dividends were paid out over the last three years.

FOURTH RESOLUTION

Approval of agreements covered under Article L. 225-38 of the French commercial code

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, takes note of the statutory auditors' special report, drawn up in accordance with Article L.225-38 of the French commercial code, and declares that it approves the agreements and commitments presented in this report.

FIFTH RESOLUTION

Renewal of Mr. Geoffroy Roux de Bézieux's term of office as a director

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, after considering the Board of Directors' report, decides to renew the term of office of Mr. Geoffroy Roux de Bézieux, a French national, born on May 31, 1962 in Paris (15th arrondissement), residing at 42 rue Edouard Nortier 92200 Neuilly sur Seine, France, as a director for a six-year period expiring at the end of the General Meeting convened in 2024 to approve the financial statements for the year ending December 31, 2023.

The General Meeting acknowledges that Mr. Geoffroy Roux de Bézieux has confirmed that he would accept the renewal of his term of office as a director if it was renewed and that he does not hold any offices and is not concerned by any measures that might forbid him from taking on the office renewed in this way.

SIXTH RESOLUTION

Reappointment of the statutory auditors ERNST & YOUNG et Autres

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, having reviewed the Board of Directors' report, decides to reappoint ERNST & YOUNG et Autres, a French simplified joint-stock company (SAS), with its registered office located at 1-2 place des Saisons, 92400 Courbevoie, France, registered in the Nanterre trade and companies register under number 438 476 913, as statutory auditors for six (6) years through to the end of the General Meeting convened in 2024 to rule on the financial statements for the year ending December 31, 2023.

The General Meeting acknowledges that ERNST & YOUNG et Autres has confirmed that it would accept its reappointment as statutory auditors if it was reappointed and that it does not hold any offices and is not concerned by any measures that might forbid it from being reappointed in this way.

SEVENTH RESOLUTION

Approval of the items of compensation and benefits of any kind paid or awarded to the Chairman and Chief Executive Officer for 2017

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, in accordance with Article L.225-100 of the French commercial code and having reviewed the corporate governance report provided for under Article L. 225-37 of the commercial code, approves the fixed, variable and exceptional components of the overall compensation package and benefits of any kind paid or awarded for the year ended December 31, 2017 to the Chairman and Chief Executive Officer, as presented in the section on "Items of compensation for 2017 (ex-post)" in the aforementioned report.

EIGHTH RESOLUTION

Approval of the items of compensation and benefits of any kind paid or awarded to the Executive Vice President for 2017

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, in accordance with Article L.225-100 of the French commercial code and having reviewed the corporate governance report provided for under Article L. 225-37 of the commercial code, approves the fixed, variable and exceptional components of the overall compensation package and benefits of any kind paid or awarded for the year ended December 31, 2017 to the Executive Vice President, as presented in the section on "Items of compensation for 2017 (ex-post)" in the aforementioned report.

NINTH RESOLUTION

Approval of the principles and criteria for determining, distributing and awarding compensation and benefits of any kind to the Chairman and Chief Executive Officer

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, having reviewed the report provided for under Article L.225-37-2 of the French commercial code and the corporate governance report provided for under Article L. 225-37 of the commercial code, approves the principles and criteria for determining, distributing and awarding the fixed, variable and exceptional components comprising the total compensation and benefits of any kind presented in the section on "Items of compensation for the current year (ex-ante)" in the aforementioned report and to be awarded to the Company's Chairman and Chief Executive Officer in connection with his office.

TENTH RESOLUTION

Approval of the principles and criteria for determining, distributing and awarding compensation and benefits of any kind to the Executive Vice President

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, having reviewed the report provided for under Article L.225-37-2 of the French commercial code and the corporate governance report provided for under Article L. 225-37 of the commercial code, approves the principles and criteria for determining, distributing and awarding the fixed, variable and exceptional components comprising the total compensation and benefits of any kind presented in the section on "Items of compensation for the current year (ex-ante)" in the aforementioned report and to be awarded to the Company's Executive Vice President in connection with his office.

