

# amplifon

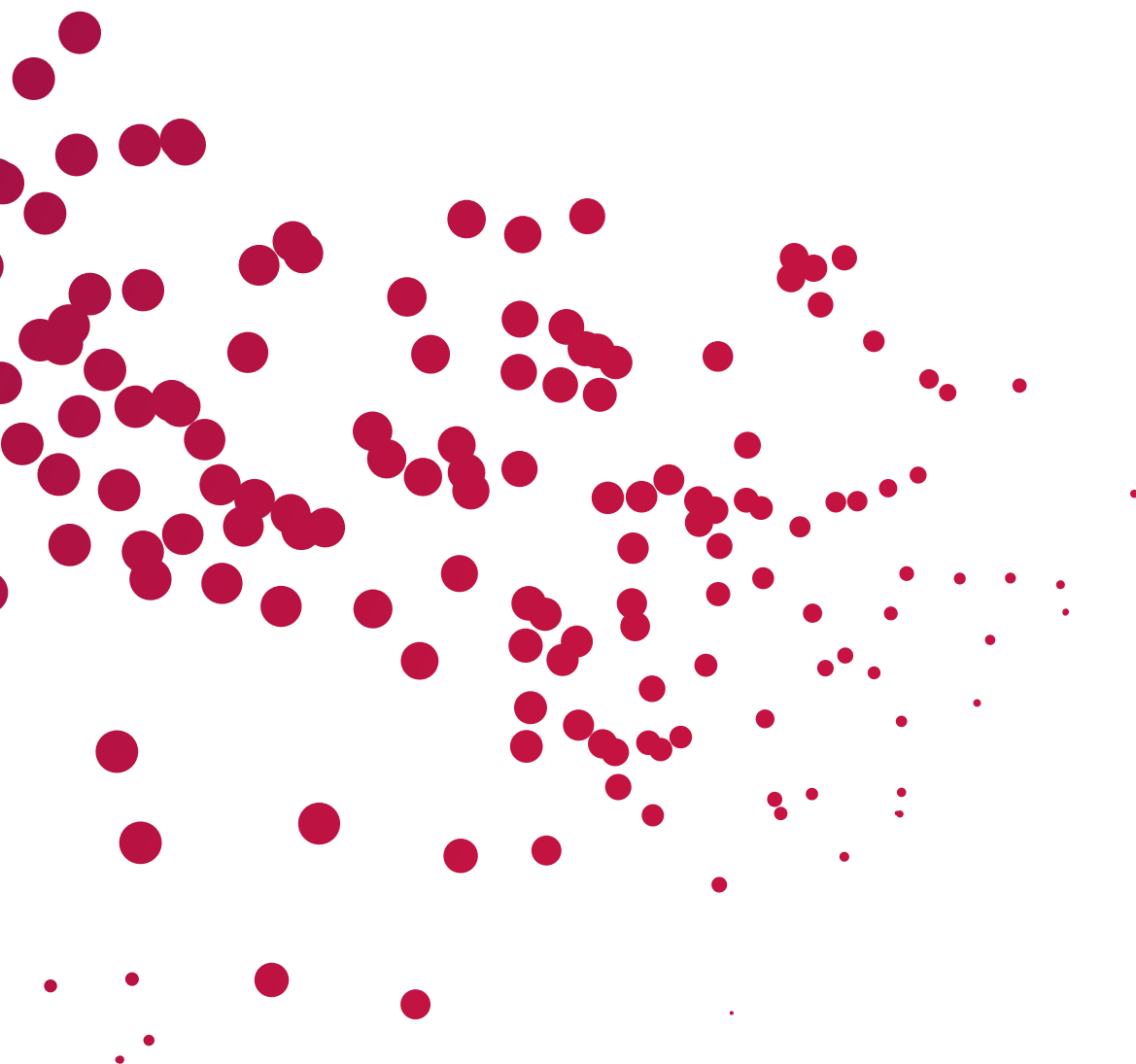
Annual Report 2017







Annual Report 2017



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Translation from the original text in Italian

# Message from the Chairperson and the Chief Executive Officer

2017, another record year

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Dear Shareholders,

2017 represents another key milestone in Amplifon's success story: we achieved record results for the third year in a row, definitely testifying the effectiveness of our business model as well as of the strategic pillars pursued and supported by significant investments, primarily in marketing, in the expansion of the distribution network in core markets and in our people.

Once again both revenues and EBITDA, which came in respectively at 1,266.0 and 212.5 million euros, reached all-time high up 11.7% and 13.7% compared to the previous year. Also reported net profit came in at the record level of 100.6 million euros, showing an increase of 58.1% compared to the previous year. Such solid results allow Amplifon to propose a dividend distribution of 0.11 euro for each ordinary share to shareholders, an increase of 57.1% compared to the previous year.

We are very satisfied both with the strong growth of results and improving profitability that we have achieved, as well as with the vitality of our business. Revenue growth was well balanced across all the Company's geographic areas and outpaced the market thanks to the solid mix between organic growth and acquisitions. In addition to the overall top-line growth, the main drivers of the increased profitability have been the scale reached in key countries and the improved operational efficiency.

In 2017, we continued to expand our worldwide distribution network to consolidate our leadership position globally, with the addition of 346 shops and 117 shop-in-shops, thus reaching 10,069 points of sale throughout the world. Acquisitions were made mainly in Germany, France, Portugal and India; while new openings, 45 stores and 59 shop-in-shops, were located primarily in Spain, New Zealand and Australia.

During the year, Amplifon continued to pursue its marketing and communication strategy, one of the Company's key strategic pillars of development, aimed at further strengthening the relationship between its customers and its brands, leading a real cultural change in the industry and redefining the way customers feel about their hearing. During the year, the Company pooled together its marketing, advertising as well as communication strategies in Europe in order to further raise Amplifon's already high brand awareness thus achieving a greater efficacy and efficiency thanks to an integrated platform for media planning and creative communication.



Finally, we believe that today what is increasingly important is not just achieving results, but how those results are achieved. At Amplifon we intend to continue doing business responsibly and with a view to creating shared and sustainable value. This is why in August, Amplifon published for the first time a Sustainability Report. It represented not only the beginning of a journey towards growing a sustainable business, but also highlighted the Company's commitment towards corporate social responsibility topics and provided a thorough understanding of our activities in this regard. We are therefore now proudly publishing the Non financial disclosure drawn up in accordance with Italian Legislative Decree No 254/2016 for the year 2017.

The coming years will be very important for our Group: we have undertaken new and important projects primarily to anticipate our customers' needs and satisfy their expectations. Customers have always been our key stakeholder and all our initiatives and strategic decisions are guided by the desire to put them at the heart of what we do.

We are convinced that 2017 results represent an excellent basis to start a 2018 with optimism and to meet our mid-long term objectives. We would not have been able to reach such positive results without the commitment and strong determination of our management team and the extraordinary ability, continuing hard work and great passion of our people. Thus, we would like to show them our deepest appreciation, as well as thank our Shareholders for their support and trust in our Company.

**Susan Carol Holland**

*Chairperson*

**Enrico Vita**

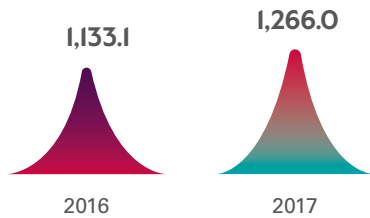
*Chief Executive Officer*

# 2017 Highlights

All-time high revenues and profitability

## Revenues *(million euros)*

**+11.7%**

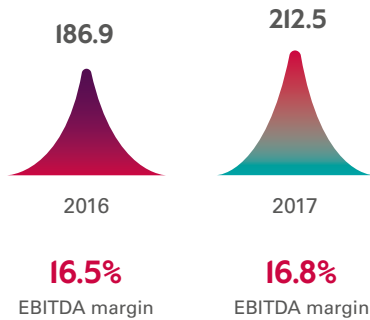


## Revenues by region



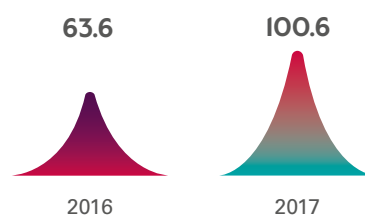
## EBITDA *(million euros)*

**+13.7%**

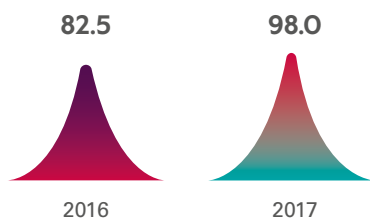


## Net profit *(million euros)*

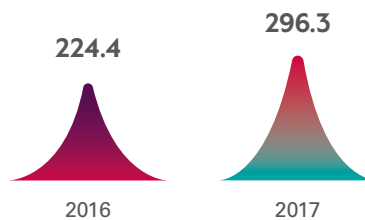
**+58.1%**



## Free cash flow *(million euros)*

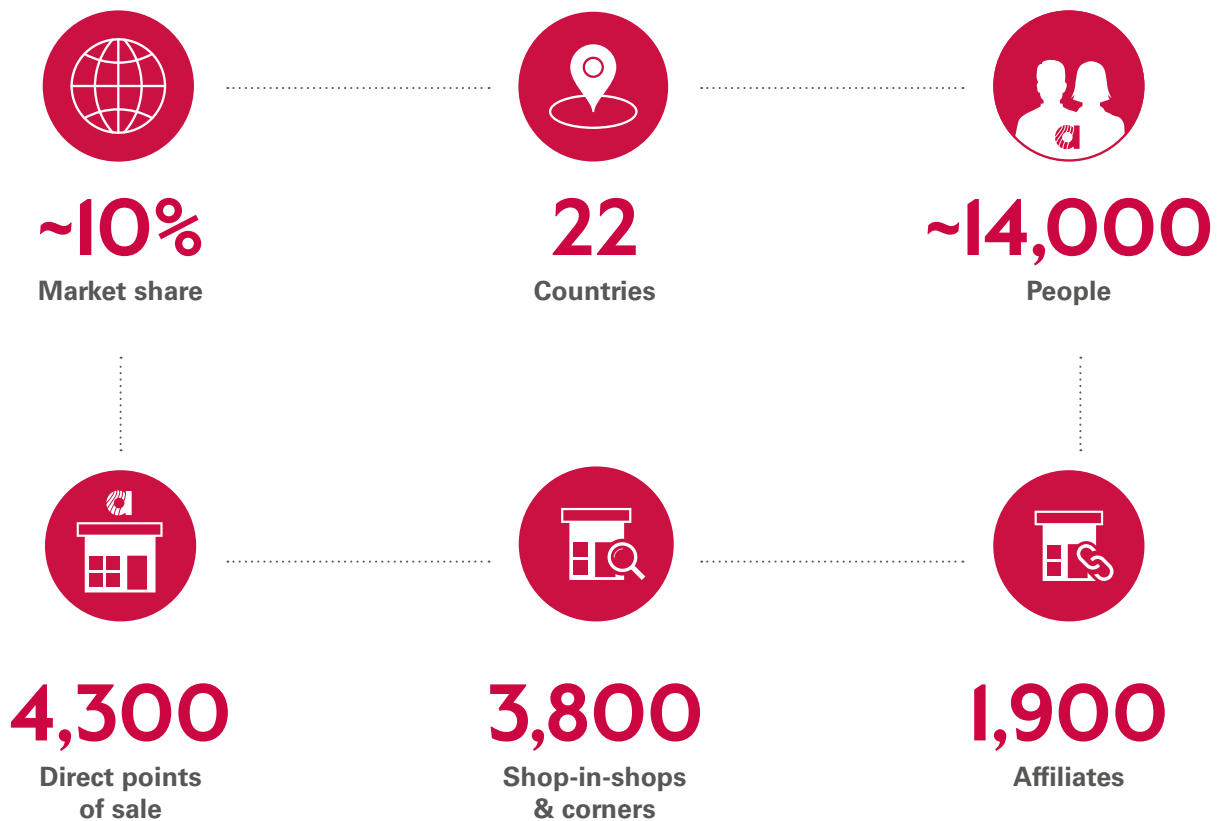


## Net debt *(million euros)*





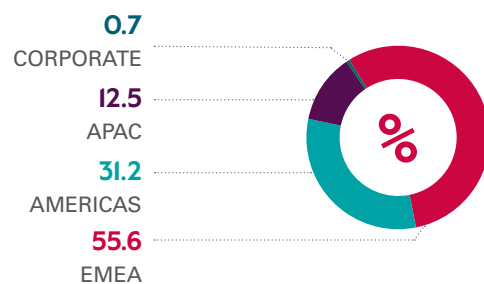
## Global leader in hearing solutions and services



**People**  
by role\*



**People**  
by region\*



\*On payroll and not payroll.

# Key events

## Investment, innovation and execution

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January 16<sup>th</sup>, 2017

### Network expansion in Portugal and France

Amplifon acquires around 75 MiniSom stores in Portugal (part of the AudioNova retail business) and 55 shops, always part of the AudioNova retail business in France, from Sonova Holding AG. These acquisitions, which called for a cash-out of 30 million euros, perfectly fit Amplifon's strategy aimed at strengthening the Company's positioning in core markets and enable the reap of important synergies. In particular, the first transaction allowed Amplifon to reach an optimal scale in Portugal bringing the local network to a total of over 140 points of sale; while the second one brought a significant acceleration to the French network expansion strategy.



