

PARROT S.A.

French limited company (société anonyme) with a share capital of 1 903 100.67 euros.
Registered office: 174, Quai de Jemmapes, 75010 Paris, France.
Paris trade and company register: 394 149 496.

A. — Corporate financial statements

I. — Balance sheet at December 31st, 2006

Assets (€)	Gross	Depreciation & provisions	Net at Dec 31, 06	Net at Dec 31, 05
Capital subscribed and uncalled				
Intangible fixed assets:				
Start-up costs			0	
Research and development costs			0	
Concessions, patents and related	1 945 805	1 636 941	308 864	334 245
Goodwill	7 622		7 622	7 622
Other intangible fixed assets	734 688	634 534	100 154	18 263
Advances and deposits on intangible fixed assets			0	
Total intangible fixed assets:	2 688 115	2 271 475	416 640	360 130
Tangible fixed assets:				
Land			0	
Buildings			0	
Technical facilities, plant and equipment	2 557 048	1 018 567	1 538 481	964 089
Other tangible fixed assets	2 296 224	762 171	1 534 053	877 798
Fixed assets under construction			0	
Advances and deposits				
Total tangible fixed assets:	4 853 272	1 780 738	3 072 534	1 841 887
Long-term financial investments:				
Equity affiliates				
Other equity interests	23 033 205		23 033 205	37 045
Equity interest-related receivables	3 984 712	2 985 303	999 409	578 716
Other capitalized securities				
Loans				
Other long-term financial investments	148 567		148 567	101 851
Total long-term financial investments:	27 166 484	2 985 303	24 181 181	717 612
Fixed assets	34 707 871	7 037 516	27 670 355	2 919 628
Inventories and work-in-progress:				
Inventories of raw materials	10 419 496		10 419 496	7 964 159
Inventories of work in progress for production of goods				
Inventories of work in progress for production of services				
Inventories of intermediate and finished products	1 926 285	523 605	1 402 680	3 95 332
Inventories of goods				
Total inventories and work-in-progress:	12 345 781	523 605	11 822 176	11 59 491
Receivables:				
Advances and deposits paid on orders	30 441		30 441	
Trade receivables and related	28 737 702	600 611	28 137 91	17 332 057
Other receivables	2 863 283	9 666	2 853 617	6 016 959
Capital subscribed and called, not paid				
Total receivables:	31 631 426	610 277	31 021 149	23 349 016
Cash, cash equivalents and other:				
Marketable securities	36 20 318		36 20 318	2 291 946
Cash at bank and in hand	6 914 705		6 914 705	845 364
Pre-booked expenses	96 935		96 935	197 445
Total cash, cash equivalents and other:	43 031 958	0	43 031 958	3 334 755
Current assets	87 009 165	1 133 882	85 875 283	37 743 261
Deferred expenses over several years				
Bond redemption premiums				
Unrealized exchange losses	187 421		187 421	
General total	121 904 457	8 171 398	113 733 059	40 662 889

Liabilities (€)	Net (N)	Net (N-1)
Net position:		
Share or individual capital, of which 1,920,198 paid	1 920 198	1 349 363
Issue, merger, contribution premiums	53 611 812	14 304 436
Revaluation differences		
Legal reserves	134 936	
Statutory or contractual reserves		
Regulated reserves	7 772	7 772
Other reserves		
Retained earnings	5 449 508	-1 151 964
Earnings for the year	11 478 251	6 736 408
	72 602 477	14 509 607
Investment subsidies		
Regulated provisions		
Shareholders' equity	72 602 477	21 246 015
Income from issues of equity securities		
Conditional advances		
Other equity	0	0
Provisions for contingencies	1 346 757	389 999
Provisions for liabilities		7 561
Provisions for contingencies and liabilities	1 346 757	397 560
Financial debt:		
Convertible bonds		
Other bonds	26 187	17 295
Sundry borrowings and financial debt	16 996 160	
	17 022 347	17 295
Advances and deposits received on current orders		
Sundry liabilities:		
Trade payables and related	13 293 647	14 488 661
Tax and social security liabilities	9 249 812	3 949 131
Fixed asset payables and related		
Other payables	218 019	462 636
	22 761 478	18 900 428
Pre-booked income		
Liabilities	39 783 825	18 917 723
Unrealized exchange gains		101 591
General total	113 733 059	40 662 889

II. — Income statement

(€)	France	Export	Dec 31, 06	Dec 31, 05
Sales of goods	77 285	109 029	186 314	166 831
Production sold: goods	14 215 862	107 812 875	122 028 737	59 255 023
Production sold: services	941 343	544 902	1 486 245	1 512 964
Net revenues	15 234 490	108 466 806	123 701 297	60 934 819
Stored production			-1 169 046	2 795 243
Capitalized production Operating subsidies			522 605	65 769
Write-backs on depreciation and provisions, transferred expenses			1 546 167	168 346
Other income				
Operating income			124 601 023	63 964 177
External expenses:				
Purchases of goods (and customs duties)			1 959 064	358 688
Change in inventories of goods				
Purchases of raw materials and other supplies			42 027 056	12 730 507
Change in inventories (raw materials and supplies)			-2 455 338	-4 286 525
Other purchases and external expenses			42 483 669	36 313 250
			84 014 452	45 142 920
Tax and related payments			1 218 264	578 544
Staff costs:				
Salaries and wages			10 230 324	5 988 918
Social security costs			4 321 624	2 514 224
			14 551 948	8 503 142
Operating provisions:				
Provisions for depreciation on fixed assets			1 854 045	1 400 474
Provisions on fixed assets				143 750
Provisions on current assets			862 065	245 952
Provisions for contingencies and liabilities			991 868	121 544
			3 707 978	1 911 719
Other operating expenses			94 195	22 390
Operating expenses			103 586 837	56 158 715
EBIT			21 014 187	7 805 461
Allocated profit or transferred loss				
Loss incurred or transferred profit				
Financial income:				
Financial income from equity interests				
Income from other marketable securities and fixed asset receivables				
Other interest and related income			84 108	25 118
Write-backs on provisions and transferred expenses				
Foreign exchange gains			1 031 168	
Net income from disposal of marketable securities			241 749	61 369
			1 357 025	86 487
Financial expenses:				
Financial depreciation and provisions			3 172 724	
Interest and related expenses			133 527	160 154
Foreign exchange losses			1 185 835	212 112
Net expenses on disposal of marketable securities				
			4 492 086	372 266
Net financial result			-3 135 061	-285 778
Income from ordinary operations before tax			17 879 126	7 519 683
Non-recurring income:				
Non-recurring income on management operations				
Non-recurring income on capital operations			800	
Write-backs on provisions and transferred expenses			46 105	42 515
			46 905	42 515
Non-recurring expenses:				
Non-recurring expenses on management operations			158 634	
Non-recurring expenses on capital operations				
Non-recurring depreciation and provisions				46 105
			158 634	46 105
Non-recurring income/loss			-111 729	-3 590
Employee profit-sharing			994 165	375 823
Corporate income tax			5 294 981	403 862
Total income			126 004 953	64 093 179
Total expenses			114 526 703	57 356 771
Profit or loss			11 478 251	6 736 408

III. — Notes to the parent company financial statements

1. Main events

1.1. Main events over the year

The main events over the year were as follows:

- Listed on the Second Marché on June 30th, 2006.
- Subsidiary acquired in Spain with the takeover of the client Inpro Technologia, in which Parrot now has a 100% stake (see the subsidiary table appended).
- Company's workforce increased by 59% over 2006, rising to 236 members of staff at December 31st, 2006.
- Company's ISO 9001 certification renewed, and certificate obtained showing that Parrot is ISO TS 16949-compliant (standard for automobile manufacturers).

1.2. Post-balance sheet events

There are no events to report up until the date on which the financial statements were drawn up that are likely to affect the accounts for 2006.

2. Accounting methods, principles and rules

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

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

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

The main methods used are presented hereafter:

2.1. Intangible fixed 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 4 years
- Software: 3 years.

Research and development costs are booked directly under operating expenses for 12 555 000 euros. A provision for depreciation is recorded in the event of any impairment in value on fixed assets.

2.2. Tangible fixed assets

Tangible fixed assets 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: 3 to 10 years
- Technical facilities: 10 years
- Plant and equipment: 3 years
- Office equipment and IT: 3 to 5 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.

2.3. Long-term financial investments

Equity securities are valued based on their acquisition cost, which comprises the purchasing cost and related expenses. If the inventory value is lower than the acquisition cost, a provision for depreciation is recorded and supplemented if necessary with a provision for depreciation for current accounts and a provision for contingencies and liabilities.

The inventory value is determined based on the portion of the company's shareholders' equity owned, corrected for the going concern value of the securities. The going concern value is based on the portion of shareholders' equity held, the interest that these companies represent for the Group, any capital gains, and the outlook for their development and earnings.

2.4. Inventories

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. A provision is recorded if the realizable value is lower than the weighted average price.

2.5. Receivables

A provision for depreciation is recorded for trade receivables based on the risk of non-collection.

2.6. 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 unrealized exchange gains or losses. A provision for contingencies and liabilities is booked for unrealized exchange losses.

2.7. 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 their gross value, a provision for depreciation is recorded for the amount of the difference.

2.8. Provisions for contingencies

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 warranties: a provision for warranties is recorded at the time of the sale of the corresponding goods. The provision is valued based on the estimated costs for warranties resulting from past sales.

2.9. Revenues

Income from the sale of goods is recorded on the income statement when the significant benefits and risks inherent to ownership of the goods have been transferred to the buyer.

Income from the provision of services is recorded on the income statement based on the level of progress made with the service on the closing date. The level of progress made is determined with reference to the costs incurred.

No income is recorded when there is a significant level of uncertainty surrounding the collect ability 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. The amount of any referencing or volume-based discounts granted is recorded on the shipment date for goods based on past experience and the contractual conditions in force.