ELEVENTH RESOLUTION

Setting the amount of attendance fees

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, sets the total annual amount of attendance allowances at 270,000 euros, to be awarded to directors for their participation in Board of Directors' meetings and meetings of the Board's specialized committees for 2017.

TWELFTH RESOLUTION

Authorization given to the Board of Directors to implement a program to acquire the Company's shares in connection with European Commission Regulation 596/2014 of April 16, 2014 and Article L. 225-209 of the French commercial code, term of authorization, rationale, conditions and maximum limits

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings and in accordance with the legal provisions in force, and more specifically European Commission Regulation 596/2014 of April 16, 2014, and Articles L.225-209 *et seq* of the French commercial code, having reviewed the Board of Directors' report,

Authorizes the Board of Directors, for 18 months from the date of this General Meeting, to acquire or get the Company to acquire its own shares, under the conditions set out in European Commission Regulation 596/2014 of April 16, 2014, and Articles L.225-209 *et seq* of the French commercial code and those set out in this resolution.

The maximum unit price for purchases may not exceed 40 euros.

The Board of Directors may however adjust the abovementioned purchase price in the event of the incorporation of premiums, reserves or profits, resulting in either an increase in the par value of shares, or the creation and free allocation of shares, as well as in the event of a stock split or consolidation, or any other operation modifying the share's par value or relating to shareholders' equity, in order to take into consideration the impact of such operations on the share's value.

The maximum amount of funds set aside for the implementation of this program to buy shares is 48,000,000 euros, or a maximum of 1,200,000 shares based on the maximum unit price for purchases.

Such shares may be acquired or transferred at any time, including during a public offering period, subject to this being paid for in cash in full under the conditions and within the limits, particularly in terms of the volumes and prices, provided for under the laws and regulations in force on the date of the operations in question, by any means, notably on the market or on an over-the-counter basis, including through block acquisitions or sales, through the use of derivative financial instruments traded on a regulated market or over-the-counter, or through a public offering, under the conditions set out by the market authorities and at the times deemed relevant by the Board of Directors or the party acting under the Board of Directors' delegation.

The acquisitions made by the Company under the present authorization may not under any circumstances result in the Company directly or indirectly holding more than 10% of the shares comprising its capital.

Such share purchases may be made with a view to any allocation permitted under EC Regulation 596/2014 of April 16, 2014 and under French law or that might be permitted by French or European law and regulations in the future, notably with a view to:

- Implementing the market practices approved by the French financial markets authority (AMF), such as (i) the coordination of the market or liquidity of the Company's share by an investment service provider acting under a liquidity agreement in accordance with the compliance charter recognized by the AMF, as well as (ii) any market practices that might be approved subsequently by the AMF or under French law;
- Purchasing Company shares to be kept and issued again subsequently in exchange, in payment or otherwise in connection with any external growth operations, it being understood that the number of shares acquired with a view to being issued again subsequently in connection with a merger, spin-off or contribution operation may not exceed 5% of its capital;
- Awarding shares further to the exercising of rights associated with marketable securities entitling holders to access Company shares by any means, immediately or in the future, as well as carrying out any hedging operations relating to the obligations of the Company (or any of its subsidiaries) linked to such marketable securities, under the conditions set out by the market authorities and at the times deemed relevant by the Board of Directors or the party acting under the Board of Directors' delegation;
- Covering stock option and/or bonus share plans (or related plans) for the group's employees and/or corporate officers, as well as any allocations of shares in connection with a company or group savings scheme (or related plans), company profit-sharing and/or any other forms of allocations of shares to group employees and/or corporate officers;
- Awarding shares to employees in connection with the profit-sharing agreement, enabling them to share in the Company's growth, and implementing company savings schemes under the conditions provided for under French law, notably Articles L.3332-1 *et seq* of the French employment code;
- Reducing the Company's capital in accordance with the thirteenth resolution for this General Meeting, subject to it being adopted.