March 20<sup>th</sup> & June 5<sup>th</sup>, 2017

### Integrated platform for media planning and creative communication

Amplifon selects LOLA MullenLowe Barcelona as creative agency of record and Dentsu-CARAT as media agency for Europe with a view to centralizing marketing, advertising, as well as communication strategies in order to raise Amplifon's already high brand awareness. These choices perfectly fit Amplifon's marketing and communication strategy, one of the Company's key strategic pillars to accelerate growth, aimed at further strengthening the relationship between its customers and its brand, leading a real cultural change in the industry and redefining the way customers feel about their hearing and the way in which they are educated, involved and served.



**August 1<sup>st</sup>, 2017**

## 2016 Sustainability Report publication

Amplifon publishes a Sustainability Report which represents a first and important step allowing the Company to enjoy stable, long-term sustainable growth by enhancing the value of its key intangible assets. It reflects the Company's commitment towards Corporate Social Responsibility topics and provides a thorough understanding of the Company's activities in this regard.



**September & October 2017**

## Signing of two new financing agreements for a total of 150 million euros

Amplifon signs two bilateral medium-term unsecured financing agreements with UniCredit S.p.A. and BPM S.p.A. – Gruppo Banco BPM for the amounts of 100 and 50 million euros respectively. These transactions, alongside the bilateral revolving committed medium-term lines obtained in 2017 for a total amount of 195 million euros, are part of the refinancing program of the 275 million euros Eurobond expiring in July 2018, under significantly better terms and conditions. Such program will allow a reduction of the average cost of debt, an extension of the average residual debt maturity and a decrease of the excess liquidity.



**December 31<sup>st</sup>, 2017**

## The network expansion continues

Throughout the year Amplifon has added 463 shops and shop-in-shops to its distribution network which now totals 10,069 points of sale. Acquisitions were carried out mainly in Germany, France (Audionova), Portugal (Minisom) and India (Bloom Senso Hearing Centre) totaling 301 shops and 58 shop-in-shops, while openings took place primarily in Spain, New Zealand and Australia.



**December 31<sup>st</sup>, 2017**

## Amplifon strengthens its management team

During the year, the following professionals became part of the Company's Leadership Team: Alessandro Bonacina, in the role of Chief Marketing Officer; Gabriele Galli as Chief Financial Officer; Marc Lundeberg as Executive Vice President Americas; Francesca Morichini in the role of Chief HR Officer; and Craig Stevens as Executive Vice President APAC.

# History

Listening to the future, all along

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50's-60's

**From small beginnings to market leader**

Founded in Milan by Algernon Charles Holland in 1950 to provide hearing solutions for people experiencing hearing loss after the World War II, Amplifon soon becomes the leader of the Italian market.

1971

**The CRS**

The Center for Research and Studies (CRS) is founded to promote clinical research and disseminate innovation in the fields of audiology and otology.

90's

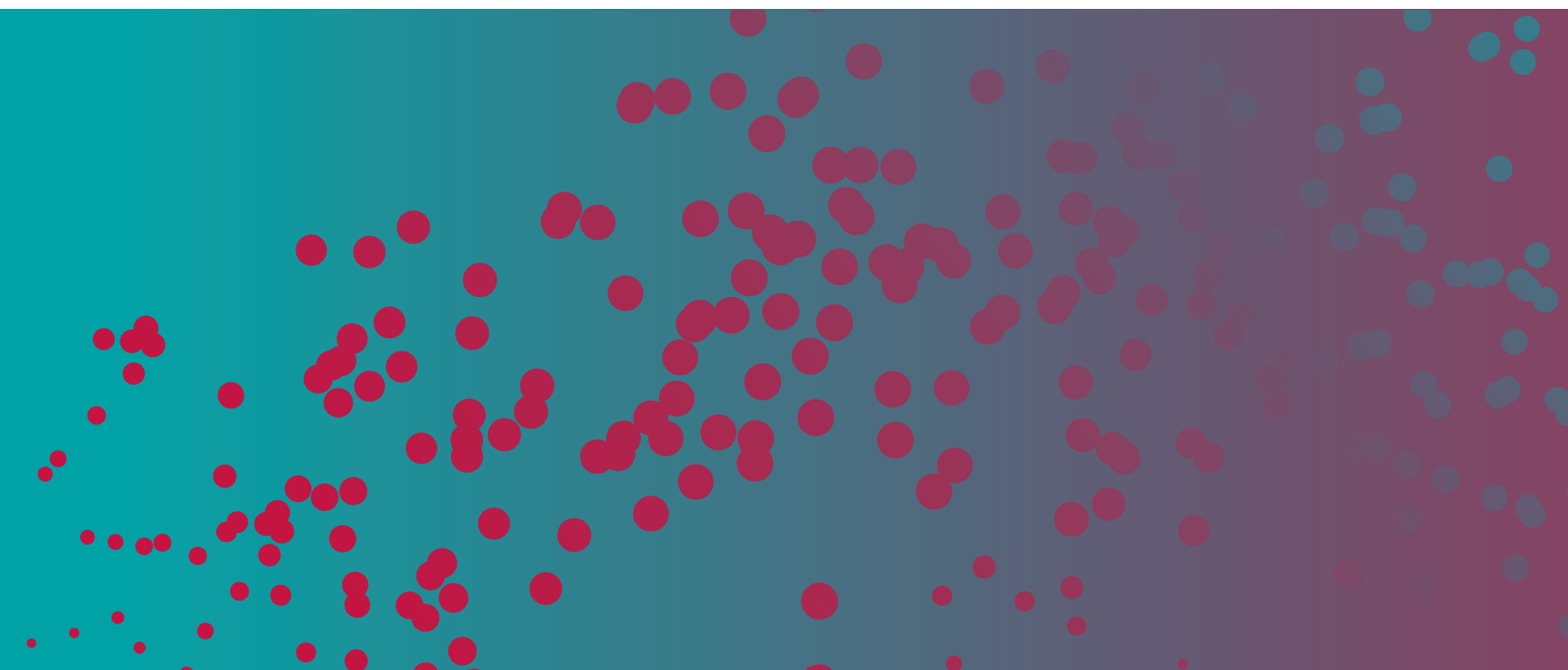
**Digital and international expansion**

Amplifon enters the Spanish and Portuguese markets and continues to innovate and customize its services introducing digital hearing aids in Italy.

1999

**Amplifon enters the American market**

By acquiring the market leader Miracle-Ear, Amplifon enters the North American market, strengthening its international leadership.



2001

## Listing on the Stock Exchange

On June 27<sup>th</sup>, 2001, Amplifon is listed on the Italian Stock Exchange and in 2008 becomes part of the STAR segment for stocks committed to complying with stricter requirements.

2002-2009

## Continuous expansion

Besides consolidating its presence in markets like the US, the Netherlands and France, Amplifon expands its footprint in Canada, Hungary, Egypt, Germany, the UK & Ireland, Belgium & Luxembourg.

2010-2014

## A new global dimension


With the acquisition of National Hearing Care (NHC), Amplifon expands its activities to Australia, New Zealand and India. Between 2012 and 2014, the Company enters Turkey, Israel and Brazil, reaching 22 countries.

2015-2017

## Non-stop growth

Amplifon keeps on growing organically and through acquisitions and in 2015 the Company exceeds the key threshold of one billion euros in sales. Both in 2016 and 2017, Amplifon reports all-time high results thanks to careful planning and strong execution capabilities.





“Helping people to hear better is a purpose that is easy to feel passionate about. This is definitely true of all Amplifon employees.”

# **Our Corporate Culture**







# Purpose

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We empower people  
to rediscover  
all the emotions of sound

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## This means

This statement is the reason we exist and the reason we do what we do. It is what motivates us and guides us in our day-to-day work and allows us to explore new innovations, new horizons and new opportunities for the business, our customers and each other.

We guide customers in a journey of empowerment. A journey that means they can rediscover something they have lost – making it possible for them to, once again, enjoy life through the emotions of sound.

# Mission

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**We transform the way hearing healthcare is perceived and experienced worldwide, making it a natural choice for people to seek the superior care and expertise of our hearing care professionals.**

**We strive to understand the unique needs of every customer, delivering the very best solutions and an outstanding experience.**

**We attract, develop and empower the most talented people, who share our ambition to change the lives of millions of people across the world.**

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## This means

Our mission is what we aim to achieve, together, in the years to come.

We aim at leading the industry by being innovative, focusing on our service, setting high standards and tackling industry stigmas - changing the lives of millions of people around the world. The driving force behind our success? Our people.

# Values



We serve our customers' best interests with passion and seek to surprise them by always going the extra-mile.



We empower our people to think freely, perform and succeed, working together to make a lasting difference.




We take accountability for setting and delivering the highest standards of quality, and never give up.



We listen to the world around us and embrace every challenge with the ambition to learn, grow and innovate with speed and agility.



We do well by doing good, acting with true integrity, and showing respect to everyone, every time.



“Being part of Amplifon means participating to innovation, that is the driver for offering a superior customer experience and consolidating Amplifon’s market leader position worldwide.”

**Our unique business model**

# Strategy

We aim at further strengthening our global leadership position and delivering sustainable sales growth and margin expansion, leveraging our unique business model.

## Our four strategic pillars

### Strengthen market leadership

Clear and differentiated growth strategy, focused on core worldwide countries: increase market share in the United States, consolidate leadership position in Italy and Australia, and expand network in Germany, France and Spain.

### Marketing excellence

Further strengthening of customer engagement through a superior customer knowledge, branding and advertising effectiveness, digital excellence and advanced CRM.

### Innovative business model

Development of a highly distinctive and innovative customer experience driven through best-in-class in-store program, new retail brand initiative and further innovation in the entire customer journey.

### Effective execution capability

Investments to support effective execution capability through a new, distinct people proposition, attraction of the best talents, sharing of best practices worldwide and the expansion of the integrated IT platform globally.

# Strengths

Leveraging our unique global position and over 65-year-long experience, we continually innovate our value proposition to be even more relevant to our fast-evolving customers.

## Expertise model



Our network of highly qualified hearing care professionals meet every person's needs by blending innovative technologies and scientific know-how including Amplifon 360 proprietary protocol with a personal approach to ensure a superior customer experience.

## Employer of choice



Investing in talent, in the continuous professional development and in rewarding our people makes us the employer of choice in the industry.

## Innovation



We are pioneers in adopting innovative technologies, developing proprietary services, tools and protocols, and in the way we interact with our customers. The relationship between us and our customers is managed throughout the entire customer journey thanks to an advanced IT platform which, together with an intense data mining activity, creates a truly personalized experience.

## Brands



Our strong brand portfolio allows us to be at the helm of a real cultural change in our industry, redefining the way customers feel about their hearing. Our communication approach looks to empower people, blending physical with digital experiences in a multi-channel approach.

## Global scale



A unique global distribution network made of different types of points of sale allows us to be always close to our customers, to share best practices among our hearing care professionals throughout the world and to diversify our exposure to several markets.

## Scientific leadership



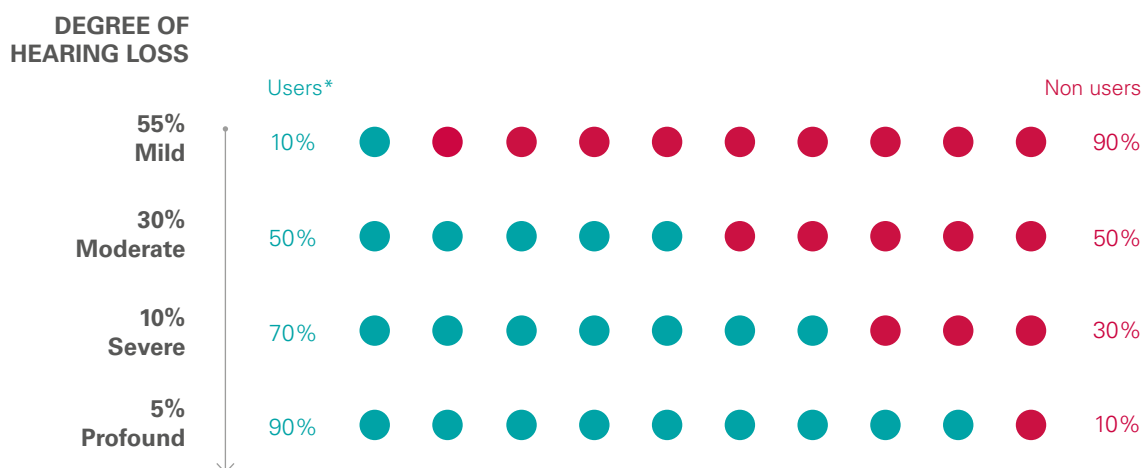
Amplifon's Center for Research and Studies (CRS) is a specialized partner to the medical and academic communities and leader in the fields of audiology and otolaryngology.

# Market scenario

The global retail hearing aids market has an estimated value of around €13.5 billion euros and is expected to grow by about 4% over the next few years as a result of demographics and increase in penetration rates.

Being able to hear is essential at any age as it allows people to be connected to the world around them and to enjoy a full personal and social life. Hearing loss can affect all age groups, but it is more common in the elderly due to the natural aging of cells. Approximately 15% of the world's adult population has some degree of hearing loss and, out of these, the World Health Organization estimates that 360 million people have a disabling hearing loss. Due to the increasing life expectancy of global population this number is expected to double over the period 2030-2050. In fact, the key market growth drivers are demographics, with baby boomers turning 65+, technological innovation, noise pollution and the wellness culture, with the desire to live full and active lives increasing also among seniors.

## Hearing solutions adoption rate by degree of hearing difficulty in developed markets



\*People who adopt hearing solutions.