3. Balance sheet information

3.1. Assets

3.1.1. Fixed assets

(€)	Gross value at year-start	Revaluation gains	Acquisitions, contributions, creations, transfers
Intangible fixed assets:			
Concessions, patents and related rights	1 498 001		447 804
Goodwill	7 622		
Other intangible fixed assets	498 703		235 985
Total intangible fixed assets	24 326		683 789
Tangible fixed assets:			
Technical facilities, plant and equipment	1 300 560		1 256 488
Other tangible fixed assets	564 063		552 732
Transport equipment	4 542		
Office equipment and furniture	670 444		504 443
Total tangible fixed assets	2 539 609		2 313 663
Long-term financial investments:			
Other equity interests	37 044		22 996 160
Loans and other long-term financial investments	680 568		3 632 949
Total long-term financial investments	717 612		26 629 109
General total	5 261 547		29 626 560

(€)	Reduction through transfers	Reduction through disposals and retirements	Gross value at year-end	Legal revaluations
Intangible fixed assets:				
Concessions, patents and related rights			1 945 805	
Goodwill			7 622	
Other intangible fixed assets			734 688	
Total intangible fixed assets			2 688 115	
Tangible fixed assets:				
Technical facilities, plant and equipment			2 557 048	
Other tangible fixed assets			1 116 795	
Transport equipment			4 542	
Office equipment and furniture			1 174 887	
Total tangible fixed assets		0	4 853 272	
Long-term financial investments:				
Other equity interests			23 033 204	
Loans and other long-term financial investments	164 435	15 801	4 133 280	
Total long-term financial investments			27 166 484	
General total		0	34 707 871	

3.1.2. Depreciation

Situation and changes over the year:

(€)	Gross value at year-start	Increase, provisions	Decrease, write-backs	Amount at year-end
Intangible fixed assets				
Concessions, patents and related rights	1 020 005	616 935		1 636 940
Goodwill	0			0
Other intangible fixed assets	480 439	154 094		634 533
Total intangible fixed assets	1 500 444	771 029	0	2 271 473
Tangible fixed assets				
Technical facilities, plant and equipment	336 471	68 297		1 018 568
Other tangible fixed assets	109 759	8 288		191 847
Transport equipment	5 000			5 000
Office equipment and furniture	246 492	318 832		565 324
Total tangible fixed assets	697 722	183 016	0	1 780 738
General total	2 198 166	1 854 045	0	4 052 211

Breakdown of depreciation over the year:

(€)	Straight-line depreciation	Declining balance depreciation	Exceptional depreciation
Intangible fixed assets:			
Concessions, patents and related rights	616 935		
Goodwill			
Other intangible fixed assets	154 094		
Total intangible fixed assets	771 029	0	
Tangible fixed assets:			
Technical facilities, plant and equipment	68 297		
Other tangible fixed assets	8 288		
Transport equipment			
Office equipment and furniture	318 832		
Total tangible fixed assets	1 083 016	0	
General total	1 854 045		

3.1.3. Subsidiaries and equity interests

(€)	Ca-pital	Shareholders' equity excl. Earnings for 2006	Capital stake (%)	Net book value of securities		Loans & advances (2)	Revenues	Earnings	Divi-dends receiv ed
				Gross	Net				
Detailed information on subsidiaries and equity interests									
Parrot Asia Pacific Ltd		-178 739	100	1 092	1 092	1 675 931	4 094 001	-492 874	NA
Parrot GmbH		140 904	100	25 000	25 000		8 166 220	480 040	NA
Parrot, Inc		-859 317	100	808	808	2 312 597	10 100 803	-2 563 348	NA
Parrot Srl		90 935	100	10 000	10 000		5 844 979	65 690	NA
Parrot UK Ltd		152 455	100	145	145		10 179 566	523 554	NA
Parrot Iberia (1)		4 235 137	100	22 996 160	22 996 160		82 695 801	4 245 727	NA

(1) Parrot Iberia, formerly Inpro Technologia, was acquired by Parrot SA in two stages:

- On April 7th, 2006, Parrot SA acquired a 56,274% interest in Inpro Technologia.

- The options held, covering the remaining 43.726%, were exercised ahead of schedule on December 28th, 2006.

(2) A 2 985 000 euros provision has been booked for the negative capital of Parrot Inc and Parrot Asia.

3.1.4. Inventories

Detailed breakdown of changes in inventories and work-in-progress:

(€)	At year-end	At year-start	Change in inventories	
			Increase	Decrease
Goods:				
Inventories sold on as is Goods				
Supplies:				
Inventories of supplies				
Raw materials				
Other supplies	10 419 496	7 964 159	2 455 338	
Total I	10 419 496	7 964 159	2 455 338	0
Production:				
Intermediate products				
Finished products	1 926 285	3 095 332		1 169 046
Residual products				
Total II	1 926 285	3 095 332	0	1 169 046
Work-in-progress: Products				
Work				
Research				
Provision of services				
Total III	0	0	0	0
Stored production (or destocking) II + III			0	1 169 046

3.1.5. Changes in marketable securities

Date	unrealized value			
SICAV Unisecurite Palatine:				
April 19 th , 2004	1.00	37 156.96	37 156.96	2 026.94
BP Trésorerie JC:				
July 8 th , 2005	0.10	34 944.70	3 494.47	94.20
January 24 th , 2006	28.50	34 994.97	997 356.65	25 414.02
BRED Monétaire 1FCP:				
January 1 st , 2003	2.56	17 676.07	45 250.74	13 512.27
Placement Optimeo Sexto:				
July 1 st , 2004	1.00	206 044.00	206 044.00	18 142.00
HSBC Monétaire:				
July 4 th , 2006	5 139	2 770.26	14 236 366.14	223 700.00
CAP E02:				
November 20 th , 2006	200	100 000.00	200 000.00	75 512.00
CAAM:				
Year 2006	19	19 813.64	376 459.07	1 968.68

3.1.6. Monitoring of the liquidity agreement

Transaction date	Quantity	Acquisition/sale price	Unrealized value
2006 purchases	9 885	276 358.00	
2006 sales	5 665	117 390.14	
Number of securities at Dec 31, 06	4 200	108 739.00	9 909.71

3.1.7. 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:	
Trade receivables and related	
Staff	
Social organizations	
State	
Sundry receivables	63 177
Other receivables	6 057
Marketable securities	
Cash and cash equivalents	
Total	69 234

3.1.8. Pre-booked expenses

	Expenses	Income
Operating income or expenses	96 935	
Financial income or expenses		
Non-recurring income or expenses		
Total	96 935	0

3.2.1. Change in shareholders' equity

	Dec 31, 05	Change	Dec 31, 06
Capital	1 349 363	570 835	1 920 198
Issue premium	14 304 436	39 307 375	53 611 811
Legal reserves		134 936	134 936
Unavailable reserves	7 772	0	7 772
Retained earnings	-1 151 964	6 601 472	5 449 508
Total	14 509 607	46 614 619	61 124 226

The increase recorded in the capital and issue premium reflects two events:

- The floating of 1 130 782 shares under a 172 331.18 Euro capital increase, with a 24 786 509.11 Euro issue premium.
- The subscription for company founder equity warrants (BSPCE) representing 2 614 851 shares under a 398 503.93 Euro capital increase, with a 14 520 865.89 Euro issue premium.

3.2.2. Share capital

	Number	Par value
1-Shares or rights comprising the capital at year-start	8 849 910	0,1524
2-Shares or rights issued during the year	3 749 814	0,1524
3- Shares or rights redeemed during the year		
4-Shares or rights comprising the capital at year-end	12 599 724	0,1524

3.2.3. Number of company founder equity warrants, share warrants, stock options and bonus shares at December 31st, 2006

— Company founder equity warrants:

Decision date	Exercisable quantity 2005	Quantity void in 2006	Quantity exercised 2006	Exercisable quantity 2006	Unit value	Amount	Deadline for exercising
Jun 24, 03	480 300	-17 287	-140 588	322 425	1.76	567 468	Jun 24, 08
Jul 6, 04	58 500	-7 062	-6 554	44 884	1.76	78 996	Jul 6, 09
Nov 18, 04	19 500	-3 000	-3 130	13 370	1.76	23 531	Nov 18, 09
Dec 7, 04	836 000		-836 000	0	3.59	0	Dec 6, 09
Dec 7, 04	1 611 000		-1 611 000	0	7.19	0	Dec 6, 09
Oct 18, 05	167 000	-27 750	-15 934	123 316	3.59	442 704	Oct 18, 10
Dec 14, 05	121 000		-1 645	119 355	8.12	969 163	Dec 14, 10
Feb 28, 06				92 000	13.06	1 201 520	Feb 27, 11
Jun 12, 06				1 200 000	31.2	37 440 000	Jun 11, 11
Jun 12, 06				720 000	41.6	29 952 000	Jun 11, 11
Jun 12, 06				480 000	52	24 960 000	Jun 11, 11
Jun 12, 06				125 000	31.2	3 900 000	Jun 11, 11
Jun 12, 06				125 000	41.6	5 200 000	Jun 11, 11
	3 293 300	-55 099	-2 614 851.00	3 365 350.00		104 735 382	

— Share warrants:

Decision date	Quantity exercisable 2005	Quantity void in 2006	Quantity exercised 2006	Quantity exercisable 2006	Unit value	Amount	Deadline for exercising
Jun 24, 03	35 600			35 600	1.76	62 656	Jun 24, 08
Jul 6, 04	71 200			71 200	1.76	125 312	Jul 6, 09
Jun 12, 06	12 500			12 500	31.2	390 000	Jun 11, 11
Jun 12, 06	12 500			12 500	41.6	520 000	Jun 11, 11
	131 800			131 800		1 097 968	

— Stock options:

Decision date	Quantity exercisable 2005	Quantity void in 2006	Quantity exercised 2006	Quantity exercisable 2006	Unit value	Amount	Deadline for exercising
Dec 14, 05	80 000	-10 000		70 000	8.12	568 400	Dec 14, 09
Feb 28, 06	27 000			27 000	13.06	352 620	Feb 27, 11
Jun 12, 06	12 500			12 500	31.2	390 000	Jun 11, 11
Jun 12, 06	12 500			12 500	31.2	390 000	Jun 11, 11
Nov 10, 06	260 000			260 000	29.17	7 584 200	Nov 9, 11
	392 000	-10 000		382 000		9 285 220	

— Bonus shares:

Decision date	Quantity exercisable 2005	Quantity void in 2006	Quantity exercised 2006	Exercisable quantity 2006	Unit value	Amount	Deadline for exercising
Dec 14, 05	51 000	0	0	51 000			
General total	3 868 100	-65 099	-2 614 851	3 930 150		115 118 570	

3.2.4. Provisions

(€)	Amount at year-start	Increase	Decrease	Amount at year-end
Provisions for reconstitution of resources				
Provisions for investments				
Provisions for price hikes				
Provisions for price fluctuations				
Special depreciation				
Tax provisions for setting up abroad booked before Jan 1, 1992				
Tax provisions for setting up abroad booked after Jan 1, 1992				
Provisions for set-up loans				
Other regulated provisions				
Regulated provisions	0	0	0	0
Provisions for disputes				
Provisions for client warranties	121 544	411 579	121 544	411 579
Provisions for losses on forward markets				
Provisions for fines and penalties				
Provisions for exchange rate loss		187 421		187 421
Provisions for pensions and related				
Provisions for tax	7 561		7 561	0
Provisions for renewal of fixed assets				
Provisions for major repairs				
Provisions for tax and social security liabilities on leave to be paid				
Other provisions for contingencies and liabilities	268 455	580 289	100 987	747 757
Provisions for contingencies and liabilities	397 560	1 179 289	230 092	1 346 757
Provisions on intangible fixed assets	143 750		143 750	0
Provisions on tangible fixed assets				
Provisions on capitalized equity-consolidated securities				
Provisions on other long-term financial investments		2 985 303		2 985 303
Provisions on inventories and work-in-progress		523 605		523 605
Provisions on trade receivables	457 020	338 460	194 869	600 611
Other provisions for depreciation	9 666			9 666
Provisions for depreciation	610 436	3 847 368	338 619	4 119 186
General total	1 007 996	5 026 658	568 710	5 465 943

Detailed breakdown of releases used:

— Provisions for contingencies: trade tribunal disputes 100 987, tax 7 561.