Each year, the Board of Directors will report to the General Meeting on any operations carried out under the present resolution, in accordance with Article L.225-209 of the French commercial code.

The General Meeting grants full powers to the Board of Directors, with an option to subdelegate under the legal conditions in force, to implement the present delegation and more specifically carry out any orders on the stock market, enter into any agreements, draw up and amend any documents, particularly in terms of information, perform all formalities, including allocating or reallocating the shares acquired for the various purposes defined, and making any filings with the French financial markets authority (AMF) and any other bodies and, more generally, doing whatever is necessary.

The General Meeting acknowledges that the authorization given under the present resolution cancels and replaces, as of this day and, as relevant, for the section not used by the Board of Directors, the authorization granted previously under the tenth resolution at the Ordinary General Meeting on June 21, 2017.

27.2. For the Extraordinary General Meeting

THIRTEENTH RESOLUTION

Authorization for the Board of Directors to reduce the capital through the cancellation of shares, under the provisions of Article L. 225-209 of the French commercial code, term of authorization, maximum limits

The General Meeting, ruling under the quorum and majority conditions required for Extraordinary General Meetings and in accordance with the legal provisions in force, and more specifically Article L.225-209 of the French commercial code, having reviewed the Board of Directors' report and the statutory auditors' special report,

Authorizes the Board of Directors, for an 18-month period from the date of this General Meeting, i.e. through to December 11, 2019, to reduce the Company's capital, on one or more occasions and for up to 10% of the Company's capital per 24-month period, by cancelling all or part of the Company shares acquired in connection with the share purchase program authorized under the twelfth resolution as presented above or even share purchase programs authorized prior to or following the date of this General Meeting.

The General Meeting decides that the Board of Directors will have full powers, with the option to delegate under the legal conditions in force, to reduce the capital further to the cancellation of shares, and more specifically determine the definitive amount of the capital reduction, set the corresponding conditions, record the difference between the book value of the shares cancelled and their par value against any reserve or premium accounts, acknowledge their performance and amend the bylaws accordingly, and perform any formalities required.

The present resolution cancels, as of today, for the unused portion, if any, the eleventh resolution from the Ordinary General Meeting on June 21, 2017.

FOURTEENTH RESOLUTION

Authorization for the Board of Directors to grant Company stock options and/or warrants to some or all of the eligible employees or corporate officers of the Company or related companies, waiving of their preferential subscription rights by shareholders, term of authorization, maximum limits, exercise price and maximum option period

The General Meeting, ruling under the quorum and majority conditions required for Extraordinary General Meetings and in accordance with the legal provisions in force, and more specifically Articles L.225-177 *et seq* of the French commercial code, having reviewed the Board of Directors' report and the statutory auditors' special report,

Authorizes the Board of Directors, with an option to subdelegate under the legal conditions in force, for a period from the present General Meeting through to the end of the General Meeting ruling on the financial statements for the year ending December 31, 2018, to award, on one or more occasions, Company stock options or warrants, under the conditions set out below.

1. Each option will entitle holders to subscribe for or acquire one new or existing ordinary share, as relevant. The total number of options that may be awarded under the present resolution may not entitle holders to subscribe for or acquire a number of shares representing more than 1% of the Company's capital on the date of the present General Meeting.
2. The beneficiaries will be eligible employees or corporate officers (subject to compliance with the provisions of Articles L.225-186-1 and L.225-197-6 of the French commercial code) or certain employees or corporate officers (as per Article L.225-185 Paragraph 4 of the French commercial code) from the Company or related companies or groups as per Article L.225-180 of the French commercial code. The Board of Directors may award the options to some or all of these people.
3. The shares which may be obtained by exercising stock options awarded under the present resolution will need to be acquired by the Company in accordance with Article L.225-208 of the French commercial code or Article L.225-209 of the French commercial code.
4. The exercise price for stock options or warrants will be set by the Board of Directors on the day when options are awarded, under the conditions set out by Article L.225-177 of the French commercial code for stock warrants and Article L.225-179 of the French commercial code for stock options.
5. The options awarded will need to be exercised within seven years of the date when they were awarded by the Board of Directors.
6. The General Meeting acknowledges and decides, as required, that under the present delegation, the shareholder beneficiaries of stock warrants expressly waive their preferential subscription rights for shares that would be issued as such warrants are exercised.
7. The General Meeting grants full powers to the Board of Directors to implement the present resolution, with an option to subdelegate under the legal conditions in force, and more specifically to:

- Set, under the legal conditions and limits in force, the dates when options will be granted;
- Determine the timeframe during which beneficiaries may exercise their options, as well as the exercise periods for options, for up to a maximum of seven years;
- Determine the list of beneficiaries for options, the number of options awarded to each one of them, the conditions for options to be awarded and exercised;

- Set the conditions for exercising options, and more specifically, limit, restrict or forbid (a) the exercising of options or (b) the sale of shares obtained by exercising options, during certain periods or as of certain events, with this decision able to concern (i) all or part of the options and (ii) all or part of the beneficiaries;
- Set the dividend entitlement date, even on a retroactive basis, for new shares resulting from the exercising of warrants;
- Take, in the cases provided for under French law, any measures required to protect the interests of beneficiaries of warrants in accordance with the conditions set out in Articles L.225-181 and L.228-99 of the French commercial code;
- More generally, with the option to delegate and subdelegate under the legal conditions in force, enter into any agreements, draw up any documents, acknowledge capital increases further to the exercising of warrants, amend the bylaws accordingly, as relevant, perform all the formalities required, notably for listing the securities issued in this way, handling all filings with all relevant bodies and doing whatever else may be necessary.

8. Each year, the Board of Directors will be required to report to the Ordinary General Meeting on any operations carried out under the present resolution, in accordance with Article L.225-184 of the French commercial code.

The present resolution cancels, as of today, for the unused portion, if any, the twelfth resolution from the Extraordinary General Meeting on June 21, 2017.

FIFTEENTH RESOLUTION

Authorization for the Board of Directors to freely award shares to some or all of the eligible employees or corporate officers of the Company or related companies, waiving of their preferential subscription rights by shareholders, term of authorization, maximum limits, vesting and lock-in periods

The General Meeting, ruling under the quorum and majority conditions required for Extraordinary General Meetings and in accordance with the legal provisions in force, and more specifically Articles L.225-197-1 *et seq* of the French commercial code, having reviewed the Board of Directors' report and the statutory auditors' special report,

Authorizes the Board of Directors, with an option to subdelegate under the legal conditions in force, for a period from the present General Meeting through to the end of the General Meeting ruling on the financial statements for the year ending December 31, 2018, to freely allocate existing Company shares or Company shares to be issued, on one or more occasions, under the conditions set out below.

1. The total number of existing Company shares or Company shares to be issued and freely awarded under the present resolution may not represent more than 2% of the Company's capital on the date of the present meeting.
2. The beneficiaries will be eligible employees or corporate officers (as per Article L.225-197-1 II Paragraph 1 of the French commercial code, and subject to compliance with the provisions of Articles L.225-186-1 and L.225-197-6 of the commercial code) from the Company or related companies or groups as per Article L.225-197-2 of the commercial code, or certain categories of them.
3. The Board of Directors will set, under the legal conditions in force, at the time of each allocation decision, the vesting period further to which any shares will be definitively awarded. The vesting period must be at least one year from the date when the shares are awarded.
4. The Board of Directors will set, under the legal conditions in force, at the time of each allocation decision, the mandatory period for Company shares to be held by beneficiaries, with this period commencing from the definitive allocation of the shares. The lock-in period must be at least one year. However, if the vesting period is two years or longer, the lock-in period may be waived by the Board of Directors.
5. The General Meeting acknowledges and decides, as required, that under the present delegation, shareholder beneficiaries of free allocations of shares waive (i) their preferential subscription rights for the shares that will be issued as shares are definitively awarded, (ii) any entitlement to shares freely awarded under the present delegation, and (iii) any entitlement to the amount of reserves and premiums, against which, as relevant, the sum required to free up any new shares will be booked.
6. The General Meeting grants full powers to the Board of Directors to implement the present authorization, with an option to subdelegate under the legal conditions in force within the limits set out above, and more specifically to:

- Determine the identity of beneficiaries, the criteria for allocation, the number of shares awarded to each one of them, the terms and conditions for awarding shares, and more specifically the vesting and holding periods for shares awarded in this way;
- Set, within the legal conditions and limits in force, the dates when bonus shares will be awarded;
- Decide on the dividend entitlement date, even on a retroactive basis, for newly issued shares;
- Decide on the conditions under which the number of shares freely awarded will be adjusted in order to safeguard the rights of beneficiaries; and,
- More generally, with the option to delegate and subdelegate under the legal conditions in force, enter into any agreements, draw up any documents, acknowledge capital increases further to definitive allocations, amend the bylaws accordingly, as relevant, perform all formalities and filings with all relevant bodies, and do whatever else may be necessary.

7. Each year, the Board of Directors will report to the Ordinary General Meeting on any allocations carried out under the present resolution, in accordance with Article L.225-197-4 of the French commercial code.

The present resolution cancels, as of today, for the unused portion, if any, the thirteenth resolution from the Extraordinary General Meeting on June 21, 2017.

SIXTEENTH RESOLUTION

Delegation of authority for the Board of Directors to carry out capital increases through the issuing of shares or other securities entitling holders to access the capital with preferential subscription rights waived for members of a company savings scheme in accordance with Articles L.3332-18 et seq of the French employment code, term of the delegation, maximum nominal amount of the capital increase, issue price, possibility for awarding bonus shares under Article L.3332-21 of the French employment code

The General Meeting, ruling under the quorum and majority conditions required for Extraordinary General Meetings and in accordance with the legal provisions in force, and more specifically Articles L.225-129-6, L.228-92, L.225-138 I and II, and L.225-138-1 of the French commercial code and Articles L.3332-18 *et seq* of the French employment code, having reviewed the Board of Directors' report and the statutory auditors' special reports,

Delegates to the Board of Directors, for a 26-month period from the date of this General Meeting, its authority to decide, under the conditions set by the present resolution, to increase the share capital on its decisions alone, on one or more occasions, and at the times and under the conditions it deems relevant, through the issuing of shares or marketable securities entitling holders to access existing shares or shares to be issued by the Company, reserved for the current and former staff of the Company and affiliated French or foreign companies or groups in accordance with the regulations in force, who are members of a company savings scheme; as relevant, such issues may be combined with a free allocation of shares or marketable securities entitling holders to access existing shares or shares to be issued by the Company, notably through the incorporation of reserves, profits or premiums into the capital, within the legal and regulatory limits applicable, partially or totally replacing the discount under the conditions set out below.

1. The maximum nominal amount of the increase in the Company's capital which may be carried out, immediately or in the future, as a result of all the issues carried out under the present delegation is set at 50,000 euros, it being understood that this cap does not include the nominal value of Company shares to be issued, as relevant, relative to any adjustments made in accordance with French law and the contractual stipulations in order to protect the holders of rights associated with marketable securities entitling them to access Company shares.

2. The General Meeting acknowledges that if subscriptions have not accounted for the entire issue of securities, the capital increase will only be carried out for the amount of the securities subscribed for.

3. For the current and former staff referred to in the second paragraph of the present resolution, the General Meeting decides to waive the preferential subscription rights for shareholders to the shares or marketable securities entitling them to access shares to be issued under the present delegation, with such shareholders also waiving any entitlement to the shares or other marketable securities awarded freely under the present delegation.