## On average 7 years go by before people take action and approach a hearing care professional

The reasons for the delay are:

- Difficulty in admitting the problem
- Prejudice and stigma related to hearing aids
- Dissatisfaction with the use of non-advanced technologies
- Lack of information on the effects of overlooked hearing loss
- Lack of information on the development and progresses of hearing solution technologies & services



# Value chain



# Key retail trends



## Size

The global retail hearing aids market is expected to grow by an average annual rate of around 4% driven by demographics and increased penetration.



## Market structure

The retail hearing aids market is characterized by a strong consolidation process guided by international players such as Amplifon, even though it is still extremely fragmented with about 50% of the market in the hands of players with less than 10 shops.



## Consumers

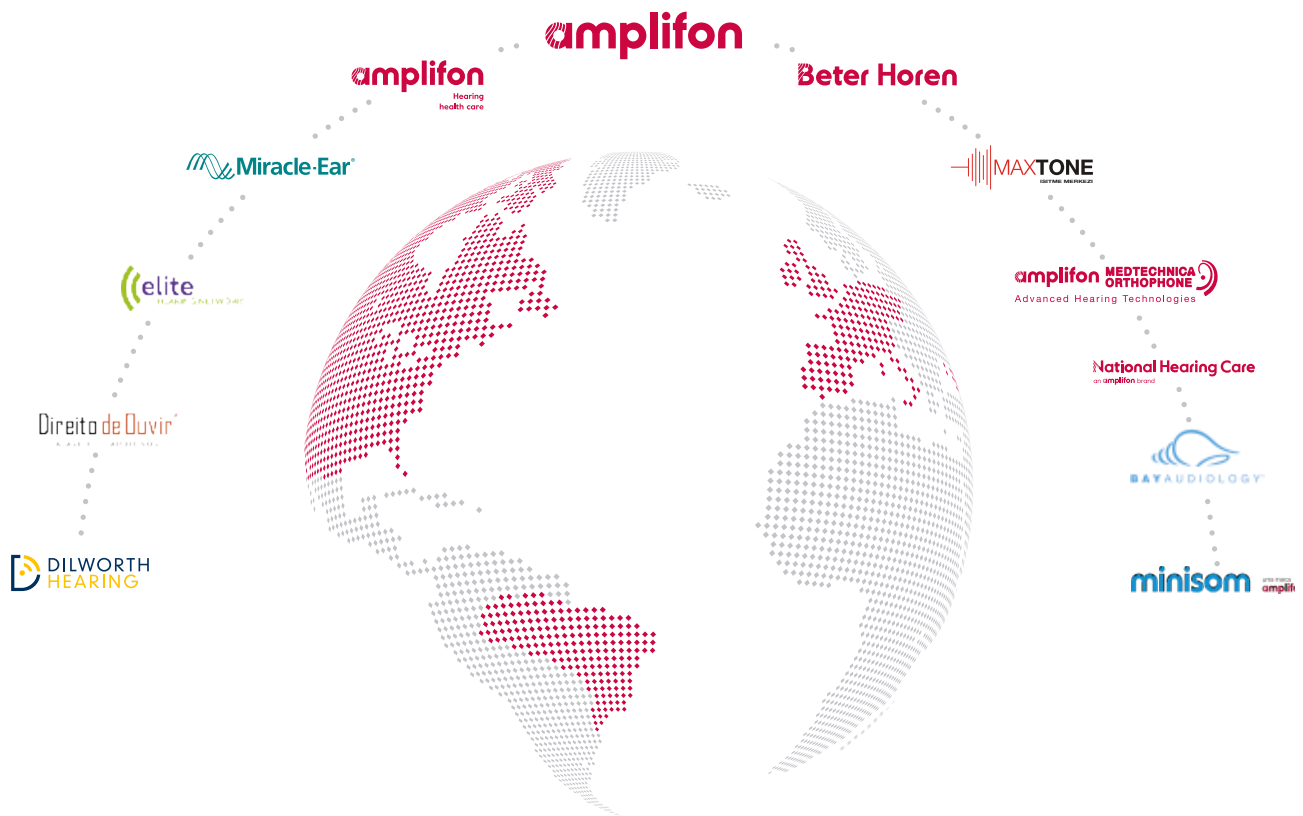
Customers' decision making process is particularly complex and involves several stakeholders, as well as many channels and touchpoints. Brand and marketing are of paramount importance in customers' buying process.

# Global presence

Amplifon is the only pure global retailer in the industry and the leader in terms of sales, volumes, distribution network and geographic coverage.

The Company operates under three regions (EMEA, AMERICAS and APAC), each of which is responsible for implementing the Company's strategic guidelines, coordinating local activities and sharing best practices.

Management teams in each country are accountable for developing the Company's business as well as implementing sales and marketing strategies, adapting them to local market needs and legislation, ensuring customer satisfaction throughout the world.



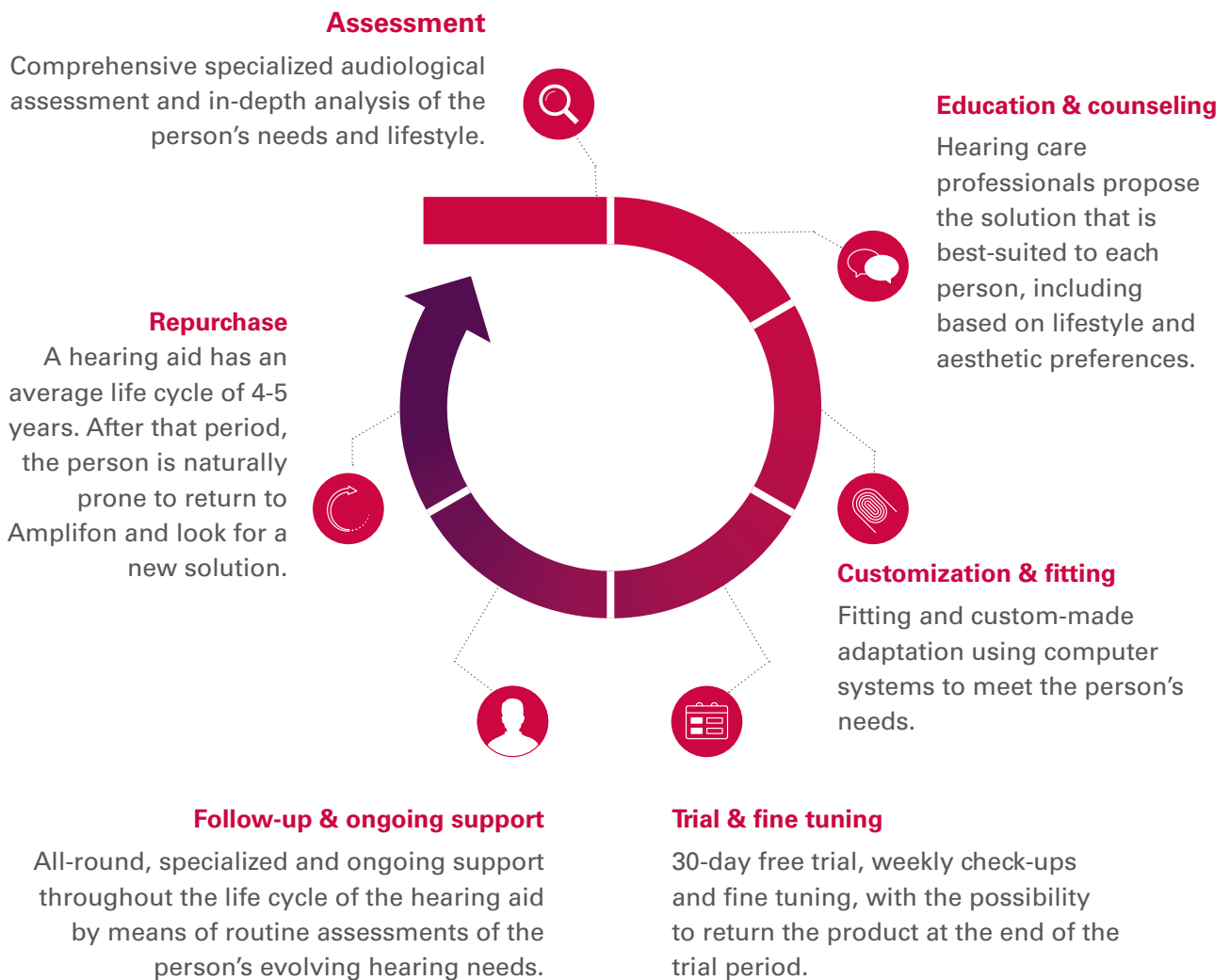






# Business model

We offer an exclusive, all-round, highly customized experience, guiding people to rediscover the joy of hearing. All the way through their journey, we keep up a constant dialogue, whether that's through an initial appointment or one of the follow-up appointments set up to check and adapt the hearing solution to meet specific individual needs.



# Distribution network

## Amplifon store

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The format of Amplifon stores provides a highly innovative, unique 'store experience', in which the customer is guided step-by-step throughout the journey to rediscover the joy of hearing and living life to the fullest.

Our shop windows are designed to reduce the anxiety normally associated with medical experiences, so that entering an Amplifon store becomes an entirely positive emotional experience.

Inside our stores, each area is developed for a different purpose, but all of them are designed to put customers at ease. The assessment, counseling, fine tuning and follow-up appointments all take place inside our stores and are part of an integrated process designed to guarantee a pleasant experience, from a physical to a psychological standpoint.

The customer, his/her family and friends (the so-called 'influencers'), the ENT specialist, the hearing care professional and the person responsible for customer care are then able to establish successful and enduring relationships and proceed with a detailed analysis of the customer's hearing profile and lifestyle, key factors for the selection and fitting of the ideal hearing solution.



# Direct points of sale

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## 2,857 Corporate shops



In these stores, customers are in direct contact with Amplifon. They can be managed by Amplifon staff or by people working on behalf of the Company on a commission basis.

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## 3,877 Shop-in-shops & corners



Located in third party premises (e.g. pharmacies, opticians), this widespread network of outlets may be the first point of contact with customers who are then directed to a store, when necessary.

# Indirect points of sale

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## 1,424 Franchisees



Franchisees run retail outlets themselves under a franchising agreement, benefitting from a leading brand, advanced marketing tools and other value-added services made available by Amplifon. They purchase products exclusively from Amplifon and can make use of Service Centers as their first point of contact with customers. Mainly present in the US territory.

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## 1,911 Affiliates



These independent retailers which operate with their own brands purchase products from Amplifon benefitting from a variety of support activities offered by the Group, and offer hearing solutions to end users. Mainly present in the US territory.

Country	Brand	Corporate Shops	Shop-in-shops & corners	Franchisees	Affiliates	
Italy	Amplifon	584	3,118	-	-	EMEA
France	Amplifon	522	99	-	-	
Germany	Amplifon	441	-	-	-	
The Netherlands	Beter Horen	169	50	-	-	
Spain	Amplifon	165	34	-	-	
UK & Ireland	Amplifon	132	73	-	-	
Switzerland	Amplifon	92	-	-	-	
Belgium & Luxembourg	Amplifon	86	52	10	-	
Hungary	Amplifon	74	-	-	-	
Portugal	Amplifon	68	54	-	-	
Poland	Amplifon	58	1	-	-	
Egypt	Amplifon	23	-	-	-	
Israel	Medtechnica Orthophone	21	-	-	52	
Turkey	Maxtone	20	-	-	-	
USA	Miracle-Ear	12	-	1,411	-	AMERICAS
	Elite Hearing Network	-	-	-	1,859	
Canada	Miracle-Ear	53	-	-	-	
Brazil	Direito de Ouvir	1	118	3	-	
Australia	National Hearing Care	172	104	-	-	APAC
New Zealand	Bay Audiology/Dilworth	89	33	-	-	
India	Amplifon	75	141	-	-	
<b>Total</b>		<b>2,857</b>	<b>3,877</b>	<b>1,424</b>	<b>1,911</b>	



“Responsibility, respect  
and everyday commitment:  
these are the rules for a  
sustainable growth  
in Amplifon.”



## **Our commitment to stakeholders**

# Sustainability

## Commitment to our people

### Global HR vision

Our goal is to empower people to rediscover all the emotions of sound thanks to our professional skills and highly customized services tailored to each customer, thus creating unparalleled value for our people, as well as for our stakeholders. To fulfill this objective and continue to be the employer of choice in the hearing care industry, we are committed to attracting, training, developing, retaining and rewarding the best talent throughout their career path.

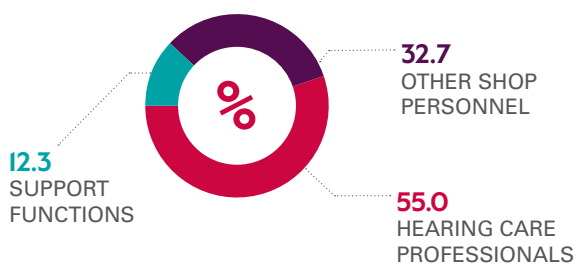


## Workforce increase\*

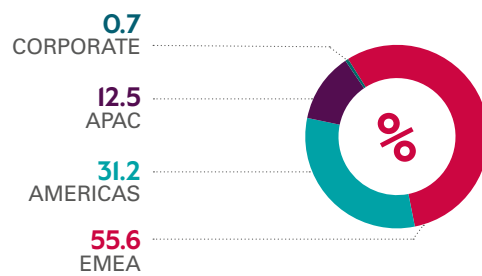
● Payroll ● Not on Payroll



## People by role\*



## People by region\*



\* On payroll and not on payroll.

# Key resources

## Hearing care professionals & client advisors

Over 7,500 hearing care professionals and 4,500 client advisors work in our stores around the world. They are the people responsible for customer care and satisfaction within our points of sale.