— Provisions for depreciation: depreciation of Ericsson contract: 143 750.

3.2.5. Accruals

Amount of accruals included in the following balance sheet items	Amount
Convertible bonds	
Other bonds	
Borrowings and debt with credit institutions	
Sundry borrowings and financial debt	
Trade payables and related	2 870 692
Tax and social security liabilities	3 911 139
Debt on fixed assets and related	
Cash, accruals	
Other liabilities	218 019
Total	6 999 850

3.2.6. Translation gains or losses

— Translation gains or losses on accounts receivable and payable in foreign currencies:

Type of gain or loss	Amount assets: unrealized loss	Difference offset through foreign exchange hedging	Provision for foreign exchange loss	Amount liabilities: unrealized gain
On non-financial fixed assets				
On long-term financial investments				
On receivables	186 154			
On financial debt				
On operating debt	1 267			
On fixed asset-related debt				
Total	187 421	0	0	0
Recap: provision for foreign exchange loss			-187 421	

4. — Information on the income statement

4.1. Breakdown of revenues

(€ 000)	Amount
Breakdown by market:	
OEM	13 844
Wireless hands-free kits installed by car equipment professionals	100 521
Plug and play	3 878
Other sales	5 458
Total	123 701
Breakdown by region:	
Europe excluding France	81 132
France	15 234
Other countries	27 335
Total	123 701

4.2. Non-recurring items

Non-recurring income	Number	Booked in accounts
Write back on provisions for staff disputes	46 105	787 500
Total	46 105	
Non-recurring expenses		
Trade tribunal ruling	50 954	671 000
Supplier transactional agreement	95 000	671 000
Customs' penalties	12 680	671 000
Total	158 634	

4.3. Breakdown of corporate income tax

Breakdown	Pre-tax earnings	Tax
Income from ordinary operations	17 879 126	5 257 742
Non-recurring loss (excluding equity interests)	-111 729	-37 239
Corporate income tax		5 294 981
Tax on capital increase costs		804 647
Research tax credit		-734 670
Tax		5 364 958

Change in tax option:

— A rate of 15% has been applied on royalty revenues (1 523 000 euros).

— Corporate income tax has been broken down on a pro rata basis for income from ordinary operations and non-recurring items.

4.4. Deferred tax

Item	Base	Tax
Temporarily taxable transactions		
Employee profit-sharing	985 867	
Organic	201 738	
Unrealized capital gains on UCITS	368 312	
Total	1 555 917	
Future tax saving		518 639
Future social contribution saving		17 115
Total		535 754

5. Other information

5.1. Due dates for accounts payable and receivable

"Other liabilities" include 16 995 000 euros for the acquisition of Inpro Technologia, with a 13 992 000 € payment to be made in Q1 2007, based on 25% Parrot shares and 75% cash. The 3 003 000 euros will be spread over three years.

Accounts receivable	Gross	Under 1 year	Over 1 year
Fixed assets:			
Equity interest-related receivables	3 984 712		3 984 712
Loans			
Other long-term financial investments	148 567		148 567
	4 133 279		4 133 279
Current assets:			
Bad or disputed receivables	834 589	834 589	
Other trade receivables	27 903 113	27 903 113	
Receivables representative of loaned securities			
Staff and related	4 516	4 516	
Social security and related			
State - corporate income tax	780 508	780 508	
State - value-added tax	28 792	28 792	
State - other taxes, duties and related			
State - other			
Group and related			
Sundry receivables	69 234	69 234	
	31 600 752	31 600 752	
Pre-booked expenses	96 935	96 935	
General total	35 830 966	31 697 687	4 133 279

Accounts payable	Gross	Under 1 year	1 to 5 years	Over 5 years
Convertible bonds				
Other bonds				
With credit institutions:				
Up to 1 year at the outset				
Over 1 year at the outset	26 187	26 187		
Borrowings and sundry financial debt	16 996 160	14 996 160	200	
Trade payables and related	13 293 647	13 293 647		
Staff and related	2 512 753	2 512 753		
Social security and related	1 516 593	1 516 593		
Corporate income tax	492 168	492 168		
Value-added tax	391 783	391 783		
Surety bonds				
Other taxes and related	736 515	736 515		
Debt on fixed assets and related				
Group and related				
Other payables	21 819	21 819		
Debt representative of borrowed securities				
Pre-booked income				
General total	39 783 825	37 783 825	200	

5.2. Accounts receivable and payable between the parent company and subsidiaries

Breakdown	Assets	Liabilities	Financial expenses	Financial income
SA Parrot:				
Long-term financial investments	1 675			
Parrot Asia trade receivables	1 394			
Parrot Asia trade payables		284		
Accrued interest				7.8
Total	3 069	284	0	7.8
SA Parrot				
Long-term financial investments	0			
Parrot GmbH trade receivables	1 683			
Parrot GmbH trade payables		6		
Accrued interest	0			0.5
Total	1 683	6	0	0.5
SA Parrot				
Long-term financial investments	2 312			
Parrot Inc trade receivables	3 940			
Parrot Inc trade payables		43		
Accrued interest	0			14.84
Total	6 252	43	0	14.84
SA Parrot				
Long-term financial investments	0			
Parrot Srl trade receivables	2 298			
Parrot Srl trade payables				
Accrued interest	0			0.6
Total	2 298	0	0	0.6
SA Parrot				
Long-term financial investments	0			
Parrot UK trade receivables	2 233			
Parrot UK trade payables				
Accrued interest				1.41
Total	2 233	0	0	1.41

SA Parrot		
Long-term financial investments	0	
Parrot Iberia trade receivables	6 777	
Parrot Iberia trade payables		8
Accrued interest		
Total	6 777	8

The financial advances granted to subsidiaries are in euros, except for the Parrot Asia Pacific and Parrot Inc subsidiaries, which are in HK dollars and US dollars respectively.

5.3. Off-balance sheet commitments

For the acquisition of Inpro, Parrot was covered by a common liability guarantee clause.

5.3.1. Retirement benefits

Commitments relative to retirement benefits have been valued in line with the national wage bargaining agreement for the metalworking industry, based on the following assumptions:

- Retirement age: 65
- Rate of wage growth: 6%
- Discount rate: 4.50%
- Rate for social security costs: 45%

At the end of 2006, the commitment totaled 239 000 euros.

5.3.2. Individual training request

The number of hours training for beneficiaries totaled 4 989 hours.

5.4. Exchange rate hedging

The amount of exchange rate hedging with a term of less than six months totaled 25 000 000 US dollars.

5.5. Average headcount

At Dec 31	2005	2006
Senior management	1	2
Sales	28	41
Purchasing	3	5
Administration	11	22
IT		8
Marketing	7	15
Research	66	91
Validation		20
Logistics	2	1
After-sales service	7	4
Quality	2	5
Production	22	22
Total	149	236

5.6 Compensation for administrative and management bodies

In 2006, compensation for administrative and management bodies totaled 468 125 euros.

B. — Consolidated financial statements

I. — Consolidated income statement

(€ 000)	Note n°	Dec 31, 06	Dec 31, 05
Revenues	5	159 182	62 537
Cost of sales	6	-86 343	-33 874
Gross margin		72 839	28 663
Gross margin as % of revenues		45.80%	45.80%
Research and development costs	6	-13 272	-6 883
as % of revenues		-8.30%	-11.00%
Commercial expenses	6	-25 542	-9 034
as % of revenues		-16.00%	-14.40%
Overheads	6	-6 271	-2 310
as % of revenues		-3.90%	-3.70%
Production / Quality	6	-5 338	-3 010
as % of revenues		-3.40%	-4.80%
Income from ordinary operations		22 416	7 426
Income from ordinary operations as % of revenues		14.10%	11.90%
Other operating expenses		-6 482	
Other operating income			
EBIT		15 934	7 426
EBIT as % of revenues		10.00%	11.90%
Income from cash and cash equivalents	8	-30	115
Cost of gross financial debt	8	-229	-38
Cost of net financial debt	8	-259	77
Other financial income and expenses	8	-572	-8
Corporate income tax	9	-8 067	-2 187
Earnings for the period - attributable to Parrot S.A. shareholders		7 036	5 308
Earnings for the period - Group share as % of revenues		4.40%	8.50%
Earnings for the period - minority interests			

— Basic and diluted earnings per share:

(€ 000)	Note	2006	2005
Weighted average number of ordinary shares		10 729 623	8 703 871
Basic earnings per share (€)	20	0.66	0.61
Weighted average number of ordinary shares (diluted)		12 582 613	9 907 270
Diluted earnings per share (€)	20	0.56	0.54

— Basic and diluted earnings per share - excluding non-recurring share-based payments:

	Note	2006
Basic earnings per share (€) - excluding non-recurring share-based payments (6 482 000 euros)	20	1.26
Diluted earnings per share (€) - excluding non-recurring share-based payments (6 482 000 euros)	20	1.07

II. — Consolidated balance sheet at December 31st, 2005 and 2006

Assets (€ 000)	Note	Dec 31, 06	Dec 31, 05
Non-current assets:		25 793	5 551
Goodwill	10	18 546	
Other intangible fixed assets	10	3 704	3 483
Tangible fixed assets	11	3 328	1 932
Financial assets	12	206	123
Deferred tax assets	13	9	12
Current assets:		104 767	39 153
Inventories	14	15 627	11 557
Trade receivables	15	37 072	17 169
Sundry receivables	16	3 368	6 340
Other current financial assets			2 042
Cash and cash equivalents	17	48 700	2 045
Total assets		130,560	44 703

Liabilities (€ 000)	Note	Dec 31, 06	Dec 31, 05
Shareholders' equity			
Share capital	18	1 920	1 349
Issue and contribution premiums	18	53 612	14 304
Reserves and retained earnings		14 720	1 643
Earnings for the period		7 036	5 308
Shareholders' equity attributable to Parrot SA shareholders		77 289	22 605
Minority interests			
Non-current liabilities:		3 404	1 196
Long-term financial debt	19	2 000	
Provisions for pensions and related commitments	22	262	137
Deferred tax liabilities	13	1 001	790
Other non-current provisions	23	142	268
Other non-current liabilities			
Current liabilities:		49 867	20 902
Short-term financial debt	19	14 885	17
Financial derivatives	26	295	
Current provisions	24	1 177	129
Trade payables	25	20 094	15 351
Current tax liabilities	25	5 616	1 203
Other current liabilities	25	7 801	4 201
Total shareholders' equity and liabilities		130 560	44 703