The General Meeting acknowledges that under the present delegation shareholders waive their preferential subscription rights to the shares which the marketable securities issued under the present delegation may entitle them to.

4. The General Meeting decides that:

- The subscription price for new shares will be equal to the average listed prices recorded over the 20 trading days prior to the day of the decision setting the subscription start date, less the maximum discount provided for under French law on the day of the Board of Directors' decision, it being understood that the Board of Directors may reduce this discount if it considers this to be relevant. The Board of Directors may also replace all or part of the discount by awarding shares or other marketable securities in accordance with the provisions set out below;
- The Board of Directors may plan for the free allocation of existing shares or marketable securities entitling holders to access Company shares which already exist or are to be issued to replace all or part of the aforementioned discount, it being understood that the total benefit resulting from this allocation and, as relevant, the discount mentioned in the paragraph above may not exceed the legal limits in force; and provided that taking into consideration the equivalent cash value of any shares awarded freely, valued at their subscription price, does not result in the legal limits being exceeded.

5. The Board of Directors will have full powers to implement the present resolution, and more specifically with a view to:

- Determining the characteristics, amount and conditions for any issue or free allocation of securities;
- Determining that subscriptions may be carried out directly by beneficiaries or through collective bodies;
- Determining, under the legal conditions in force, the list of companies or groups whose current and former staff will be able to subscribe for the shares or marketable securities issued and, as relevant, receive the shares or marketable securities awarded freely;
- Determining the nature and conditions for the capital increase, as well as the conditions for the issue or the free allocation;
- Setting the subscription price for shares and the duration of the subscription period;
- Setting the seniority conditions required for the beneficiaries of new shares or marketable securities resulting from the capital increase or increases or securities subject to each free allocation covered under the present resolution;
- Setting the terms and conditions for shares or marketable securities to be issued under the present delegation, and more specifically their dividend entitlement date (even backdated), as well as the conditions for them being fully paid-up;

- Setting the subscription start and end dates, and collecting subscriptions;
- Acknowledging the performance of the capital increase through the issuing of shares for the amount of shares effectively subscribed for;
- Determining, as relevant, the nature of any securities awarded freely, as well as the terms and conditions for this allocation;
- Determining, as relevant, the amount of sums to be incorporated into the capital, within the limit set out above, the equity heading or headings against which they are drawn, and the dividend entitlement date for the shares created in this way;
- At its sole discretion, and if it deems this relevant, booking the costs for capital increases against the amount of the corresponding premiums for such increases and deducting the sums required to take the legal reserve up to one tenth of the new capital after each increase against this amount;
- Taking any measures for the definitive performance of capital increases, carrying out the resulting formalities, notably those relating to the listing of any securities created, amending the bylaws accordingly further to such capital increases.

6. The Board of Directors may, within the limits it has determined beforehand, delegate the authority granted under the present resolution to the Chief Executive Officer or, as agreed with the latter, to one or more Deputy Chief Executive Officers.

The Board of Directors will be required to report at the following Ordinary General Meeting on the use made of the present delegation of authority in accordance with the legal and regulatory provisions in force.

The present resolution cancels and replaces the twenty-second resolution from the Extraordinary General Meeting on June 21, 2017.

SEVENTEENTH RESOLUTION

Powers for formalities

The General Meeting, ruling under the quorum and majority conditions required for Ordinary General Meetings, grants full powers to the bearer of an original or duplicate copy of or extract from the minutes for the present meeting to perform all legal filing or disclosure formalities.

Index of headings

For the convenience of readers of this reference document, the following index, drawn up in accordance with the provisions of Article 212-13-I of Title II of the AMF's general regulations (as per the Decrees from January 4 and February 26, 2007), makes it possible to determine which sections in the annual report correspond to the sections required by Regulations (EC 809/2004 of April 29, 2004).