## Marketing & sales management

32% of the people who work in support functions are dedicated to marketing and sales management. They work every day to develop the business, improve customer service and promote excellence in our stores.

## Support functions

1,700 colleagues, who cover support function roles, guarantee excellence and innovation in key company processes, being always close to the people working in our distribution network.

2017 total training hours



**~440,000**

Training hours

2017 hearing care professionals' training

**~317,000**

Training hours

**~42**

Hours per hearing care professional

2017 key initiatives

- **Amplifon 360:** ongoing training program on the proprietary in-store protocol addressed to hearing care professionals.
- **Charles Holland Award:** award for the 50 best stores around the world.
- **Amplifon Global Onboarding:** training program for the most promising new hires.
- **Advocacy program:** 60 employees - the Amplifiers - involved in a 4-month pilot project to strengthen the Company's reputation as an employer of choice.



Edition results  
**2017**



**50**

Participants



**13**

Countries



**36%**

Audiologists



**27**

Average age



**1.3**

Average tenure

# Commitment to our customers

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## Amplifon 360 Experience



Continued roll-out of the innovative, proprietary hearing solutions application protocol.

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## Customer satisfaction survey



Net Promoter Score higher than 50 resulting from about 80,000 completed survey.

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## Best in Italy



Champions of Service in Italy in the hearing centers category for the third year in a row.

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## Awareness and prevention



- One Day without Sound awareness campaign in the USA;
- Campaign "Today I hear you well" in Italian classrooms;
- AmpliBus: prevention and free hearing tests with hearing care professionals throughout Italy and Switzerland.



# Commitment to the community

## Support to research: Amplifon Centre for Research and Studies



Over 45 years of experience



+700 courses and congresses since 1971



2017 scholarships: 7,000 euros to 3 ENTs



Publication of the Consensus Paper "The hearing brain"



2017 International CRS Congress in Seville dedicated to the correlation between hearing and cognition



Symposium on big data and hearing loss at IFOS in Paris

## Commitment to community wellbeing

The Miracle-Ear Foundation provides hearing aids, follow-up care and educational resources to those who do not have enough resources to meet their hearing health needs.



**2017**  
Key numbers



**+1,500**

Children and adults supported



**+3,000**

Hearing solutions donated



**+39%**

Recycled hearing aids vs. 2016



**100,000**

Hearing protection kits distributed





# Corporate bodies

The Corporate Governance structure is based on the principles outlined in the Corporate Governance Code for Listed Companies, proposed by the Committee for the Corporate Governance of Listed Companies, adhered to by Amplifon in both its original version issued in 2001 and in its latest issue of July 2015.

A detailed description is available in the "Report on Corporate Governance and Ownership Structure at 31 December 2017 (pursuant to art.123-bisTUF)". The report is available on the Company's corporate website.

## Board of Directors

Role	Name	Executive	Non Executive	Independent <sup>(1)</sup>	R.C.S.C. <sup>(2)</sup>	R.A.C. <sup>(3)</sup>
Chairperson	Susan Carol Holland		•		•	•
CEO	Enrico Vita	•				
Director	Andrea Casalini		•	•		•
Director	Alessandro Cortesi <sup>(4)</sup>		•	•	•	
Director	Maurizio Costa		•	•		•
Director	Laura Donnini		•	•	•	
Director	Maria Patrizia Grieco		•	•		•
Director	Lorenzo Pozza		•	•	•	
Director	Giovanni Tamburi*		•			

\*From December 22<sup>nd</sup>, 2017 Giovanni Tamburi no longer meets the independence requirements.

The Board of Directors was appointed by the Shareholders' Meeting held on April 18<sup>th</sup>, 2016 and will remain in office until the publication of the Financial Statements at December 31<sup>st</sup>, 2018. The Curricula Vitae of the members of the Board of Directors are available on the website: [Amplifon.com/corporate](http://Amplifon.com/corporate).

<sup>(1)</sup> Directors that declare they qualify as independent as defined under current law and in the Italian Stock Exchange Corporate Governance Code.

<sup>(2)</sup> R.C.S.C.: Members of the Risk, Control and Sustainability Committee.

<sup>(3)</sup> R.A.C.: Members of the Remuneration and Appointment Committee.

<sup>(4)</sup> Director appointed by the minority shareholders and independent pursuant to the Corporate Governance Code for Listed Companies established by the Corporate Governance Committee for Listed Companies promoted by Borsa Italiana S.p.A..

The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on April, 21<sup>st</sup>, 2015 and will remain in office until the Shareholders' Meeting convene to approve the Financial Statements at December 31<sup>st</sup>, 2017.

<sup>(5)</sup> Member of the Supervisory Board expressed by the minority list.

## Board of Statutory Auditors

Role	Name
Chairperson	Raffaella Pagani <sup>(5)</sup>
Standing auditor	Maria Stella Brena
Standing auditor	Emilio Fano
Alternate auditor	Alessandro Grange <sup>(5)</sup>
Alternate auditor	Claudia Mezzabotta



**Risk, Control & Sustainability Committee**

Role	Name
Chairperson	Lorenzo Pozza
Member	Susan Carol Holland
Member	Alessandro Cortesi
Member	Laura Donnini

**Remuneration & Appointment Committee**

Role	Name
Chairperson	Maurizio Costa
Member	Susan Carol Holland
Member	Andrea Casalini
Member	Maria Patrizia Grieco

**Related Parties Transactions Committee**

Role	Name
Chairperson	Andrea Casalini
Member	Laura Donnini
Member	Giovanni Tamburi

**Supervisory Board**

Role	Name
Chairperson	Lorenzo Pozza
Member	Laura Donnini
Member	Paolo Tacciarìa (Head of Internal Audit)

**Lead Independent Director**

Lorenzo Pozza

**Executive responsible for financial reporting**

Gabriele Galli

**External auditors**

PricewaterhouseCoopers S.p.A.

**Head of Internal Audit**

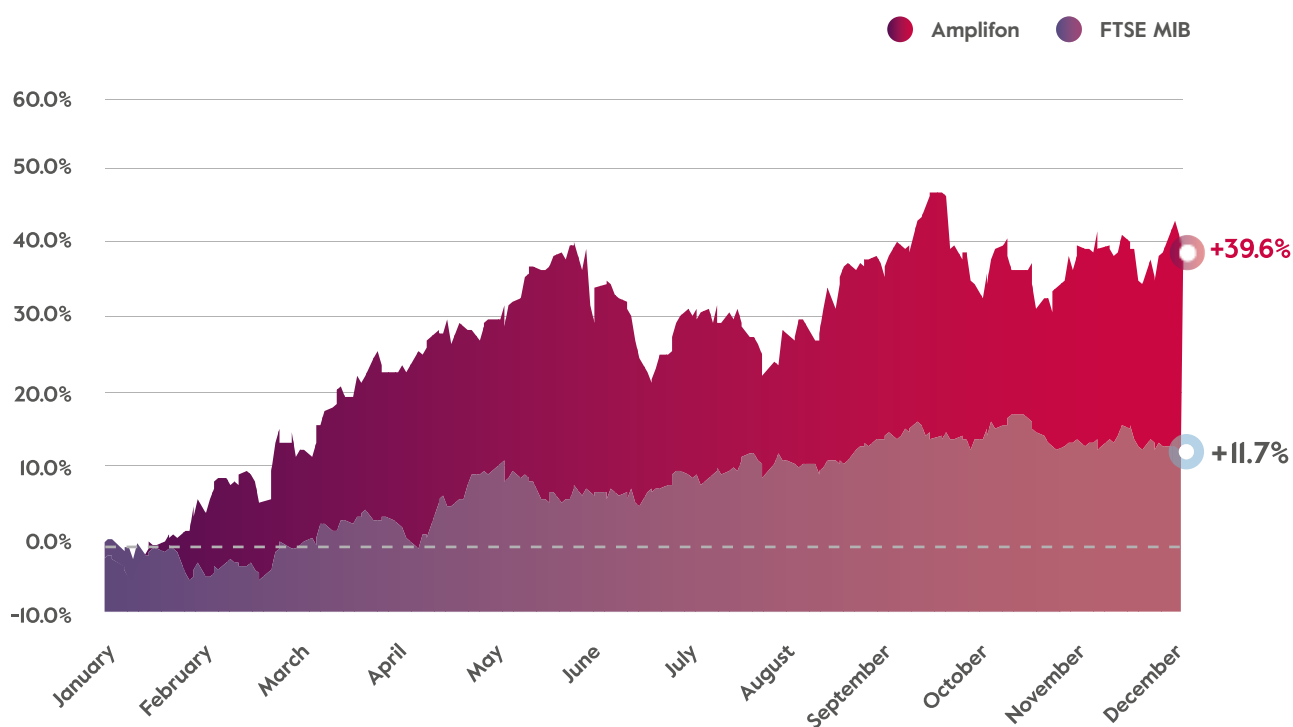
Paolo Tacciarìa

**Secretary of the Board of Directors**

Luigi Colombo

# Report for Investors

## Amplifon in the stock exchange



### Key share data

Stock exchange	<b>MTA-STAR</b>	Nominal value	<b>€0.02</b>
Bloomberg ticker	<b>AMP:IM</b>	Average price <sup>(3)</sup>	<b>€11.745</b>
Share capital <sup>(1)</sup>	<b>€4,526</b>	Average volumes <sup>(3)</sup>	<b>458,143</b>
N° of shares outstanding <sup>(2)</sup>	<b>219,174,784</b>	Market capitalization <sup>(1)</sup>	<b>€2,906</b>

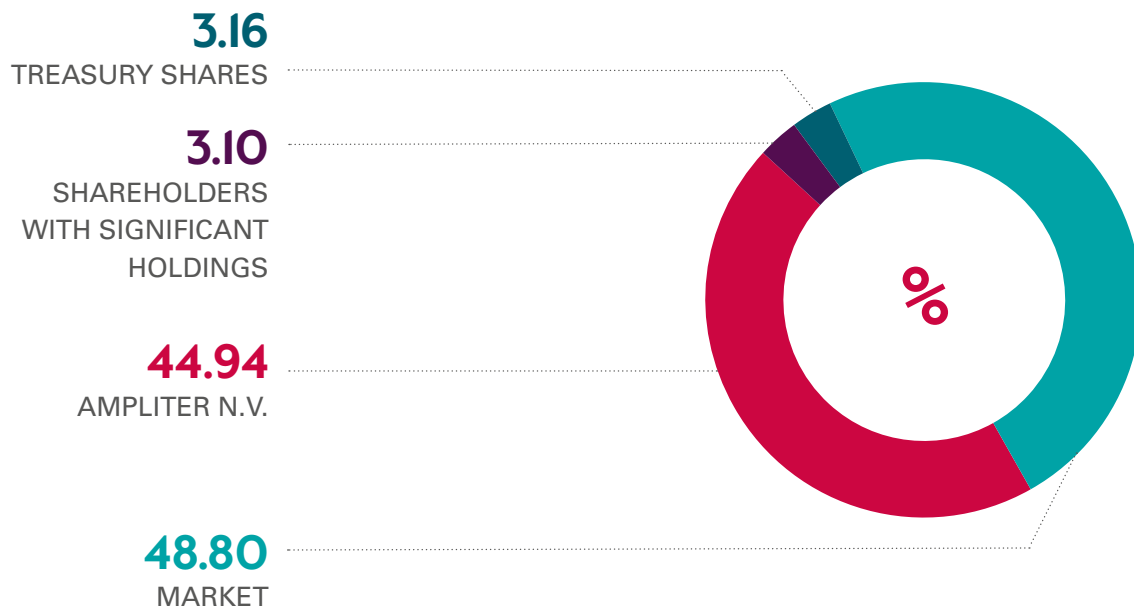
<sup>(1)</sup> At 31/12/2017, in million Euros.

<sup>(2)</sup> Treasury shares excluded.

<sup>(3)</sup> Last 12 months.

# Shareholding

Shareholder structure as of December 31<sup>st</sup>, 2017\*



\* The percentage refer to the share capital on December 31<sup>st</sup>, 2017.

## Increased voting rights

The possibility of exercising increased voting rights was adopted by the Extraordinary Shareholders' Meeting held on January 29<sup>th</sup>, 2015 with a view to pursuing stability and loyalty of the shareholder base. It gives shareholders the option to obtain increased voting rights equal to two votes for each share held for at least 24 consecutive months from the registration date shown in the shareholder register prepared by the Company in accordance with current law and regulations. On December 31<sup>st</sup>, 2017, there were 102,682,854 registered shares (62.42% of the Company's voting capital), of which 101,715,003 shares (61.84% of the voting capital) owned by the majority shareholder Ampliter N.V..

# Relations with the financial community

## Stock coverage

As of December 31<sup>st</sup>, 2017 the stock was covered by 16 brokers who actively followed the Company, published specific research and analyses, and issued generally positive recommendations.

Banca Akros	Exane BNP Paribas	Jefferies International
Carnegie	Fidentiis Equities	Kepler Chevreux
Bank of America Merrill Lynch	Goldman Sachs	Mainfirst
Banca IMI	HSBC	Mediobanca
Commerzbank	Intermonte	Sanford Bernstein
Equita Sim		

## Conference calls

Amplifon organizes conference calls and audiowebcasts with the financial community (analysts and institutional investors) for the release of its annual, half-year and quarterly results. On average, 70 people were connected to each conference call.

## Roadshows

In 2017, the Company's Chief Executive Officer, Chief Financial Officer and Investor Relator executed 13 roadshows in the main global financial markets: London, Dublin, Edinburgh, New York, Boston, Chicago, San Francisco, Milano, Zurich, Geneva, Copenhagen, Helsinki and Madrid.