III. — Profit and loss statement for the years ended December 31st, 2005 and 2006

(€ 000)	Dec 31, 06	Dec 31, 05
Exchange gains or losses	296	-61
Change in actuarial differences concerning staff benefits		-15
Income and expenses booked directly against shareholders' equity	296	-76
Earnings for the period	7 036	5 308
Total income and expenses for the period	7 332	5 232

IV. — Consolidated cash-flow statement for the years ended December 31st, 2005 and 2006

(€ 000)	Dec 31, 06	Dec 31, 05
Cash flow from operations:		
Earnings for the period	7 036	5 308
Depreciation and amortization	5 053	2 230
Capital gains and losses on disposals	12	0
Tax expense	8 067	2 187
Cost of share-based payments	7 585	231
Cost of net financial debt	259	-77
Cash flow from operations before cost of net financial debt and tax	28 012	9 880
Working capital	-9 490	-8 036
Cash from operating activities	18 522	1 844
Tax paid	-1 502	-636
Net cash from operating activities (a)	17 019	1 208
Cash flow from investments:		
Interest received		
Disposal of tangible and intangible fixed asset	-5 794	-4 954
Acquisition of subsidiaries, net of cash acquired (1)	-21 534	0
Acquisition of long-term financial investments		-42
Increase in other current financial assets		-2 042
Disposal of tangible and intangible fixed assets	17	0
Disposal of subsidiaries, net of cash divested		
Disposal of long-term financial investments	2 042	2
Cash used for investment activities (b)	-25 269	-7 036
Cash flow from financing:		
Equity contributions	39 928	5 862
Dividends paid	0	0
Receipts linked to new loans (2)	6 000	0
Other financing (2)	17 012	
Cost of net financial debt	-259	77
Repayment of short-term financial debt (net)	-7 664	0
Acquisition of treasury stock	-109	
Interest paid	0	0
Cash used for financing activities (c)	54 908	5 939
Net change in cash position (d = a+b+c)	46 658	111
Exchange gain or loss	-12	6
Cash and cash equivalents at year-start	2 027	1 911
Cash and cash equivalents at year-end	48 674	2 027
Other current financial assets	0	2 042
Cash, cash equivalents and other current financial assets at year-end	48 674	4 069

(1) Expenditure linked to the acquisition of Inpro Technologia SL. (acquisition price: 22 990 000 euros – cash acquired: 1 456 000 euros).

(2) Of which, financing for the acquisition of Inpro Technologia SL (detailed in Note 19).

The net cash position can be broken down as follows:

Cash and cash equivalents at year-end	48 700	2 045
Bank overdrafts	-26	-17
Cash, cash equivalents and other current financial assets at year-end	48 674	2 027

V. — Change in consolidated shareholders' equity for the years ended December 31st, 2005 and 2006

(€ 000)	Capital	Premiums	Undistributed earnings	Earnings for the period	Other Exchange gains or losses	Shareholders' equity (Group share)	Shareholders' equity (minority interests)
Position at year-end 2004	1 086	8 713	-2 346	3 830	6	11 289	
Appropriation of earnings for N-1			3 820	-3 830		-10	
Income and expenses booked for the period				5 308	-76	5 232	
Change in the consolidating company's capital	263	5 599				5 862	
Impact of revaluations		-8	8				
Share-based payments			231			231	
Position at year-end 2005	1 349	14 304	1 713	5 308	-70	22 605	
Appropriation of earnings for N-1			5 308	-5 308			
Income and expenses booked for the period				7 036	296	7 332	
Change in the consolidating company's capital	571	39 308				39 879	
Treasury stock			-112			-112	
Share-based payments			7 585			7 585	
Position at year-end 2006	1 920	53 612	14 494	7 036	226	77 289	

(1) See Note 18 on shareholders' equity.

VI. Notes
1. The company

The appended consolidated financial statements present the operations of Parrot S.A. and its subsidiaries (referred to collectively as "the Group") and the Group's interests in affiliated or jointly-controlled companies. Parrot S.A. is a French-law company that was listed in 2006. Its registered office is in Paris.

The financial statements for the year ended December 31st, 2006 were approved by the Board of Directors on February 14th, 2007.

The financial statements are presented in euros, which is the functional currency of Parrot S.A. All the financial data are rounded off to the nearest thousand euros.

2. Accounting principles

Pursuant to European regulation 1606/2002 of July 19th, 2002, the consolidated financial statements published for 2006 have been drawn up in accordance with the international accounting standards set by the International Accounting Standards Board (IASB). These international accounting standards comprise the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS), and their interpretations, which have been adopted within the European Union at December 31st, 2006 (published in the European Union's official journal).

The financial statements for 2006 represent the second complete financial statements drawn up by the Group under IFRS.

For comparison, they include the income statement for 2005, as well as the balance sheet at December 31st, 2005.

Certain standards and interpretations adopted by the IASB or International Financial Reporting Interpretations Committee (IFRIC) and the European Union at December 31st, 2006 have not been applied in advance. This primarily concerns:

— IFRS 7 "financial instruments: information to be provided",

— Amendment to IAS 1 "presentation of financial statements", covering the information to be provided.

Since January 1st, 2004, the Group has applied IAS 32 "Financial instruments: information to be provided and presentation" and IAS 39 "Financial instruments: recording and valuation" as well as the revised version of IAS 19 "Employee benefits" concerning the recording of actuarial differences in its accounts.

The main accounting principles applied by the Group are as follows:

2.1. Consolidation methods

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

Since Parrot S.A. owns more than half of the voting rights in all of the companies included in the basis for consolidation (see Note 3), the full consolidation approach represents the only method applied by the Group.

The Group's consolidated companies drew up their financial statements at December 31st, 2005 and 2006 in line with the accounting rules and methods applied by the Group. Transactions between consolidated companies, and any in-house profits are eliminated.

The Group does not control any ad hoc entities.

2.2. 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 those 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. 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 revenues on contracts, business combinations, the recognition of deferred tax assets, notably resulting from deferrable tax losses, value tests on assets, the valuation of share-based payments and obligations linked to defined benefit systems, the valuation of financial instruments and current and non-current provisions.

2.3. Conversion methods

Transactions denominated in foreign currencies: transactions in foreign currencies are converted into euros based on the exchange rate in force on the transaction date. 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. 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 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 rates close to the exchange rates in force on the transaction dates. Any exchange gains or losses resulting from versions are recorded under conversion reserves as a separate shareholders' equity component.

The conversion rates for the main currencies used within the Group over 2005 and 2006 were as follows:

	2005	2006
Closing rates:		
US Dollar	0.847673	0.759301
Hong Kong Dollar	0.109321	0.097648
Pound Sterling	1.459210	1.489203
CNY		0.097283
Average rates:		
	2005	2006
US Dollar	0.803356	0.796390
Hong Kong Dollar	0.103279	0.102513
Pound Sterling	1.462184	1.466656
CNY		0.099910

2.4. 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 EBIT, 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 5 Operating expenses by type in these notes.

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.

2.5. Earnings per share

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: share warrants (Note 18.3 Share warrant and company founder equity warrant schemes) and bonus shares.

2.6. Revenues

Income from the sale of goods is recorded on the income statement when the significant benefits and risks inherent to ownership of the goods have been transferred to the buyer.

Income from the provision of services is recorded on the income statement based on the level of progress made with the service on the closing date. The level of progress made is determined with reference to the costs incurred.

No income is recorded when there is a significant level of uncertainty surrounding the collect ability 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. The amount of any referencing or volume-based discounts granted is recorded on the shipment date for goods based on past experience and the contractual conditions in force.

2.7. 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.

2.8. 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); interest to be received on investments, income from other dividends. Interest-related income is recorded on the income statement when acquired under the effective interest rate method. Income from dividends is recorded on the income statement as soon as the Group becomes entitled to receive the payments in question.

2.9. 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.

2.10. Segment information

A segment represents a distinct component of the Group that is involved in the provision of products or services in a specific economic environment and that is exposed to different risks and profitability than other segments.

For management purposes, the Group tracks its activity focusing on two key levels: markets and regions for its clients. Only the markets represent profit centers whose performance is measured in full. First-level segment information corresponds to the markets on which the Group operates. Second-level segment information corresponds to the regions in which the Group makes its sales. Costs linked to operational activities and incurred at Group level for markets are allocated either directly or on a reasonable basis.

2.11. Intangible fixed assets

— Goodwill: goodwill represents the excess of costs for a business combination over the Group's interest in the net fair value of any assets, liabilities and contingent liabilities that may be identified on the takeover date. This goodwill is not depreciated.

If the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the surplus is immediately booked under earnings.

On the acquisition date, the cost of a business combination is allocated factoring in the identifiable assets, liabilities and contingent liabilities for the company acquired at their fair value on this date, with the exception of non-current assets classified as being held with a view to sale, which are recorded at their fair value, less any costs for their sale. Goodwill is valued at cost, less any aggregate impairments in value.

— Research and development costs: research costs are recorded as expenses when they are incurred. 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 fulfils 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 fixed asset and use or sell it, the capacity to use or sell this intangible fixed asset, the capacity to generate future economic benefits, the capacity to reliably value the various expenses attributable to the intangible fixed 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.

Any capitalized development costs are recorded at cost less any aggregate depreciation and possible impairments in value. They are depreciated over two to three years.

— Other intangible fixed assets: fully-owned software and user rights are capitalized and depreciated over their useful life, i.e. three years for software and one to four years for user rights.

2.12. Tangible fixed assets

Tangible fixed assets are recorded under assets on the balance sheet at their depreciated historical cost, less any impairments in value. They are not revalued.

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

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

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

— Fixtures and fittings: 3 to 10 years

— Technical facilities: 10 years

— Plant and equipment: 3 years

— Office equipment and IT: 3 to 5 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.

2.13. Depreciation of tangible and intangible fixed assets

The going concern value of tangible and intangible fixed assets is tested if there are any signs of impairment in value on the reporting date, and at least once a year for goodwill and intangible fixed assets not brought into service on the closing date.

The value test is based on a valuation of the recoverable value of each unit generating its own cash. These units correspond to subsidiaries or regions in which the Group is established, whose continuous activity generates cash inflows that are largely independent from cash inflows generated by other assets or groups of assets. The recoverable value of a cash-generating unit represents the higher of its fair value less costs of sale and its going concern value. The going concern value of each cash-generating unit is determined in line with the net discounted cash-flow method, based on parameters resulting from the budgetary and forecasting process, spread over a five-year period, including rates of growth and profitability that are deemed to be reasonable. Long-term growth and discount rates for beyond the five-year period, assessed based on analyses of the sector in which the Group operates, are applied for all valuations of cash-generating units. 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 impairment in value recorded on goodwill cannot be written back.