## Conferences

In 2017, the Company's Chief Executive Officer, Chief Financial Officer and Investor Relator attended numerous international healthcare conferences organized by primary institutions such as Exane BNP Paribas, Goldman Sachs and Commerzbank; as well as conferences for Italian and/or medium sized companies organized by J.P. Morgan, Goldman Sachs, Unicredit, Kepler Cheuvreux, Mediobanca and Borsa Italiana.

Over 120 one-on-one meetings and more than 30 group meetings were held during 2017 conferences and roadshows.

## 2018 Financial Calendar

### March 1<sup>st</sup>, 2018

Board of Directors meeting to approve the consolidated Financial Statements, the draft of Amplifon S.p.A.'s financial statements at December 31<sup>st</sup>, 2017 and proposed allocation of 2017 Net Result.

### April 20<sup>th</sup>, 2018

Shareholders General Meeting (Single Call) to approve the Financial Statements at December 31<sup>st</sup>, 2017 and allocation of 2017 Net Result.

### May 2<sup>nd</sup>, 2018

Board of Directors meeting to approve the Interim Financial Report at March 31<sup>st</sup>, 2018.

### July 26<sup>th</sup>, 2018

Board of Directors meeting to approve the Interim Management Report at June 30<sup>th</sup>, 2018.

### October 30<sup>th</sup>, 2018

Board of Directors meeting to approve the Interim Financial Report at September 30<sup>th</sup>, 2018.







# Report on Operations at 31 December 2017



# Report on Operations at 31 December 2017

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# Comments on the Financial Results

Amplifon Group achieved the third year in a row of record revenues and EBITDA with net profit at historic highs. The strong trend in organic growth, in fact, continued which, along with the continued expansion of the network in strategic markets, helped to significantly boost the Group's profitability.

More in detail, the year closed with total revenue of €1,266.0 million (+11.7% compared to 2016), EBITDA of €212.5 million (+13.7% compared to 2016) and net profit of €100.6 million, while the recurring net profit reached €95.0 million, an increase of 34.2% compared to the prior year.

## Revenue performance

Revenue from sales and services reached a new record for the third year in a row, coming in at €1,265,994 thousand, 11.7% higher than the previous record reached in 2016 (€1,133,097 thousand). This important result was achieved thanks mainly to continuous organic growth which, including the contribution of the newly opened stores, amounted to €75,204 thousand (+6.6%) as well as acquisitions which contributed €66,164 thousand (+5.9%). Exchange differences had a negative impact of €8,471 thousand (-0.8%).

All the geographic areas contributed to the growth in turnover. More in detail:

- in Europe, the Middle East and Africa a boost from strong organic growth (including the contribution of the newly opened stores), along with the acquisitions made mainly in Germany, France and Portugal, caused revenue to increase by 13.5% at current exchange rates and by 14.2% at constant exchange rates compared to the prior year;
- in the Americas revenue rose 6.5% at current exchange rates and by 8.5% at constant exchange rates compared to the previous year thanks also to higher investments in marketing;
- in Asia-Pacific turnover rose 9.9% at current exchange rates and 9.2% at constant exchange rates.

## Profit performance

The growth in revenue resulted in a significant increase in profitability across all the Group's geographies. Gross operating profit (EBITDA) amounted to a record €212,491 thousand, an increase of €25,632 thousand against the prior year (+13.7%). Net of non-recurring expenses which amounted to €4,992 thousand in 2017 versus €2,502 thousand in 2016, the rise in EBITDA reaches €28,122 thousand (+14.9%). The recurring EBITDA margin reached 17.2%, an increase of 0.5 percentage points against 2016.

## Changes in net debt

The Group's financial structure continues to be extremely solid with recurring free cash flow reaching €99,979 thousand (€85,561 thousand in 2016) after absorbing capital expenditure which was €9,657 thousand higher than in the comparison period. Net financial indebtedness came to €296,265 thousand at 31 December 2017, an increase of €71,844 thousand with respect to 31 December 2016 which is mainly attributable to the acquisitions made in the period (€111,516 thousand), the payment of dividends to shareholders in the second quarter (€15,292 thousand) and the purchase of treasury shares (€36,160 thousand).

At 31 December 2017 gross debt amounted to €420,347 thousand, €119,193 thousand of which long-term. Cash and cash equivalents of €124,082 thousand, along with €330 million in unutilized irrevocable credit lines and loans and €126.1 million in other available credit lines, ensure the flexibility needed to take advantage of any opportunities to consolidate and develop business that might materialize.

## Consolidated Income Statement

(€ thousands)	FY 2017				FY 2016				Change % on recurring
	Recurring	Non-recurring (*)	Total	% on recurring	Recurring	Non-recurring (*)	Total	% on recurring	
Revenues from sales and services	1,265,994	-	1,265,994	100.0%	1,133,097	-	1,133,097	100.0%	11.7%
Operating costs	(1,053,167)	(4,992)	(1,058,159)	-83.2%	(942,279)	-	(942,279)	-83.2%	11.8%
Other costs and revenues	4,656	-	4,656	0.4%	(1,457)	(2,502)	(3,959)	-0.1%	419.6%
<b>Gross operating profit (EBITDA)</b>	<b>217,483</b>	<b>(4,992)</b>	<b>212,491</b>	<b>17.2%</b>	<b>189,361</b>	<b>(2,502)</b>	<b>186,859</b>	<b>16.7%</b>	<b>14.9%</b>
Depreciation and write-downs of non-current assets	(44,694)	(214)	(44,908)	-3.5%	(38,967)	-	(38,967)	-3.4%	14.7%
<b>Operating result before the amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)</b>	<b>172,789</b>	<b>(5,206)</b>	<b>167,583</b>	<b>13.6%</b>	<b>150,394</b>	<b>(2,502)</b>	<b>147,892</b>	<b>13.3%</b>	<b>14.9%</b>
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(17,906)	-	(17,906)	-1.4%	(15,354)	(5,489)	(20,843)	-1.4%	16.6%
<b>Operating profit (EBIT)</b>	<b>154,883</b>	<b>(5,206)</b>	<b>149,677</b>	<b>12.2%</b>	<b>135,040</b>	<b>(7,991)</b>	<b>127,049</b>	<b>11.9%</b>	<b>14.7%</b>
Income, expenses, valuation and adjustments of financial assets	502	-	502	0.0%	432	-	432	0.0%	16.2%
Net financial expenses	(19,284)	-	(19,284)	-1.5%	(18,953)	-	(18,953)	-1.7%	1.7%
Exchange differences and non-hedge accounting instruments	(548)	-	(548)	0.0%	(1,157)	-	(1,157)	-0.1%	-52.6%
<b>Profit (loss) before tax</b>	<b>135,553</b>	<b>(5,206)</b>	<b>130,347</b>	<b>10.7%</b>	<b>115,362</b>	<b>(7,991)</b>	<b>107,371</b>	<b>10.2%</b>	<b>17.5%</b>
Tax	(40,633)	10,764	(29,869)	-3.2%	(44,380)	785	(43,595)	-3.9%	-8.4%
<b>Net profit (loss)</b>	<b>94,920</b>	<b>5,558</b>	<b>100,478</b>	<b>7.5%</b>	<b>70,982</b>	<b>(7,206)</b>	<b>63,776</b>	<b>6.3%</b>	<b>33.7%</b>
Profit (loss) of minority interests	(100)	-	(100)	0.0%	156	-	156	0.0%	-164.1%
<b>Net profit (loss) attributable to the Group</b>	<b>95,020</b>	<b>5,558</b>	<b>100,578</b>	<b>7.5%</b>	<b>70,826</b>	<b>(7,206)</b>	<b>63,620</b>	<b>6.3%</b>	<b>34.2%</b>

(\*) See table on page 51 for details of non-recurring transactions.

**EBITDA** is the operating result before charging amortisation, depreciation and impairment of both tangible and intangible fixed assets

**EBITA** is the operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations

**EBIT** is the operating result before financial income and charges and taxes

(€ thousands)	Q4 2017				Q4 2016				
	Recurring	Non-recurring (*)	Total	% on recurring	Recurring	Non-recurring (*)	Total	% on recurring	Change % on recurring
Revenues from sales and services	364,220	-	364,220	100.0%	329,156	-	329,156	100.0%	10.7%
Operating costs	(288,692)	(1,080)	(289,772)	-79.3%	(261,242)	-	(261,242)	-79.4%	10.5%
Other costs and revenues	1,159	-	1,159	0.3%	(181)	-	(181)	-0.1%	740.3%
<b>Gross operating profit (EBITDA)</b>	<b>76,687</b>	<b>(1,080)</b>	<b>75,607</b>	<b>21.1%</b>	<b>67,733</b>	<b>-</b>	<b>67,733</b>	<b>20.6%</b>	<b>13.2%</b>
Depreciation and write-downs of non-current assets	(12,418)	(214)	(12,632)	-3.4%	(11,753)	-	(11,753)	-3.6%	5.7%
<b>Operating result before the amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)</b>	<b>64,269</b>	<b>(1,294)</b>	<b>62,975</b>	<b>17.6%</b>	<b>55,980</b>	<b>-</b>	<b>55,980</b>	<b>17.0%</b>	<b>14.8%</b>
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(4,669)	-	(4,669)	-1.3%	(3,982)	(5,489)	(9,471)	-1.2%	17.3%
<b>Operating profit (EBIT)</b>	<b>59,600</b>	<b>(1,294)</b>	<b>58,306</b>	<b>16.4%</b>	<b>51,998</b>	<b>(5,489)</b>	<b>46,509</b>	<b>15.8%</b>	<b>14.6%</b>
Income, expenses, valuation and adjustments of financial assets	256	-	256	0.1%	154	-	154	0.0%	66.2%
Net financial expenses	(5,010)	-	(5,010)	-1.4%	(4,967)	-	(4,967)	-1.5%	0.9%
Exchange differences and non-hedge accounting instruments	(222)	-	(222)	-0.1%	(976)	-	(976)	-0.3%	-77.3%
<b>Profit (loss) before tax</b>	<b>54,624</b>	<b>(1,294)</b>	<b>53,330</b>	<b>15.0%</b>	<b>46,209</b>	<b>(5,489)</b>	<b>40,720</b>	<b>14.0%</b>	<b>18.2%</b>
Tax	(10,602)	9,640	(962)	-2.9%	(16,381)	-	(16,381)	-4.9%	-35.3%
<b>Net profit (loss)</b>	<b>44,022</b>	<b>8,346</b>	<b>52,368</b>	<b>12.1%</b>	<b>29,828</b>	<b>(5,489)</b>	<b>24,339</b>	<b>9.1%</b>	<b>47.6%</b>
Profit (loss) of minority interests	(50)	-	(50)	0.0%	56	-	56	0.0%	-189.3%
<b>Net profit (loss) attributable to the Group</b>	<b>44,072</b>	<b>8,346</b>	<b>52,418</b>	<b>12.1%</b>	<b>29,772</b>	<b>(5,489)</b>	<b>24,283</b>	<b>9.0%</b>	<b>48.0%</b>

(\*) See table on page 51 for details of non-recurring transactions.

The details of the non-recurring transactions included in the previous tables are shown below.

(€ thousands)	FY 2017	FY 2016	Q4 2017	Q4 2016
Restructuring charges related to the acquisitions of the AudioNova retail businesses in France and in Portugal	(4,992)	-	(1,080)	-
Advisory fees and expenses related to an acquisition process not completed	-	(2,502)	-	-
<b>Impact of the non-recurring items on EBITDA</b>	<b>(4,992)</b>	<b>(2,502)</b>	<b>(1,080)</b>	-
Partial write-down of goodwill recognized in UK in 2006 with the acquisition of the Ultravox Group	-	(5,489)	-	(5,489)
Write-down of plant, property and equipment following the closing of Audionova stores in Portugal as a result of restructuring	(214)	-	(214)	-
<b>Impact of the non-recurring items on EBIT</b>	<b>(5,206)</b>	<b>(7,991)</b>	<b>(1,294)</b>	<b>(5,489)</b>
<b>Impact of the non-recurring items pre-tax</b>	<b>(5,206)</b>	<b>(7,991)</b>	<b>(1,294)</b>	<b>(5,489)</b>
Change in deferred taxation in the United States due to the tax reform	9,604	-	9,604	-
Impact of the above items on the taxes for the year	1,160	785	36	-
<b>Impact of the non-recurring items on total net result</b>	<b>5,558</b>	<b>(7,206)</b>	<b>8,346</b>	<b>(5,489)</b>

## Reclassified Consolidated Balance Sheet

The reclassified Consolidated Balance Sheet aggregates assets and liabilities according to operating functionality criteria, subdivided by convention into the following three key functions: investments, operations and finance.

(€ thousands)	31/12/2017	31/12/2016	Change
Goodwill	684,635	635,132	49,503
Non-competition agreements, trademarks, customer lists and lease rights	143,373	110,401	32,972
Software, licences, other intangible fixed assets, fixed assets in progress and advances	56,583	51,505	5,078
Tangible assets	143,003	119,794	23,209
Financial fixed assets (1)	43,392	45,271	(1,879)
Other non-current financial assets (1)	7,576	6,214	1,362
<b>Non-current assets</b>	<b>1,078,562</b>	<b>968,317</b>	<b>110,245</b>
Inventories	37,081	31,370	5,711
Trade receivables	132,792	127,278	5,514
Other receivables	47,584	42,162	5,422
<b>Current assets (A)</b>	<b>217,457</b>	<b>200,810</b>	<b>16,647</b>
<b>Operating assets</b>	<b>1,296,019</b>	<b>1,169,127</b>	<b>126,892</b>
Trade payables	(137,401)	(131,181)	(6,220)
Other payables (2)	(133,423)	(121,037)	(12,386)
Provisions for risks and charges (current portion)	(4,055)	(2,346)	(1,709)
<b>Current liabilities (B)</b>	<b>(274,879)</b>	<b>(254,564)</b>	<b>(20,315)</b>
<b>Net working capital (A) - (B)</b>	<b>(57,422)</b>	<b>(53,754)</b>	<b>(3,668)</b>
Derivative instruments (3)	(9,866)	(10,212)	346
Deferred tax assets	45,300	40,744	4,556
Deferred tax liabilities	(60,044)	(62,405)	2,361
Provisions for risks and charges (non-current portion)	(65,390)	(59,341)	(6,049)
Liabilities for employees' benefits (non-current portion)	(16,717)	(16,609)	(108)
Loan fees (4)	632	1,468	(836)
Other non-current payables	(30,372)	(26,127)	(4,245)
<b>NET INVESTED CAPITAL</b>	<b>884,683</b>	<b>782,081</b>	<b>102,602</b>
Group net equity	588,681	557,371	31,310
Minority interests	(263)	289	(552)
<b>Total net equity</b>	<b>588,418</b>	<b>557,660</b>	<b>30,758</b>
Net medium and long-term financial indebtedness (4)	119,193	379,566	(260,373)
Net short-term financial indebtedness (4)	177,072	(155,145)	332,217
<b>Total net financial indebtedness</b>	<b>296,265</b>	<b>224,421</b>	<b>71,844</b>
<b>OWN FUNDS AND NET FINANCIAL INDEBTEDNESS</b>	<b>884,683</b>	<b>782,081</b>	<b>102,602</b>

Notes for reconciling the condensed balance sheet with the statutory balance sheet:

- (1) "Financial fixed assets" and "Other non-current financial assets" include equity interests valued using the net equity method, financial assets at fair value through profit and loss and other non-current assets;
- (2) "Other payables" includes other liabilities, accrued liabilities and deferred income, current portion of liabilities for employees' benefits and tax liabilities;
- (3) "Derivative instruments" includes cash flow hedging instruments not comprised in the item "Net medium and long-term financial indebtedness";
- (4) The item "loan fees" is presented in the balance sheet as a direct reduction of the short-term and medium/long-term components of the items "financial payables" and "financial liabilities" for the short term and long-term portion respectively.

## Condensed Reclassified Consolidated Cash Flow Statement

The condensed consolidated cash flow statement represents a summary version of the reclassified cash flow statement detailed in the following pages and its purpose is, starting from the EBIT, to detail the flows generated from or absorbed by operating, investing and financing activities.

(€ thousands)	FY 2017	FY 2016
<b>Operating profit (EBIT)</b>	<b>149,677</b>	<b>127,049</b>
Amortization, depreciation and write down	62,814	59,810
Provisions, other non-monetary items and gain/losses from disposals	27,840	22,997
Net financial expenses	(18,322)	(18,672)
Taxes paid	(45,866)	(40,539)
Changes in net working capital	(7,499)	(7,023)
<b>Cash flow generated from (absorbed by) operating activities (A)</b>	<b>168,644</b>	<b>143,622</b>
Cash flow generated from (absorbed by) operating investing activities (B)	(70,665)	(61,145)
<b>Free cash flow (A+B)</b>	<b>97,979</b>	<b>82,477</b>
Net cash flow generated from (absorbed by) business combinations (C)	(111,516)	(79,355)
(Purchase) sale of other investments and securities (D)	23	34
<b>Cash flow generated from (absorbed by) investing activities (B+C+D)</b>	<b>(182,158)</b>	<b>(140,466)</b>
<b>Cash flow generated from (absorbed by) operating and investing activities</b>	<b>(13,514)</b>	<b>3,156</b>
Dividends	(15,292)	(9,427)
Fees paid on medium/long-term financing	(775)	(322)
Treasury shares	(36,160)	(18,841)
Capital increases, third parties' contributions, dividends paid to third parties by subsidiaries	144	2,349
Hedging instruments and other changes in non-current assets	(710)	(305)
<b>Net cash flow from the period</b>	<b>(66,307)</b>	<b>(23,390)</b>
<b>Net financial indebtedness at the beginning of the period</b>	<b>(224,421)</b>	<b>(204,911)</b>
Effect of the exchange rate fluctuations on the net financial position	(5,537)	3,880
Change in net financial position	(66,307)	(23,390)
<b>Net financial indebtedness at the end of the period</b>	<b>(296,265)</b>	<b>(224,421)</b>

The impact of non-recurring transactions on free cash flow in the period is shown in the following table.

(€ thousands)	FY 2017	FY 2016
<b>Free cash flow</b>	<b>97,979</b>	<b>82,477</b>
Free cash flow generated by non-recurring transactions (see page 81 for details)	(2,000)	(3,084)
<b>Free cash flow generated by recurring transactions</b>	<b>99,979</b>	<b>85,561</b>

## Indicators

	31/12/2017	31/12/2016
Net financial indebtedness (€ thousands)	296,265	224,421
Net Equity (€ thousands)	588,418	557,660
Group Net Equity (€ thousands)	588,681	557,371
Net financial indebtedness/Net Equity	0.50	0.40
Net financial indebtedness/Group Net Equity	0.50	0.40
Net financial indebtedness/EBITDA	1.35	1.17
EBITDA/Net financial charges	12.76	11.19
Earnings per share (EPS) (€)	0.45906	0.29008
Diluted EPS (€)	0.44779	0.28262
Earnings per share – Recurring operations (EPS) (€)	0.43369	0.32293
Diluted EPS – Recurring operations (€)	0.42302	0.31463
Group Net Equity per share (€)	2.686	2.542
Dividend per share (DPS) (€) (*)	0.110	0.070
Pay-out ratio (%) (*)	23.98%	24.13%
Dividend yield (%) (*)	0.86%	0.77%
Period-end price	12.840	9.050
Highest price in period (€)	13.700	10.080
Lowest price in period (€)	8.415	6.710
Price/earnings ratio (P/E)	27.99	31.20
Price/earnings ratio (P/E) – Recurring operations	26.91	28.02
Share price/net equity per share	4.781	3.560
Market capitalisation (€ millions)	2,906.08	2,047.22
Number of shares outstanding	219,174,784	219,252,051

(\*) values determined based on the dividend proposed by the Board of Directors at the Shareholders General Meeting convened for 20 April 2018

- The **net financial indebtedness/net equity** ratio is the ratio of net financial indebtedness to total net equity
- The **net financial indebtedness/Group net equity** ratio is the ratio of the net financial indebtedness to the Group's net equity
- The **net financial indebtedness/EBITDA** ratio is the ratio of net financial indebtedness to EBITDA for the last four quarters (determined with reference to recurring business only on the basis of pro forma figures where there were significant changes to the structure of the Group)
- The **EBITDA/net financial charges ratio** is the ratio of EBITDA for the last four quarters (determined with reference to recurring business only on the basis of restated figures where there were significant changes to the structure of the Group) to net interest payable and receivable of the same last 4 quarters



- **Earnings per share (EPS) (€)** is net profit for the period attributable to the Parent's ordinary shareholders divided by the weighted average number of shares outstanding during the period, considering purchases and sales of treasury shares as cancellations or issues of shares, respectively
- **Diluted earnings per share (EPS) (€)** is net profit for the period attributable to the Parent's ordinary shareholders divided by the weighted average number of shares outstanding during the period adjusted for the dilution effect of potential shares. In the calculation of outstanding shares, purchases and sales of treasury shares are considered as cancellations and issues of shares, respectively
- **Earnings per share – recurring operations (EPS) (€)** is net income from recurring operations for the year attributable to the Parent's ordinary shareholders divided by the weighted average number of shares outstanding during the period, considering purchases and sales of treasury shares as cancellations or issues of shares, respectively
- **Diluted earnings per share – recurring operations (EPS) (€)** is net income from recurring operations for the year attributable to the Parent's ordinary shareholders divided by the weighted average number of shares outstanding during the period adjusted for the dilution effect of potential shares. In the calculation of outstanding shares, purchases and sales of treasury shares are considered as cancellations and issues of shares, respectively
- **Net Equity per share (€)** is the ratio of Group equity to the number of shares outstanding
- **Dividend per share (DPS) (€)** is the dividend paid in the following year resolved by the shareholders' meeting approving the accounts for the year indicated. This indicator is not given in interim reports since it is only meaningful with reference to the full year result
- **Pay-out ratio (%)** is the ratio of the dividend paid to EPS
- **Dividend yield (%)** is the ratio of the dividend per share paid in the following year to the share price on 31 December of the year indicated
- **Period-end price (€)** is the closing price on the last stock exchange trading day of the period
- **Highest price (€) and lowest price (€)** are the highest and lowest prices from 1 January to the end of the period
- **Price/Earnings ratio (P/E)** is the ratio of the share price on the last stock exchange trading day of the period to earnings per share
- **Price/Earnings ratio (P/E) – recurring operations** is the ratio of the share price on the last stock exchange trading day of the period to earnings per share
- **Share price/Net equity per share** is the ratio of the share closing price on the last stock exchange trading day of the period to net equity per share
- **Market capitalisation** is the closing price on the last stock exchange trading day of the period multiplied by the number of shares outstanding
- **The number of shares outstanding** is the number of shares issued less treasury shares

# Income Statement Review

## Consolidated Income Statement by Segment and Geographic Area (\*)

(€ thousands)	FY 2017				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	855,628	228,940	179,002	2,424	1,265,994
Operating costs	(712,439)	(186,072)	(127,211)	(32,437)	(1,058,159)
Other costs and revenues	2,256	2,288	(300)	412	4,656
<b>Gross operating profit (EBITDA)</b>	<b>145,445</b>	<b>45,156</b>	<b>51,491</b>	<b>(29,601)</b>	<b>212,491</b>
Depreciation and write-downs of non-current assets	(29,272)	(4,440)	(6,577)	(4,619)	(44,908)
<b>Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)</b>	<b>116,173</b>	<b>40,716</b>	<b>44,914</b>	<b>(34,220)</b>	<b>167,583</b>
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(10,850)	(654)	(6,042)	(360)	(17,906)
<b>Operating profit (EBIT)</b>	<b>105,323</b>	<b>40,062</b>	<b>38,872</b>	<b>(34,580)</b>	<b>149,677</b>
Income, expenses, valuation and adjustments of financial assets					502
Net financial expenses					(19,284)
Exchange differences and non-hedge accounting instruments					(548)
<b>Profit (loss) before tax</b>					<b>130,347</b>
Tax					(29,869)
<b>Net profit (loss)</b>					<b>100,478</b>
Profit (loss) of minority interests					(100)
<b>Net profit (loss) attributable to the Group</b>					<b>100,578</b>

(€ thousands)	FY 2017 – Only recurring operations				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	855,628	228,940	179,002	2,424	1,265,994
Gross operating profit (EBITDA)	150,437	45,156	51,491	(29,601)	217,483
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	121,379	40,716	44,914	(34,220)	172,789
Operating profit (EBIT)	110,529	40,062	38,872	(34,580)	154,883
Profit (loss) before tax					135,553
Net profit (loss) attributable to the Group					95,020

(\*) For the purposes of reporting on economic data by geographic area, please note that the Corporate structures are included in EMEA.

(€ thousands)	FY 2016				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	753,717	214,881	162,947	1,552	1,133,097
Operating costs	(625,856)	(175,970)	(113,801)	(26,652)	(942,279)
Other costs and revenues	(1,188)	(160)	(71)	(2,540)	(3,959)
<b>Gross operating profit (EBITDA)</b>	<b>126,673</b>	<b>38,751</b>	<b>49,075</b>	<b>(27,640)</b>	<b>186,859</b>
Depreciation and write-downs of non-current assets	(26,442)	(3,868)	(4,940)	(3,717)	(38,967)
<b>Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)</b>	<b>100,231</b>	<b>34,883</b>	<b>44,135</b>	<b>(31,357)</b>	<b>147,892</b>
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(13,230)	(569)	(6,453)	(591)	(20,843)
<b>Operating profit (EBIT)</b>	<b>87,001</b>	<b>34,314</b>	<b>37,682</b>	<b>(31,948)</b>	<b>127,049</b>
Income, expenses, valuation and adjustments of financial assets					432
Net financial expenses					(18,953)
Exchange differences and non-hedge accounting instruments					(1,157)
<b>Profit (loss) before tax</b>					<b>107,371</b>
Tax					(43,595)
<b>Net profit (loss)</b>					<b>63,776</b>
Profit (loss) of minority interests					156
<b>Net profit (loss) attributable to the Group</b>					<b>63,620</b>

(€ thousands)	FY 2016 – Only recurring operations				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	753,717	214,881	162,947	1,552	1,133,097
Gross operating profit (EBITDA)	126,673	38,751	49,075	(25,138)	189,361
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	100,231	34,883	44,135	(28,855)	150,394
Operating profit (EBIT)	92,490	34,314	37,682	(29,446)	135,040
Profit (loss) before tax					115,362
Net profit (loss) attributable to the Group					70,826