2.14. 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 this concern income tax deducted by the same tax authorities and at the same time.

Deferred tax assets and liabilities are not discounted.

2.15. Inventories

Inventories are valued at the lower of their cost or their net realizable value. The net realizable value represents the estimated sales price during

the normal course of business, less the estimated costs for completion and the estimated costs required for making the sale. 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 to take them to their location and in their state.

2.16. Non-derivative financial instruments

2.16.1. 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.

2.16.2. 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 transaction purposes at their amortized cost.

2.17. Investments

An instrument is recorded as a fair value investment on the income statement if it is held for transaction purposes or classified as such when initially booked in the accounts. Financial instruments are booked at their fair value on the income statement if the Group manages such investments and takes the decisions to buy and sell based on their fair value. When they are initially recorded in the accounts, the transaction costs that are directly attributable are booked under earnings when they are incurred. Fair value financial instruments on the income statement are valued at their fair value, and any resulting change is booked under earnings.

2.18. 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 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.

2.19. Net cash position

The concept of net cash used by the Group corresponds to the aggregate for other current financial assets, cash and cash equivalents, less bank overdrafts.

2.20. Share-based payments

Share warrants may be granted to a certain number of the Group's staff, entitling them to subscribe for Parrot S.A. shares over a four or five-year period at a fixed exercise price set at the time of their allocation. Options and warrants are valued based on the fair value of the benefits granted to staff on the allocation date. They are recognized under staff costs on the income statement over the vesting period, booked against 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 or under non-recurring expenses.

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. In 2005 and in accordance with IFRS 1 First adoption of international financial reporting standards, only schemes allocated after November 7th, 2002 and for which the vesting date is after January 1st, 2005, had been valued and recorded under operating expenses. Schemes prior to November 7th, 2002 and those allocated after November 7th, 2002 and for which rights are vested prior to January 1st, 2005, had not been valued and were still not recorded in the accounts.

2.21. 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. Since the Group applies the revised version of IAS 19, any actuarial differences relating to defined benefit pension schemes are booked against consolidated shareholders' equity.

Long-term benefits: the Group's net obligation for long-term benefits other than pension schemes is equal to the value of the future benefits acquired by staff in return for services rendered during the present and subsequent periods. The amount of the obligation is determined using the projected credit unit method. The discount rate is equal to the rate on the closing date based on obligations under the first category for which the due dates are close to those for the Group's commitments.

2.22. Provisions

A provision is recorded on the balance sheet when the Group has a current legal or implied 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.

Warranties: a provision for warranties is recorded at the time of the sale of the corresponding goods.

The provision is valued based on the estimated costs for warranties resulting from past sales.

3. Basis for consolidation

The Parrot Group's basis for consolidation comprises eight companies, with the following consolidation methods:

Name	Address	Country	Parrot S.A stake (%)	Consolidation method
Parent company:				
Parrot S.A.	174, Quai de Jemmapes75010 Paris	France		
Consolidated subsidiaries:				
Inpro Technologia SL	Augustin Duran, 24 28028 Madrid	Spain	100%	Fully consolidated
Parrot Inc	9442, Capital ot Texas Highway North - 500 Austin Texas	US	100%	Fully consolidated
Parrot Italia Srl	Via Falcone 720123 Milan	Italy	100%	Fully consolidated
Parrot GmbH	Englmannstrasse 281673 Munich	Germany	100%	Fully consolidated
Parrot UK Ltd	IBIC Building, Holtcourt, Jennens Road Aston Science Park, Birmingham B7 4EJEngland	UK	100%	Fully consolidated
Parrot Shenzhen	Room 1501-1503, Centres Commerce Building 88 Fuhua Yi Road, Futian Centers District, Shenzhen	China	100%	Fully consolidated
Parrot Asia Pacific Ltd	Unit 911, 9/F, Star House3 Salisbury Road T.S.T., Hong Kong	Hong Kong	100%	Fully consolidated

At the end of 2005, the basis for consolidation comprised Parrot SA and five fully-owned subsidiaries. The Spanish and Chinese subsidiaries were included in the basis for consolidation over 2006.

3.1. Acquisitions

On April 7th, 2006, Parrot SA acquired a 56.274% stake in the Spanish company Inpro Tecnologia SL. This date corresponds to the date on which it took control of this company. The acquisition includes a liability guarantee. In addition, the shareholders' agreement signed at the end of March 2006 between Parrot SA and the minority shareholders owning the remaining 43.726% covered a cross put and call between the two groups of shareholders. The options held on the 43.726% and belonging to minority shareholders were exercised in advance on December 28th, 2006. In this way, Inpro Tecnologia SL has been fully consolidated in the consolidated financial statements drawn up at December 31st, 2006. As decided by the Board on September 26th, 2006, Inpro Tecnologia SL has changed its name to Parrot Iberia, SL. From this point on, in order to make things easier to understand for readers, Inpro Tecnologia SL. will be referred to as Parrot Iberia, SL. Furthermore, a subsidiary domiciled in Shenzhen, China, was created on April 13th, 2006: Parrot Trading. Its activities were launched in Q4, and it was therefore included in the basis for consolidation over the year.

3.2. Disposals

The Group did not sell off any of its companies over the year.

4. Pro Forma income statement at December 31st, 2005 and 2006

The pro forma consolidated financial information presented hereafter is intended to reflect the impacts of the acquisition and consolidation of Inpro Tecnologia SL on the consolidated financial statements of Parrot S.A. as if it had occurred on January 1st, 2005 (assumption retained for the pro forma information given in the prospectus).

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

- The 12-month period from January 1st to December 31st, 2005,
- The 12-month period from January 1st to December 31st, 2006,
- The reference accounts used in connection with the preparation of the pro forma consolidated financial information are as follows:
 - The consolidated income statement of Parrot S.A. drawn up under IFRS for the 12-month period from January 1st to December 31st, 2005,
 - The income statement of Inpro Tecnologia, restated in line with the Parrot Group's accounting principles for the 12-month period from January 1st to December 31st, 2005.
 - The consolidated income statement of Parrot S.A. drawn up under IFRS for the 12-month period from January 1st to December 31st, 2006,
 - The income statement of Inpro Tecnologia, restated in line with the Parrot Group's accounting principles for the three-month period from January 1st to March 31st, 2006.
- The accounting methods and principles used to draw up the pro forma consolidated financial information are those used to prepare the consolidated financial statements of Parrot S.A. over the periods concerned.

(€ 000)	Dec 31, 06	Dec 31, 05
Revenues	166 912	80 865
Cost of sales	-91 830	-44 848
Gross margin	75 082	36 017
Gross margin as % of revenues	45.0%	44.5%
Research and development costs	-13 272	-6 883
% of revenues	-8.0%	-8.5%
Commercial expenses	-26 507	-11 678
% of revenues	-15.9%	-14.4%
Overheads	-6 271	-2 310
% of revenues	-3.8%	-2.9%
Production/quality	-5 338	-3 009
% of revenues	-3.2%	-3.7%
Income from ordinary operations	23 694	12 137
Income from ordinary operations as % of revenues	14.2%	15.0%
Other operating expenses	-6 482	
Other operating income	0	
EBIT	17 212	12 137
EBIT as % of revenues	10.3%	15.0%
Cost of net financial debt	-340	-250
Other financial income and expenses	-727	-647
Corporate income tax	-8 432	-3 502
Earnings for the period - Group share	7 713	7 738
Earnings for the period - Group share as % of revenues	4.6%	9.6%

Basic pro forma earnings and diluted pro forma earnings per share:

	2006	2005
Weighted average number of ordinary shares	10 729 623	8 703 871
Basic pro forma earnings per share (€)	0.72	0.89
Weighted average number of ordinary shares (diluted)	12 582 613	9 907 270
Diluted pro forma earnings per share (€)	0.61	0.78

Basic pro forma earnings and diluted pro forma earnings per share – excluding non-recurring share-based payments:

	2006
Basic pro forma earnings per share (€) - excluding non-recurring share-based payments (6 482 000 euros)	1.32
Diluted pro forma earnings per share (€) - excluding non-recurring share-based payments (6 482 000 euros)	1.13

5. Segment information

5.1. Segment information for each market

In-vehicle Bluetooth handsfree kits account for virtually all revenues, and are split between the following markets:

- Aftermarket, primarily including the CK3000, CK3 100, CK3200, CK3300, CK3400, CK3500, Rhythm & Blue and MK6000 products,
- Plug and play, primarily including the EasyDrive, DriverHeadset and Nomad products,
- OEM, covering the CK4000, CK 5000, P4 and P4+ products.

At December 31st, 2006, segment information for each market can be broken down as follows:

2006 (€'000)	Aftermarket	Plug and play	OEM	Unallocated	Total
Income statement:					
Product revenues	119 385	3 798	11 410		134 593
Cost of product sales	-55 290	-2 627	-5 312		-63 230
Gross product margin	64 094	1 170	6 099	0	71 363
Revenues – other				24 589	24 589
Business margin - other				1 475	1 475
Total gross margin	64 094	1 170	6 099	1 475	72 839
Current operating expenses				-50 423	-50 423
Income from ordinary operations				22 416	22 416
Other operating expenses				-6 482	-6 482
Cost of net financial debt				-259	-259
Other financial income and expenses				-572	-572
Tax expense				-8 067	-8 067
Earnings for the period					7 036
Balance sheet:					
Segment assets	566	594	2 031	79	3 270
Unallocated assets				127 290	127 290
Total consolidated assets	566	594	2 031	127 369	130 560
Segment liabilities					
Unallocated liabilities				130 560	
Total consolidated liabilities				130 560	130 560
Other segment information:					
Developments recorded as fixed assets for 2006	480	485	999	450	2 414
Depreciation of capitalized developments for 2006	334	243	755	936	2 268

“Other” revenues primarily comprise sales of Tom Tom products, as well as Tes and Jabil components or royalties received. Each type of operating expense has not been broken down for each segment due to the Group's transversal structure:

- Research and development costs benefit all sectors, notably thanks to the use of the same technological platform for all products.
- The sales and marketing teams, notably in foreign subsidiaries, are not dedicated to a specific sector.
- Sourcing, production release scheduling at subcontractors and quality are managed by the same services for all segments.

Segment assets correspond to inventories of finished products (to be confirmed). Other assets have not been allocated to a specific segment since they are used globally for all of the sectors.