(€ thousands)	Q4 2017				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	260,531	57,347	45,005	1,337	364,220
Operating costs	(202,130)	(45,793)	(31,699)	(10,150)	(289,772)
Other costs and revenues	721	67	(123)	494	1,159
<b>Gross operating profit (EBITDA)</b>	<b>59,122</b>	<b>11,621</b>	<b>13,183</b>	<b>(8,319)</b>	<b>75,607</b>
Depreciation and write-downs of non-current assets	(8,253)	(1,295)	(1,639)	(1,445)	(12,632)
<b>Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)</b>	<b>50,869</b>	<b>10,326</b>	<b>11,544</b>	<b>(9,764)</b>	<b>62,975</b>
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(2,981)	(192)	(1,462)	(34)	(4,669)
<b>Operating profit (EBIT)</b>	<b>47,888</b>	<b>10,134</b>	<b>10,082</b>	<b>(9,798)</b>	<b>58,306</b>
Income, expenses, valuation and adjustments of financial assets					256
Net financial expenses					(5,010)
Exchange differences and non-hedge accounting instruments					(222)
<b>Profit (loss) before tax</b>					<b>53,330</b>
Tax					(962)
<b>Net profit (loss)</b>					<b>52,368</b>
Profit (loss) of minority interests					(50)
<b>Net profit (loss) attributable to the Group</b>					<b>52,418</b>

(€ thousands)	Q4 2017 – Only recurring operations				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	260,531	57,347	45,005	1,337	364,220
Gross operating profit (EBITDA)	60,202	11,621	13,183	(8,319)	76,687
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	52,163	10,326	11,544	(9,764)	64,269
Operating profit (EBIT)	49,182	10,134	10,082	(9,798)	59,600
Profit (loss) before tax					54,624
Net profit (loss) attributable to the Group					44,072

(€ thousands)	Q4 2016				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	227,210	57,874	43,180	892	329,156
Operating costs	(175,046)	(47,584)	(30,638)	(7,974)	(261,242)
Other costs and revenues	(105)	(80)	46	(42)	(181)
<b>Gross operating profit (EBITDA)</b>	<b>52,059</b>	<b>10,210</b>	<b>12,588</b>	<b>(7,124)</b>	<b>67,733</b>
Depreciation and write-downs of non-current assets	(8,263)	(1,017)	(1,473)	(1,000)	(11,753)
<b>Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)</b>	<b>43,796</b>	<b>9,193</b>	<b>11,115</b>	<b>(8,124)</b>	<b>55,980</b>
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(7,417)	(159)	(1,673)	(222)	(9,471)
<b>Operating profit (EBIT)</b>	<b>36,379</b>	<b>9,034</b>	<b>9,442</b>	<b>(8,346)</b>	<b>46,509</b>
Income, expenses, valuation and adjustments of financial assets					154
Net financial expenses					(4,967)
Exchange differences and non-hedge accounting instruments					(976)
<b>Profit (loss) before tax</b>					<b>40,720</b>
Tax					(16,381)
<b>Net profit (loss)</b>					<b>24,339</b>
Profit (loss) of minority interests					56
<b>Net profit (loss) attributable to the Group</b>					<b>24,283</b>

(€ thousands)	Q4 2016 – Only recurring operations				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	227,210	57,874	43,180	892	329,156
Gross operating profit (EBITDA)	52,059	10,210	12,588	(7,124)	67,733
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	43,796	9,193	11,115	(8,124)	55,980
Operating profit (EBIT)	41,868	9,034	9,442	(8,346)	51,998
Profit (loss) before tax					46,209
Net profit (loss) attributable to the Group					29,772

## Revenues from sales and services

(€ thousands)	FY 2017	FY 2016	Change	Change %
Revenues from sales and services	1,265,994	1,133,097	132,897	11.7%

(€ thousands)	Q4 2017	Q4 2016	Change	Change %
Revenues from sales and services	364,220	329,156	35,064	10.7%

For the third year in a row revenue from sales and services reached a new record of €1,265,994 thousand, an increase of 11.7% on the prior record set in 2016 (€1,133,097 thousand). This important result was achieved thanks mainly to continuous organic growth which, including the contribution of the newly opened stores, came to €75,204 thousand (+6.6%), as well as acquisitions which contributed €66,164 thousand (+5.9%). Exchange differences had a negative impact of €8,471 thousand (-0.8%).

In the fourth quarter alone, revenue from sales and services amounted to €364,220 thousand, an increase of €35,064 thousand (+10.7%) with respect to the same period of the period year, due to organic growth (including the contribution of newly opened stores) of €27,627 thousand (+8.4%), acquisitions which contributed €16,884 thousand (+5.2%), while exchange differences had a negative impact of €9,447 thousand (-2.9%).

The following table shows the breakdown of revenues from sales and services by segment:

(€ thousands)	FY 2017	%	FY 2016	%	Change	Change %	Exchange diff.	Change % in local currency
EMEA	855,628	67.6%	753,717	66.5%	101,911	13.5%	(5,482)	14.2%
Americas	228,940	18.1%	214,881	19.0%	14,059	6.5%	(4,202)	8.5%
Asia Pacific	179,002	14.1%	162,947	14.4%	16,055	9.9%	1,213	9.2%
Corporate	2,424	0.2%	1,552	0.1%	872	56.2%		
<b>Total</b>	<b>1,265,994</b>	<b>100.0%</b>	<b>1,133,097</b>	<b>100.0%</b>	<b>132,897</b>	<b>11.7%</b>	<b>(8,471)</b>	<b>12.5%</b>

## Europe, Middle - East and Africa

Period (€ thousands)	2017	2016	Change	Change %	Change % in local currency
I quarter	195,178	169,899	25,279	14.9%	15.8%
II quarter	223,349	196,330	27,019	13.8%	14.4%
<b>I Half Year</b>	<b>418,527</b>	<b>366,229</b>	<b>52,298</b>	<b>14.3%</b>	<b>15.0%</b>
III quarter	176,570	160,278	16,292	10.2%	11.2%
IV quarter	260,531	227,210	33,321	14.7%	15.3%
<b>II Half Year</b>	<b>437,101</b>	<b>387,488</b>	<b>49,613</b>	<b>12.8%</b>	<b>13.5%</b>
<b>Total Year</b>	<b>855,628</b>	<b>753,717</b>	<b>101,911</b>	<b>13.5%</b>	<b>14.2%</b>

Revenue from sales and services amounted to €855,628 thousand in 2017 versus €753,717 thousand in 2016, an increase of €101,911 thousand (+13.5%), explained for €58,054 thousand (+7.7%) by acquisitions, for €49,339 thousand (+6.5%) by organic growth (including the contribution of newly opened stores), while exchange differences had a negative impact of €5,482 thousand (-0.7%).

In Italy revenue growth continued at a robust pace, thanks to commercial initiatives and investments in CRM. There was a strong increase in revenue in France attributable to the integration of the AudioNova stores acquired in March, the contribution of the other acquisitions made in the last year and marketing. Growth continued in Germany as a result, primarily, of the numerous acquisitions made and the solid recovery in organic growth recorded in the latter part of the year. An exceptional performance was posted in the Iberian Peninsula fueled by double-digit growth in Spain and the doubling of revenues compared to the comparison period in Portugal, thanks to both strong organic growth and the contribution of the MiniSom SA acquisition finalized in April. Strong organic growth was also posted in the United Kingdom where the results confirm the validity of the new commercial and marketing strategy. Results were positive in Switzerland thanks to organic growth and the traffic generated by the renewed marketing activities. The performance in the Netherlands was in line with 2016, but higher than the market average, while positive performances were reported in Belgium and Luxembourg thanks to revised marketing campaigns and greater focus on retail excellence.

In the fourth quarter alone, revenue from sales and services amounted to €260,531 thousand, an increase of €33,321 thousand (+14.7%) against the same period of the prior year, explained for €19,247 thousand (+8.5%) by organic growth (including the contribution of the newly opened stores), for €15,325 thousand (+6.8%) by acquisitions, while exchange differences had a negative impact of €1,251 thousand (-0.6%).

In the EMEA region Amplifon has 2,455 direct stores, 10 franchises and 52 wholesale points of sale. At the end of the prior year there were 2,173 direct stores, 11 franchises and 42 wholesale points of sale. In addition to the stores (direct and indirect), there are 3,481 customer contact points (3,333 at 31 December 2016).

## Americas

Period (€ thousands)	2017	2016	Change	Change %	Change % in local currency
I quarter	57,738	49,982	7,756	15.5%	11.2%
II quarter	58,722	51,489	7,233	14.0%	11.3%
<b>I Half Year</b>	<b>116,460</b>	<b>101,471</b>	<b>14,989</b>	<b>14.8%</b>	<b>11.3%</b>
III quarter	55,133	55,536	(403)	-0.7%	4.6%
IV quarter	57,347	57,874	(527)	-0.9%	7.5%
<b>II Half Year</b>	<b>112,480</b>	<b>113,410</b>	<b>(930)</b>	<b>-0.8%</b>	<b>6.1%</b>
<b>Total Year</b>	<b>228,940</b>	<b>214,881</b>	<b>14,059</b>	<b>6.5%</b>	<b>8.5%</b>

Revenue from sales and services reached €228,940 thousand in 2017 versus €214,881 thousand in 2016, an increase of €14,059 thousand (+6.5%) explained for €13,286 thousand (+6.2%) by organic growth (including the contribution of newly opened stores), for €4,975 thousand (+2.3%) by acquisitions, while exchange differences had a negative impact of €4,202 thousand (-2.0%).

In the United States, notwithstanding the negative exchange effect, Miracle-Ear and Amplifon Hearing Health Care posted excellent results. A positive performance was also reported by Elite Hearing Network. Considerable growth was also posted in Canada, thanks mainly to exceptional external growth.



In the fourth quarter alone, revenue from sales and services amounted to €57,347 thousand, a decrease of €527 thousand (-0.9%) against the same period of the prior year explained by exchange differences which had a negative impact of €4,861 thousand (-8.4%) that more than offset the €3,652 thousand (+6.3%) rise in increase in organic growth (including the contribution of newly opened stores), and acquisition driven growth of €682 thousand (+1.2%).

In North America Amplifon has 65 direct stores, 1,411 franchises and 1,859 wholesale points of sale. In Brazil Amplifon has one directly operated store, 3 franchises and 118 customer contact points. At the end of the previous year there were 59 directly operated stores, 1,368 franchises, 1,824 wholesale points of sale and 108 customer contact points.

## Asia Pacific

Period (€ thousands)	2017	2016	Change	Change %	Change % in local currency
I quarter	42,826	34,435	8,391	24.4%	13.9%
II quarter	45,163	41,642	3,521	8.5%	4.3%
<b>I Half Year</b>	<b>87,989</b>	<b>76,077</b>	<b>11,912</b>	<b>15.7%</b>	<b>8.7%</b>
III quarter	46,008	43,690	2,318	5.3%	7.1%
IV quarter	45,005	43,180	1,825	4.2%	11.9%
<b>II Half Year</b>	<b>91,013</b>	<b>86,870</b>	<b>4,143</b>	<b>4.8%</b>	<b>9.5%</b>
<b>Total Year</b>	<b>179,002</b>	<b>162,947</b>	<b>16,055</b>	<b>9.9%</b>	<b>9.2%</b>

Revenue from sales and services amounted to €179,002 thousand in 2017 versus €162,947 thousand in 2016, an increase of €16,055 thousand (+9.9%) explained for €11,707 thousand (+7.2%) by organic growth (including the contribution of newly opened stores), for €3,135 thousand (+2.0%) by acquisitions, while exchange differences had a positive impact of €1,213 thousand (+0.7%).

The biggest contribution came from the double-digit organic growth recorded in New Zealand driven by strong operational efficiency and effective marketing activities. A good performance was posted in Australia. India's strong growth reflects consistent organic growth and the impact of the Bloom Senso acquisition completed in January.

In the fourth quarter alone, revenue from sales and services amounted to €45,005 thousand, an increase of €1,825 thousand (+4.2%) against the same period of the prior year explained for €4,283 thousand (+9.9%) by organic growth (including the contribution of newly opened stores), for €877 thousand (+2.0%) by acquisitions, while exchange differences had a negative impact of €3,335 thousand (-7.7%).

At 31 December 2017 the Group had 336 stores in Asia-Pacific (versus 280 at 31 December 2016), as well as 278 customer contact points (240 at 31 December 2016).

## Gross operating profit (EBITDA)

(€ thousands)	FY 2017			FY 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Gross operating profit (EBITDA)	217,483	(4,992)	212,491	189,361	(2,502)	186,859

(€ thousands)	Q4 2017			Q4 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Gross operating profit (EBITDA)	76,687	(1,080)	75,607	67,733	-	67,733

Gross operating profit (EBITDA) amounted to €212,491 thousand in 2017 (with an EBITDA margin of 16.8%) versus €186,859 thousand in the prior year (and an EBITDA margin of 16.5%), an increase of €25,632 thousand (+13.7%) in absolute terms (after having absorbed €629 thousand in negative exchange differences) and of 0.3 percentage points (p.p.) in the EBITDA margin.

In the fourth quarter alone, gross operating profit (EBITDA) amounted to €75,607 thousand, an increase of €7,874 thousand (+11.6%) against the fourth quarter of the prior year after having absorbed €2,088 thousand in negative exchange differences. The EBITDA margin came to 20.8%, an increase of 0.2 p.p. with respect to the comparison period.

The result for the period reflects the non-recurring expenses of €4,992 thousand incurred (€1,080 thousand of which in the fourth quarter) relating to the integration of the AudioNova businesses acquired in France and in Portugal. We remind that non-recurring expenses of €2,502 thousand were incurred in the same period of 2016 linked to an acquisition which was not completed.

Net of these items the increase against the comparison period reaches €28,122 thousand (+14.9%) for the entire year and €8,954 thousand (+13.2%) for fourth quarter 2017 alone.

The recurring EBITDA margin came to 17.2% in 2017 (+0.5 p.p. against the comparison period) and to 21.1% in the fourth quarter alone (+0.5 p.p. against the comparison period).