At December 31st, 2005, segment information for each market can be broken down as follows:

2005 (€'000)	Aftermarket	Plug and play	OEM	Unallocated	Total
Income statement:					
Product revenues	55 276	3 805	1 482		60 563
Cost of product sales	-28 845	-3 489	-880		-33 214
Gross product margin	26 430	317	602	0	27 349
Revenues - other				1 974	1 974
Business margin - other				1 314	1 314
Total gross margin	26 430	317	602	1 314	28 663
Other operating expenses				-21 237	-21 237
EBIT				7 426	7 426
Cost of net financial debt				77	77
Other financial income and expenses				-8	-8
Tax expense				-2 187	-2 187
Earnings for the period					5 308
Balance sheet:					
Segment assets	1 640	0	231	1 251	3 123
Unallocated assets				41 580	41 580
Total consolidated assets	1 640	0	231	42 831	44 703
Segment liabilities					
Unallocated liabilities				44 703	
Total consolidated liabilities				44 703	44 703
Other segment information:					
Developments recorded as fixed assets for 2005	1 374	0	70	611	2 055
Depreciation of capitalized developments for 2005	500	61	0	0	561

The abovementioned segment information represents the finest grained level of detail available to the company on the closing date for the annual financial statements.

5.2. Segment information for each region

At December 31st, 2006, segment information for each region can be broken down as follows:

(€ 000)	France	Belgium & Netherlands	Spain	Italy	UK	Germany	Rest of Europe	US	Hong Kong	China	Rest of world	Total
Income statement												
Non-Group revenues (by client region)	15 834	8 471	74 534	6 359	10 542	8 173	9 681	6 546	5 127	326	13 589	159 182
Other segment information												
Investments:												
Tangible fixed assets	2 314		62	7	48	5		28	74	7		2 544
Intangible fixed assets	3 098		8	7		2						3 116
Average headcount	240		43	5	4	4		10	7	14		327

At December 31st, 2005, segment information for each region can be broken down as follows:

(€ 000)	France	Belgium & Netherlands	Spain	Italy	UK	Germany	Rest of Europe	US	Hong Kong	China	Rest of world	Total
Income statement												
Non-Group revenues (by client region)	7 658	4 664	25 020	3 428	5 572	5 231	3 909	3 093	634		3 328	62 537
Other segment information												
Investments:												
Tangible fixed assets	1 752			5	14	1		53	8			1 833
Intangible fixed assets	3 121			1		0						3 122
Average headcount	149			2	3	2		5	2			163

6. Operating expenses by kind

(€'000)	Dec 31, 06	Dec 31, 05
Consumption of raw materials and goods	58 701	7 226
Outsourcing purchases	25 889	25 846
Other external expenses	26 852	10 008
Staff costs	25 785	9 028
Tax	1 225	579
Depreciation and amortization	636	2 558
Other operating income and expenses	-1 239	-135
Total operating expenses	143 248	55 110

Staff costs can be broken down as follows

Salaries and wages	12 936	6 159
Social security costs (including defined contribution pension schemes)	4 269	2 263
Employee profit-sharing	994	376
Share warrant expenses	7 585	231
Total staff costs	25 785	9 028

7. Non-recurring expenses

At December 31st, 2006, a non-recurring expense was recorded for 6 482 000 Euros relative to the allocation of stock options for executive managers. These options were allocated at the time of the IPO relative to a capital restructuring operation.

8. Financial result

(€'000)	Dec 31, 06	Dec 31, 05
Cost of gross financial debt	-229	-38
Income from investments	530	115
Other	-560	
Cost of net financial debt	-259	77
Exchange gains	954	186
Exchange losses	-1,526	-216
Other		22
Other financial income and expenses	-572	-8
Total	-831	69

9. Tax

Tax expense: the tax expense can be broken down as follows:

(€'000)	2006	2005
Current tax	8 037	636
Deferred tax	30	1 551
Total	8 067	2 187

The current tax expense for 2006 primarily reflects tax on profits for France (5 295 000 euros), Spain (2 078 000 euros), Germany (332 000 euros), the UK (217 000 euros), and Italy (92 000 euros).

The deferred tax expense for 2006 primarily concerns the depreciation of financial receivables relative to subsidiaries in the US and Hong Kong,

the cancellation of profits on inventories recognized with the Spanish and Italian subsidiaries, and other timing differences.

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

(€ 000)	2006	2005
Earnings for the period	7 036	5 308
Tax expense	8 067	2 187
Pre-tax earnings	15 103	7 495
Theoretical tax expense (33.33% in N, 33.33% in N-1)	-5 034	-2 498
Reconciliation:		
Permanent differences	-22	-70
Reduced tax operations	279	0
Tax rate difference	-128	-38
Non-capitalized tax losses	-1 066	-428
Research tax credit	735	871
Additional contributions	-146	-39
Tax corrections	-33	20
IFA	-4	
IFRS 2	-2 528	
Margins on inventories for loss-making subsidiaries	-156	
Start-up costs	-2	
Acquisition costs for Inpro Technologia securities	153	
Non-capitalized timing difference	-115	-4
Actual tax expense	-8 067	-2 187

In 2006, the effective tax expense primarily reflects:

- The recognition of a 735 000 euros research tax credit for France.
- The recognition of the IFRS 2 expense for 2 612 000 euros.
- The non-recognition of deferred tax assets for 1 101 000 euros, primarily concerning the loss-making subsidiary Parrot Inc.

10. Intangible fixed assets

(€ 000)	Dec 31, 05	Increase	Decrease	Changes in scope	Dec 31, 06
Gross values:					
Goodwill (1)		18 546			18 546
Development costs	4 229	2 414			6 644
Patents and brands	1 498	450			1 948
Software	499	252		6	757
Other intangible assets	9		-1		8
Total	6 235	21 663	-1	6	27 902
Depreciation:					
Development costs	-1 107	-2 268			-3 375
Patents and brands	-1 164	-473			-1 637
Software	-480	-156	0	-4	-640
Other intangible assets					
Total	-2 751	-2 897	0	-4	-5 652
Net book values:					
Goodwill (1)		18 546			18 546
Development costs	3 123	147			3 269
Patents and brands	334	-23			311
Software	18	97		1	1 16
Other intangible assets	9		-1		8
Total	3 484	18 766	-1	1	22 250

(1) The assets and liabilities presented in the following table for Parrot Iberia, SL. at March 31st, 2006 factor in the restatements made in order to bring the accounting principles of Parrot Iberia, SL. into line with those used for the consolidated financial statements of Parrot S.A.

Furthermore, the analysis carried out did not identify any separate intangible assets from goodwill

(€'000)	Dec 31, 06
Fixed assets	42
Inventories	2 060
Trade receivables	12 304
Sundry receivables	628
Cash and cash equivalents	1 456
Total assets identified	16 490
Short-term financial debt	1 664
Trade payables	7 339
Current tax liabilities	1 775
Current provisions	36
Other current sundry liabilities	1 053
Total liabilities identified	11 867
Fair value of assets and liabilities at Mar 31, 06	4 623
Acquisition price	23 169
Goodwill on Inpro Tecnologia SL	18 546

Impairment testing: the main assumptions used to determine the recoverable value of goodwill are as follows:

Cash-generating unit	Parrot Iberia
Net book value of goodwill (€'000,000)	18 546
Valuation method for the cash-generating unit	going concern value
Number of years over which cash-flow is estimated	5 years
Long-term growth rate	3.00%
Discount rate at Dec 31, 06 after tax(1)	10.70%

(1) The application of a pre-tax discount rate for pre-tax cash-flow gave an identical valuation for the cash-generating unit.

The net book value of goodwill at December 31st, 2006 has been tested based on the procedure put in place by the Group when controlling the value of this asset. With this procedure, the going concern value determined with the net discounted cash-flow method is based on a valuation of the recoverable value of the unit generating its own cash-flow. This unit corresponds to a Group subsidiary. The Parrot Iberia SL cash-generating unit stems from the acquisition of this company in 2006. Revenue growth and the percentage margin in relation to revenues have been determined based on past performance and the outlook for growth for Parrot Iberia. They are consistent with the projected data issued by the Group.

In light of the test carried out, it was not necessary to record any impairment in value at December 31st, 2006. A 1-point change in the discount rate would not call this conclusion into question.

Since Parrot Trading (Shenzhen Ltd.) was created, there is no goodwill recognized for it as an asset on the balance sheet.

The development costs recorded as assets on the balance sheet over the year correspond to the development of the Group's new product ranges, and primarily comprise staff costs.

At December 31st, 2005, intangible fixed assets can be broken down as follows:

At Dec 31 (€ 000)	2005	Increase	Decrease	2006
Gross values:				
Development costs	2 175	255		4 229
Patents and brands	484	114		1 498
Software	446	52		499
Other intangible assets	8	1		9
Total	3 113	3 122		6 235
Depreciation:				
Development costs	-546	-561		-1 107
Patents and brands	-184	-980		-1 164
Software	-422	-58		-480
Other intangible assets		0		0
Total	-1 152	-1 600		-2 751
Net book values:				
Development costs	1 629	1 493		3 123
Patents and brands	300	34		334
Software	24	-6		18
Other intangible assets	8	1		9
Total	1 961	1 522		3 484

11. Tangible fixed assets

(€ 000)	Dec 31, 05	Increase	Decrease	Changes in scope	Dec 31, 06
Gross values:					
Buildings		5			5
Plant and equipment	1 305	1 264		12	2 581
Other tangible fixed assets	1 348	1 266	-47	38	2 604
Total	2 653	2 535	-47	49	5 190
Depreciation:					
Buildings					
Plant and equipment	-337	-687		-1	-1 026
Other tangible fixed assets	-383	-462	18	-8	-836
Total	-721	-1 149	18	-9	-1 861
Net book values:					
Buildings		5			5
Plant and equipment	968	577		11	1 555
Other tangible fixed assets	965	804	-30	29	1 768
Total	1 932	1 386	-30	40	3 328

The significant changes in tangible fixed assets concern France and the development of the Group. No tangible fixed assets have been pledged as collateral for any financial debt.

At December 31st, 2005, tangible fixed assets can be broken down as follows:

At Dec 31 (€ 000)	2004	Increase	Decrease	2005
Gross values:				
Plant and equipment	528	1 042	-265	1 305
Other tangible fixed assets	763	791	-206	1 348
Total	1 291	1 833	-471	2 653
Depreciation:				
Plant and equipment	-347	-255	265	-337
Other tangible fixed assets	-322	-272	210	-383
Total	-669	-527	475	-721
Net book values:				
Plant and equipment	181	787		968
Other tangible assets	361	519	-4	965
Total	622	1 306	-4	1 932

12. Financial assets

Receivables relating to equity interests, loans and other financial assets can be broken down as follows:

At Dec 31 (€ 000)	2005	Increase	Decrease	Changes in scope	2006
Security deposits	109	103	-8	1	204
Other long-term financial investments	15		-13		1
Total	123	103	-21	1	206

Financial assets do not include any equity securities.

13. Deferred tax

Change in deferred tax assets and liabilities:

— Deferred tax assets:

(€ 000)	2006	2005
At Jan 1	12	715
Income/expense for the year	-3	-709
Impact on reserves	0	5
At Dec 31	9	12

— Deferred tax liabilities:

(€ 000)	2006	2005
At Jan 1 st	790	0
Income/expense for the year	28	790
Impact on reserves	3	0
Other changes (1)	179	0
At Dec 31 st	1 001	790

(1) Corresponds to the impact on the discounting of debt linked to the acquisition of Parrot Iberia SL.

Virtually all of the deferred tax comes from Parrot SA.

A detailed breakdown of deferred tax assets and liabilities by kind is presented below:

At Dec 31 (€ 000)	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005

Intangible fixed assets	2	3			2	3
Inventories	354	15			354	15
Capitalization of development costs			1 090	1 041	-1 090	-1 041
Short-term financial debt			45		-45	0
Other current financial debt			-98		98	0
Other assets	7	48			7	48
Provisions:	676	195	995	0	-319	195
Of which, pensions	80	46				
Of which, other social provisions	443	150				
Of which, depreciation of subsidiary receivables			995			
Of which, other provisions	153					
Net deferred tax assets (liabilities)	1 040	262	2 031	1 041	-991	- 779
Deferred tax assets on the balance sheet		Offset			9	12
Deferred tax liabilities on the balance sheet		Offset			-1 001	-790
Net balance						

14. Inventories

At Dec 31 (€ 000)	2005	Change	2006
Gross values:			
Raw materials and goods	8 462	5 791	14 253
Finished products	3 095	-1 169	1 926
Total	11 557	4 622	16 179
Depreciation:			
Raw materials and goods	0	553	553
Finished products	0	0	0
Total	0	553	553
Net book values:			
Raw materials and goods	8 462	5 239	13 700
Finished products	3 095	-1 169	1 926
Total	11 557	4 070	15 627

The 4 070 000 euros change in inventories reflects the Group's growth and its acquisition of the Parrot Iberia, SL subsidiary.

15. Trade receivables

Trade receivables can be broken down as follows:

At Dec 31 (€ 000)	2006	2005
Trade receivables	38 197	17 703
Depreciation of trade receivables	-1 125	-534
Total	37 072	17 169

Receivables do not bear interest and are in general due to be paid within 30 to 90 days.

16. Sundry receivables

At Dec 31 (€ 000)	2006	2005
VAT receivables	2 009	3 977
Tax receivables	792	2 031
Pre-booked expenses	257	277
Other receivables	309	54
Total	3 368	6 339

At December 31st, 2006, VAT receivables correspond to VAT that may be deducted on purchases, primarily in France. The tax receivable concerns the research tax credit due to be received.

17. Net cash position

(€ 000)	Dec 31, 05	Change	Fair value	Exchange gains or losses	Changes in scope	Dec 31, 06
Financial receivables and short-term investments	317	35 614	335		7	36 273
Cash at bank	1 728	9 263		-16	1 449	12 423
Cash and cash equivalents	2 045	44 876	335	-16	1 456	48 696
Bank overdrafts	-17	-9				-26
Cash-flow	2 027	44 867	335	-16	1 456	48 670
Other current financial assets/liabilities	2 042	-2 042				0
Total net cash position	4 069	42 825	335	-16	1 456	48 670

For the Group, the net cash position corresponds to cash that is immediately available, as per IAS 7 and the cash-flow statement (see Note 1 Accounting rules and methods), plus any other current financial assets held by the Group in connection with its cash management. The increase in cash-flow primarily reflects the exercising of company founder equity warrants and the public securities offering at the end of

June 2006 (see § 17.1). Other current financial assets correspond to undertakings for collective investment in transferable securities (UCITS) that are indexed on the performance of the CAC 40 and that are subject to a guarantee on maturity.

18. Shareholders' equity

18.1. Share capital and issue premium

At December 31st, 2006, the capital comprised 12 595 543 fully paid-up ordinary shares, representing 1 920 198 euros, with an issue premium of 53 611 812 euros. Changes in the number of shares outstanding can be broken down as follows:

(€' 000)	Dec 31, 05	Issues	Dec 31, 06
Number of shares	8 849 910	3 745 633	12 595 543
Rounded off par value (€)	0.1525	0.1525	0.1525
Total (€' 000)	1 349	571	1 920

The increase in capital and issue premiums reflects the following events:

— At the Board meetings on June 12th and 27th, 2006, the Directors acknowledged that three holders of marketable securities (giving access to the capital with the characteristics of company founder equity warrants) exercised their right to subscribe for 6 711 new shares to be issued in line with the capital increase, representing a nominal amount of 1 023 euros. The various subscribers paid up their subscriptions in cash. In this way, 6 711 new shares were subscribed for and then paid up for any sums due in accordance with the conditions in force for the issue, with a capital increase of 1 023 euros. The issue premium totaled 10 789 euros.

— At the Board meeting on June 30th, 2006, the Directors acknowledged that one holder of marketable securities (giving access to the capital with the characteristics of company founder equity warrants) exercised their right to subscribe for 2 495 950 new shares to be issued relative to a capital increase, representing a nominal amount of 380 383 euros. The subscriber fully paid up the subscription in cash. In this way, 2 495 950 new shares were subscribed for and then paid up for any sums due in accordance with the conditions in force for the issue, with a capital increase of 380 383 euros. The issue premium totaled 14 290 099 euros.

— At the Board meeting on June 30th, 2006, the Directors ratified a public securities offering, which generated an increase in the share capital through the creation of 1 130 782 new shares at a price of 23.50 euros, with an issue premium of 23.35 euros per share, to be paid up in cash and in full upon subscription. The costs for this initial public offering, representing 1 745 117 euros, were booked net of tax against the issue premium. The capital increase costs were booked against issue premiums, net of corporate income tax.

— At the Board meetings on November 11th, 2006 and February 14th, 2007, the Directors acknowledged that various holders of marketable securities (giving access to the capital with the characteristics of company founder equity warrants) exercised their right to subscribe for 112 190 new shares to be issued in line with a capital increase, representing a nominal amount of 17 098 euros. The subscribers paid up their subscriptions in cash. In this way, 112 190 new shares were subscribed for and then paid up for any sums due in accordance with the conditions in force for the issue, with a capital increase of 17 098 euros. The issue premium totaled 219 978 euros.

18.2. Exchange gains or losses

The impact of exchange gains or losses, representing 296 000 euros in 2006, compared with -76 000 euros in 2005, primarily reflects the exchange gains or losses recorded on the US contribution and the rate difference impacts on earnings for the US (121 000 euros), Hong Kong (23 000 euros), the UK (8 000 euros) and Shenzhen (3 000 euros).

18.3. Share warrant scheme

— Scheme characteristics: on July 6th, 2004, all of Parrot S.A.'s shareholders voted to approve a scheme to award 200 000 company founder equity warrants at a price of 1.76 euros, with 174 300 allocated by the Board of Directors on the same day. Since then, 121 300 warrants became null and void before 2005 and 3 562 during the first half of 2006, while 438 were exercised in June 2006.

At the same general meeting, shareholders voted to approve a scheme to award 71 200 share warrants at a price of 1.76 euros.

On November 18th, 2004, as authorized at the general meeting on July 6th, 2004, the Board of Directors of Parrot S.A. approved a scheme to award 25 500 company founder equity warrants at a price of 1.76 euros. Since then, 9 000 warrants became null and void in 2005.

At the general meeting on December 7th, 2004, the shareholders of Parrot S.A. voted to approve a scheme to award 2 447 000 company founder equity warrants, with 836 000 that may be exercised at a price of 3.59 euros and 1 611 000 company founder equity warrants at a price of 7.19 euros, which were immediately allocated at the meeting. The scheme was fully exercised on June 30th, 2006.

On October 18th, 2005, as authorized by the general meeting on December 7th, 2004, the Board of Directors of Parrot S.A. approved a scheme to award 167 000 company founder equity warrants at a price of 3.59 euros, 3 000 of which became null and void in 2005.

At the general meeting on December 14th, 2005, the shareholders of Parrot SA voted to approve a scheme to award 123 300 company founder equity warrants at a price of 8.12 euros, with 121 000 allocated by the Board of Directors on the same day.

At the same general meeting, shareholders voted to approve a scheme to award 51000 bonus shares, which were allocated by the Board of Directors on the same day.

At the same meeting, shareholders also voted to approve a scheme to award 175 000 stock options at a price of 8.12 euros, with 80,000 allocated by the Board of Directors on the same day and 27 000 on February 28th, 2006. Since then, 10 000 became null and void in 2005.

The Board of Directors of Parrot S.A., as authorized at the general meeting on February 28th, 2006, voted to approve a scheme to award 92 000 company founder equity warrants at a price of 13.06 euros.

On June 12th, 2006, the Board of Directors of Parrot S.A., as authorized at the extraordinary general meeting on May 4th, 2006, voted to approve a scheme to award 2 650 000 company founder equity warrants at a price of 31.2 euros for 1 325 000 of them, 41.6 euros for 845 000 of them, and 52 euros for 480 000 of them. At the same meeting, the Board of Directors awarded 25 000 stock options and 25 000 share warrants at a price of 31.2 euros for half of them and 41.6 euros for the other half. On November 10th, 2006, the Board of Directors awarded 260 000 stock options at a price of 29.17euros.

— Change in warrant and share schemes over the period:

	2006	2005
Number of options at Jan 1	3 523 600	3 180 900
Options awarded during the year	3 790	4 190
Options exercised during the year	-2 614 851	-56 800
Options maturing during the year	-57 599	-19 500
Number of options at year-end	3 930 150	3 523 600

— Fair value of share schemes: Parrot S.A. has determined the fair value of goods and services received over the period based on the fair value of the equity instruments awarded.

The share's starting value is taken on the allocation date.

Before the IPO, volatility was taken into consideration based on:

— Either the average historical volatility seen for stocks on the IT CAC index (except for the scheme awarded in June 2003, the 30-day historical average was considered since it offers the benefit of not being affected by the extreme movements seen on the market over the first few months

of 2003 in light of the geopolitical context).

– Or Parrot's revenues in line with long-term historical data.

For schemes awarded after the IPO, it is based on the actual volatility of the Parrot SA share.

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).

– Conditions for exercising options: all the schemes for company founder equity warrants, share warrants and stock options, except for the scheme for 2 400 000 company founder equity warrants on June 12th, 2006, have the following characteristics (conditions for presence within the company):

– Beneficiaries may subscribe for 25% of the warrants awarded at the end of the first year following allocation.

– At the end of each quarter, beneficiaries may then subscribe for 6.25% of the warrants awarded over the following three-year period.

For the scheme for 2 400 000 company founder equity warrants on June 12th, 2006, they may be exercised immediately.

With regard to bonus shares, 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 assumptions used to determine the fair value are set out below:

Date and type of scheme	Reference price	Exercise price	Expected volatility	Maturity	Reference risk-free rate	Unit fair value on allocation date
Employees:						
Extraordinary general meeting Jun 24, 03: company founder equity warrants	1.76 €	1.76 €	55% CA	5.00	2.79%	0.87
Extraordinary general meeting Jul 6, 04: company founder equity warrants	1.76 €	1.76 €	48% CA	5.00	3.57%	0.81
Board meeting Nov 18, 04: company founder equity warrants	1.76 €	1.76 €	48% CA	5.00	3.10%	0.80
Extraordinary general meeting Dec 7, 04: company founder equity warrants	3.59 €	3.59 €	48% CA	5.00	2.85%	1.62
Extraordinary general meeting Dec 14, 05: company founder equity warrants (tranche 1)	8.12 €	8.12 €	27% IT CAC	1.50	2.90%	1.24
Extraordinary general meeting Dec 14, 05: company founder equity warrants (tranche 2)	8.12 €	8.12 €	27% IT CAC	2.50	3.02%	1.66
Extraordinary general meeting Dec 14, 05: company founder equity warrants (tranche 3)	8.12 €	8.12 €	27% IT CAC	4.00	3.13%	2.17
Extraordinary general meeting Dec 14, 05: stock options	8.12 €	8.12 €	27% IT CAC	5.00	3.20%	2.47
Extraordinary general meeting Dec 14, 05: Bonus shares	8.12 €					
Extraordinary general meeting Feb 28, 06: company founder equity warrants (tranche 1)	13.06 €	13.06 €	26% IT CAC	1.00	3.11%	1.56
Extraordinary general meeting Feb 28, 06: company founder equity warrants (tranche 2)	13.06 €	13.06 €	26% IT CAC	2.00	3.26%	2.32
Extraordinary general meeting Feb 28, 06: company founder equity warrants (tranche 3)	13.06 €	13.06 €	26% IT CAC	4.00	3.37%	3.46
Extraordinary general meeting Feb 28, 06: stock options	13.06 €	13.06 €	26% IT CAC	5.00	3.45%	3.46
Board meeting Jun 12, 06: company founder equity warrants (tranche 1)	24.20 €	31.20 €	28% IT CAC	3.00	3.66%	3.32
Board meeting Jun 12, 06: company founder equity warrants (tranche 2)	24.20 €	41.60 €	28% IT CAC	3.50	3.71%	1.96
Board meeting Jun 12, 06: stock options (tranche 1)	24.20 €	31.20 €	28% IT CAC	3.00	3.66%	1.86
Board meeting Jun 12, 06: stock options (tranche 2)	24.20 €	41.60 €	28% IT CAC	3.50	3.71%	2.58
Board meeting Nov 10, 06: stock options (tranche 1)	30.50 €	29.17 €	33%	1.50	3.70%	6.23
Board meeting Nov 10, 06: stock options (tranche 2)	30.50 €	29.17 €	33%	2.50	3.70%	8.00
Board meeting Nov 10, 06: stock options (tranche 3)	30.50 €	29.17 €	33%	4.00	3.70%	10.13
Managers:						
Board meeting Jun 12, 06: company founder equity warrants (tranche 1)	24.20 €	31.20 €	28% IT CAC	2.50	3.60%	2.76
Board meeting Jun 12, 06: company founder equity warrants (tranche 2)	24.20 €	41.60 €	28% IT CAC	5.00	3.83%	3.15
Board meeting Jun 12, 06: company founder equity warrants (tranche 3)	24.20 €	52.00 €	28% IT CAC	5.00	3.83%	1.89
Non-employees:						
Extraordinary general meeting Jun 26, 03: equity warrants	1.76 €	1.76 €	55% CA	5.00	2.79%	0.87
Extraordinary general meeting Jul 6, 04: equity warrants	1.76 €	1.76 €	48% CA	5.00	3.57%	0.81
Board meeting Jun 12, 06: equity warrants (tranche 1)	24.20 €	31.20 €	28% IT CAC	3.00	3.66%	1.86
Board meeting Jun 12, 06: equity warrants (tranche 2)	24.20 €	41.60 €	28% IT CAC	3.50	3.71%	2.58

– Impact on the financial statements: based on the calculation parameters used to determine the fair value in line with the Black and Scholes method, the expense recognized for the allocation of stock options, warrants and bonus shares totaled 7 585 000 euros for 2006, compared with 231 000 euros at December 31st, 2005, including 6 482 000 euros linked to a non-recurring element for the allocation of company founder equity warrants. The impact of other allocations on income from ordinary operations represents 1 103 000 euros.

18.4. Treasury stock

(€ 000)	Dec 31, 05	Acquisitions	Disposals	Other	Dec 31, 06
Number of shares		9 865	5 665		4 200
Value (1)		276 357	167 618		108 739

(1) The values given are gross of deferred tax.

Under a liquidity agreement, all of this treasury stock is intended to improve the liquidity of Parrot's share price.

18.5. Dividends

There are no plans to pay out any dividends relative to 2006.

19. Financial debt

Financial debt primarily concerns financing for the acquisition of Parrot Iberia SL securities, with the following breakdown:

(€ 000)	Total	Financial debt due < 1 year	Financial debt due > 1 year
1 st tranche (56.274%)	3 000	1 000	2 000
2 nd tranche (43.726%) (A)	13 859	13 859	
Total	16 859	14 859	2 000
Recorded as short-term financial debt		14 859	
Recorded as long-term financial debt			2 000

(A) Amount of the 2nd tranche further to the early redemption of securities. Under the contract dated December 28th, 2006, 25% of this debt will be payable in Parrot shares. The capital increase is expected to be carried out over the first half of 2007. See Notes 3 and 4.

20. Earnings per share

20.1. 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.

This average value has been determined based on the issue prices for the two capital increases carried out in 2006.

	Dec 31, 06	Dec 31, 05
Net income (Group share, in euros)	7 036 354	5 308 389
Weighted average number of shares outstanding	10 729 623	8 703 871
Basic earnings per share (€)	0.66	0.61

	Dec 31, 06
Net income (Group share, in euros) - excluding non-recurring share-based payments (6 482 000 euros)	13 518 082
Weighted average number of shares outstanding	10 729 623
Basic earnings per share (€) - excluding non-recurring share-based payments	1.26

20.2. Diluted earnings per share

Diluted earnings per share factor in any diluting instruments outstanding at the end of the period.

For 2006, the basic share price retained for calculating diluted earnings per share is the average price since the share was listed at the end of June 2006.

	Dec 31, 06	Dec 31, 05
Net income (Group share) used to determine diluted earnings per share (€)	7 036 354	5 308 389
Weighted average number of shares outstanding used to determine diluted earnings per share	12 582 613	9 907 270
Diluted earnings per share (in euros)	0.56	0.54

	Dec 31, 06
Net income (Group share) used to determine diluted earnings per share (€) excluding non-recurring share-based payments (6 482 000 euros)	13 518 082
Weighted average number of shares outstanding used to determine diluted earnings per share	12 585 613
Basic earnings per share (€) - excluding non-recurring share-based payments	1.07

21. Minority interests

At December 31st, 2006, there were not any minority interests, since all of Parrot S.A.'s subsidiaries were fully-owned (see Note 3 "Basis for consolidation").

22. Provisions for pensions and related commitments

22.1. Introduction

The foreign subsidiaries included in the Group's basis for consolidation represent a limited percentage of the workforce compared with the entire Group (around 25%), although this is growing strongly (8% in 2005).

In this way, employee benefits primarily comprise pension benefits concerning Parrot S.A.

The Group is also 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.

22.2. Financial information

Supplementary staff benefits solely concern provisions for retirement benefits.

At December 31st, 2006, this provision totaled 239 000 euros, compared with 137 000 euros in 2005.

At Dec. 31 st .	2006	2005
Main actuarial assumptions:		
Discount rate	4.50%	4.50%
Turnover rate	low	low
Wage growth rate (average)	6% (graduated)	6% (graduated)
Provisions recorded on the balance sheet (€ 000):		
Actuarial value of commitments not covered by financial assets	239	137
Expense for the year (€ 000):		
Cost of benefits provided during the year	102	46
Interest expense		
Expected return on assets		
Actuarial gains/losses recognized over the year	0	0
Depreciation of the cost of changes to the system or retroactive benefits		
Reductions and liquidations		
Expense for the year	102	46

23. Other non-current provisions

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

At Dec 31 (€ 000)	2005	Allowances	Releases used	Changes in scope	2006
Provisions for individual training entitlements		142			142
Total other non-current provisions		142			142

(1) Since there are plans to release the provision for warranties given to clients, it has been reclassified under a current provision.

24. Current provisions

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

At Dec 31 (€ 000)	2005	Allowances	Releases used	Releases not used	Changes in scope	2006
Provisions for trade tribunal disputes	101		405	101		405
Provisions for supplier disputes	167					167
Provisions for RTT* disputes			175			175
Provisions for client warranties	122		412		158	412
Other provisions for contingencies and liabilities			17		36	17
Provisions for tax	8			8		
Total current provisions	398		1 009	101		1 177

* *Réduction du temps de travail: reduced working week in France*

No other provisions for restructuring, commercial or environmental risks were recorded for 2006.

(1) See Note 23.

25. Trade payables, current tax liabilities and other current liabilities

At Dec 31 (€'000)	2006	2005
Trade payables	20 094	15 351
Current tax liabilities	5 616	1 203
Advances and deposits paid on orders	224	517
Tax and social security liabilities	6 747	3 381
Dividends to be paid	0	0
Other liabilities	829	304
Other current liabilities	7 801	4 201

26. Financial derivatives

In 2006, the Parrot Group used financial derivatives to manage its exposure to exchange rate fluctuations. At December 31st, 2006, an unrealized capital loss on forward dollar purchases – intended to hedge future flows in dollars – was recorded as a liability on the balance sheet for 295 000 euros against a financial expense, since the conditions for applying the hedging accounting treatment were not fulfilled. A detailed breakdown of hedging instruments is presented below:

(€'000)		Dec 31, 06		Dec 31, 05	
USD rate on purchase	Due date	HSBC	Palatine	HSBC	Palatine
1,3154	Jan 10, 07		6 000		
1,2880	Jan 24, 07	5 000			
1,2895	Feb 23, 07	5 000			
1,2930	Mar 22, 07		4 500		
1,2945	Apr 20, 07		4 500		
Total		10 000	15 000		

27. Executive compensation

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

(€'000)	Dec 31, 06	Dec 31, 05
Fixed compensation	1 062	540
Variable compensation	814	425
Short-term benefits	1 876	965
Post-employment benefits	59	36
Share-based payments	6 979	58
Total	8 914	1 059

28. Commitments given or received

28.1. Commitments given

At December 31st, 2006, the company did not have any other commitments than future payments relating to operating leases that may not be terminated:

Year	Gross value
2007	646
2008	633
2009	584
2010	540
2011 and later	1 912
Total	4 316

28.2. Commitments received

For the acquisition of Inpro, Parrot was covered by a common liability guarantee clause.

29. Post-balance sheet events

NA.