The following table shows a breakdown of EBITDA by segment.

(€ thousands)	<b>FY 2017</b>	<b>EBITDA Margin</b>	<b>FY 2016</b>	<b>EBITDA Margin</b>	<b>Change</b>	<b>Change %</b>
EMEA	145,445	17.0%	126,673	16.8%	18,772	14.8%
Americas	45,156	19.7%	38,751	18.0%	6,405	16.5%
Asia Pacific	51,491	28.8%	49,075	30.1%	2,416	4.9%
Corporate (*)	(29,601)	-2.3%	(27,640)	-2.4%	(1,961)	-7.1%
<b>Total</b>	<b>212,491</b>	<b>16.8%</b>	<b>186,859</b>	<b>16.5%</b>	<b>25,632</b>	<b>13.7%</b>

(€ thousands)	<b>Q4 2017</b>	<b>EBITDA Margin</b>	<b>Q4 2016</b>	<b>EBITDA Margin</b>	<b>Change</b>	<b>Change %</b>
EMEA	59,122	22.7%	52,059	22.9%	7,063	13.6%
Americas	11,621	20.3%	10,210	17.6%	1,411	13.8%
Asia Pacific	13,183	29.3%	12,588	29.2%	595	4.7%
Corporate (*)	(8,319)	-2.3%	(7,124)	-2.2%	(1,195)	-16.8%
<b>Total</b>	<b>75,607</b>	<b>20.8%</b>	<b>67,733</b>	<b>20.6%</b>	<b>7,874</b>	<b>11.6%</b>

The table below shows the breakdown of the EBITDA by segment with reference to the recurring operations.

(€ thousands)	<b>FY 2017</b>	<b>EBITDA Margin</b>	<b>FY 2016</b>	<b>EBITDA Margin</b>	<b>Change</b>	<b>Change %</b>
EMEA	150,437	17.6%	126,673	16.8%	23,764	18.8%
Americas	45,156	19.7%	38,751	18.0%	6,405	16.5%
Asia Pacific	51,491	28.8%	49,075	30.1%	2,416	4.9%
Corporate (*)	(29,601)	-2.3%	(25,138)	-2.2%	(4,463)	-17.8%
<b>Total</b>	<b>217,483</b>	<b>17.2%</b>	<b>189,361</b>	<b>16.7%</b>	<b>28,122</b>	<b>14.9%</b>

(€ thousands)	<b>Q4 2017</b>	<b>EBITDA Margin</b>	<b>Q4 2016</b>	<b>EBITDA Margin</b>	<b>Change</b>	<b>Change %</b>
EMEA	60,202	23.1%	52,059	22.9%	8,143	15.6%
Americas	11,621	20.3%	10,210	17.6%	1,411	13.8%
Asia Pacific	13,183	29.3%	12,588	29.2%	595	4.7%
Corporate (*)	(8,319)	-2.3%	(7,124)	-2.2%	(1,195)	-16.8%
<b>Total</b>	<b>76,687</b>	<b>21.1%</b>	<b>67,733</b>	<b>20.6%</b>	<b>8,954</b>	<b>13.2%</b>

(\*) The impact of the centralized costs is calculated as a percentage of the Group's total sales.

## Europe, Middle - East and Africa

Gross operating profit (EBITDA) amounted to €145,445 thousand in 2017 (with an EBITDA margin of 17.0%) versus €126,673 thousand in the prior year (and an EBITDA margin of 16.8%), an increase of €18,772 thousand (+14.8%), after having absorbed €90 thousand in negative exchange differences, and of 0.2 p.p. in the EBITDA margin.

Net of the €4,992 thousand in non-recurring expenses incurred (€1,080 thousand of which in the fourth quarter) relating to the integration of the AudioNova businesses acquired in France and in Portugal, the increase in EBITDA reaches €23,764 thousand (+18.8%).

These results were achieved thanks to the strong increase in revenue, better operational efficiency and the greater scale reached in Germany, France and Portugal.

In the fourth quarter alone, gross operating profit (EBITDA) amounted to €59,122 thousand, an increase of €7,063 thousand (+13.6%) compared to the fourth quarter of the prior year after having absorbed €147 thousand in negative exchange differences. The EBITDA margin came to 22.7%, a decrease of 0.2 p.p. against the comparison period.

Net of the non-recurring expenses described above, the increase in EBITDA reaches €8,143 thousand (+15.6%).

The recurring EBITDA margin for the full year came to 17.6% (+0.8 p.p. with respect to the comparison period) and to 23.1% for the fourth quarter alone (+0.2 p.p. against the fourth quarter of the prior year).

## Americas

Gross operating profit (EBITDA) amounted to €45,156 thousand in 2017 (with an EBITDA margin of 19.7%) versus €38,751 thousand in the prior year (and an EBITDA margin of 18.0%), an increase of €6,405 thousand (+16.5%) after having absorbed €918 thousand in negative exchange differences. The EBITDA margin rose 1.7 p.p. as a result of a strong improvement in profitability in, above all, the second half of the year.

In the fourth quarter alone, gross operating profit (EBITDA) amounted to €11,621 thousand, an increase of €1,411 thousand (+13.8%) compared to the fourth quarter of the prior year after having absorbed €999 thousand in negative exchange differences. The EBITDA margin came to 20.3%, an increase of 2.7 p.p. against the comparison period.

### Asia Pacific

Gross operating profit (EBITDA) amounted to €51,491 thousand in 2017 (with an EBITDA margin of 28.8%) versus €49,075 thousand in the prior year (and an EBITDA margin of 30.1%), an increase of €2,416 thousand (+4.9%) that includes €380 thousand in positive exchange differences. The EBITDA margin came to 28.8%, a decrease of 1.3 p.p. against the comparison period.

In the fourth quarter alone, gross operating profit (EBITDA) amounted to €13,183 thousand, an increase of €595 thousand (+4.7%) compared to the fourth quarter of the prior year after having absorbed €939 thousand in negative exchange differences. The EBITDA margin came to 29.3%, a decrease of 0.1 p.p. against the comparison period.

### Corporate

The net cost of centralized Corporate functions (corporate bodies, general management, business development, procurement, treasury, legal affairs, human resources, IT systems, global marketing and internal audit) which do not qualify as operating segments under IFRS 8 amounted to €29,601 thousand in 2017 (2.3% of the revenues generated by the Group's sales and services) versus €27,640 thousand in the prior year (2.4% of the revenues generated by the Group's sales and services) which was impacted by the €2,502 thousand in non-recurring expenses incurred linked to an acquisition which was not completed. Net of this item, the increase in centralized corporate costs comes to €4,463 thousand.

In the fourth quarter alone, centralized corporate costs amounted to €8,319 thousand (2.3% of the revenues generated by Group's sales and services), an increase of €1,195 thousand (+16.8%) with respect to the comparison period.

## Operating profit (EBIT)

(€ thousands)	FY 2017			FY 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	154,883	(5,206)	149,677	135,040	(7,991)	127,049

(€ thousands)	Q4 2017			Q4 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	59,600	(1,294)	58,306	51,998	(5,489)	46,509

Operating profit (EBIT) amounted to €149,677 thousand in 2017 (with an EBIT margin of 11.8%) versus €127,049 thousand in the prior year (and an EBIT margin of 11.2%), an increase of €22,628 thousand (+17.8%) in absolute terms (after having absorbed €599 thousand in negative exchange differences) and of 0.6 p.p. in the EBIT margin.

In the fourth quarter alone, operating profit (EBIT) amounted to €58,306 thousand, an increase of €11,797 thousand (+25.4%) with respect to the fourth quarter of the prior year after having absorbed €1,874 thousand in negative exchange differences. The EBIT margin rose 1.9 p.p. against the comparison period to 16.0%.

In addition to the non-recurring expenses described in the section on EBITDA, in 2017 EBIT was impacted for €214 thousand by the write-down of assets pertaining to the AudioNova stores which were closed during the restructuring process, while 2016 was impacted for €5,489 thousand by the partial write-down of goodwill relating to the Ultravox Group acquisition as a result of impairment testing. Net of these items, the increase reaches €19,843 thousand (+14.7%) for full year 2017 and €7,602 thousand (+14.6%) for the fourth quarter alone.

The recurring EBIT margin came to 12.2% (+0.3 p.p. against the comparison period) in 2017 and to 16.4% in the fourth quarter alone (+0.6 p.p. against the fourth quarter of the prior year).

In addition to the non-recurring items described above, with respect to the gross operating profit (EBITDA), EBIT was also influenced by higher depreciation and amortization as a result of acquisitions, the opening of new stores and investments in IT systems.

The following table shows the breakdown of EBIT by segment:

(€ thousands)	<b>FY 2017</b>	<b>EBIT Margin</b>	<b>FY 2016</b>	<b>EBIT Margin</b>	<b>Change</b>	<b>Change %</b>
EMEA	105,323	12.3%	87,001	11.5%	18,322	21.1%
Americas	40,062	17.5%	34,314	16.0%	5,748	16.8%
Asia Pacific	38,872	21.7%	37,682	23.1%	1,190	3.2%
Corporate (*)	(34,580)	-2.7%	(31,948)	-2.8%	(2,632)	-8.2%
<b>Total</b>	<b>149,677</b>	<b>11.8%</b>	<b>127,049</b>	<b>11.2%</b>	<b>22,628</b>	<b>17.8%</b>

(€ thousands)	<b>Q4 2017</b>	<b>EBIT Margin</b>	<b>Q4 2016</b>	<b>EBIT Margin</b>	<b>Change</b>	<b>Change %</b>
EMEA	47,888	18.4%	36,379	16.0%	11,509	31.6%
Americas	10,134	17.7%	9,034	15.6%	1,100	12.2%
Asia Pacific	10,082	22.4%	9,442	21.9%	640	6.8%
Corporate (*)	(9,798)	-2.7%	(8,346)	-2.5%	(1,452)	-17.4%
<b>Total</b>	<b>58,306</b>	<b>16.0%</b>	<b>46,509</b>	<b>14.1%</b>	<b>11,797</b>	<b>25.4%</b>

The following table shows the breakdown of EBIT by segment with reference to the recurring transactions:

(€ thousands)	<b>FY 2017</b>	<b>EBIT Margin</b>	<b>FY 2016</b>	<b>EBIT Margin</b>	<b>Change</b>	<b>Change %</b>
EMEA	110,529	12.9%	92,490	12.3%	18,039	19.5%
Americas	40,062	17.5%	34,314	16.0%	5,748	16.8%
Asia Pacific	38,872	21.7%	37,682	23.1%	1,190	3.2%
Corporate (*)	(34,580)	-2.7%	(29,446)	-2.6%	(5,134)	-17.4%
<b>Total</b>	<b>154,883</b>	<b>12.2%</b>	<b>135,040</b>	<b>11.9%</b>	<b>19,843</b>	<b>14.7%</b>

(€ thousands)	<b>Q4 2017</b>	<b>EBIT Margin</b>	<b>Q4 2016</b>	<b>EBIT Margin</b>	<b>Change</b>	<b>Change %</b>
EMEA	49,182	18.9%	41,868	18.4%	7,314	17.5%
Americas	10,134	17.7%	9,034	15.6%	1,100	12.2%
Asia Pacific	10,082	22.4%	9,442	21.9%	640	6.8%
Corporate (*)	(9,798)	-2.7%	(8,346)	-2.5%	(1,452)	-17.4%
<b>Total</b>	<b>59,600</b>	<b>16.4%</b>	<b>51,998</b>	<b>15.8%</b>	<b>7,602</b>	<b>14.6%</b>

(\*) The impact of the centralized costs is calculated as a percentage of the Group's total sales.

## Europe, Middle - East and Africa

Operating profit (EBIT) amounted to €105,323 thousand in 2017 (with an EBIT margin of 12.3%) versus €87,001 thousand in the prior year (and an EBIT margin of 11.5%), an increase of €18,322 thousand (+21.1%) that includes €150 thousand in positive exchange differences and a rise of 0.8 p.p. in the EBIT margin.

In the fourth quarter alone EBIT amounted to €47,888 thousand, an increase of €11,509 thousand (+31.6%) against the fourth quarter of the prior year after having absorbed €110 thousand in negative exchange differences. The EBIT margin rose 2.4 p.p. against the comparison period to 18.4%.

In addition to the non-recurring expenses described in the section on EBITDA, fourth quarter EBIT was impacted for €214 thousand by the write-down of assets pertaining to the AudioNova stores which were closed during the restructuring process, while 2016 was impacted for €5,489 thousand by the partial write-down of goodwill relating to the Ultravox Group acquisition in the UK as a result of impairment testing. Net of these items, the increase reaches €18,039 thousand (+19.5%) for full year 2017 and €7,314 thousand (+17.5%) for the fourth quarter alone.

The recurring EBIT margin came to 12.9% (+0.6 p.p. against the comparison period) in 2017 and to 18.9% in the fourth quarter alone (+0.5 p.p. against the fourth quarter of the prior year).

In addition to the non-recurring items described above, with respect to the gross operating profit (EBITDA), EBIT was also influenced by higher depreciation and amortization as a result of acquisitions, the opening of new stores and investments in IT systems.

## Americas

Operating profit (EBIT) amounted to €40,062 thousand in 2017 (with an EBIT margin of 17.5%) versus €34,314 thousand in the prior year (and an EBIT margin of 16.0%), an increase of €5,748 thousand (+16.8%), after having absorbed €1,034 thousand in negative exchange differences, and a rise of 1.5 p.p. in the EBIT margin.

In the fourth quarter alone EBIT amounted to €10,134 thousand, an increase of €1,100 thousand (+12.2%) against the fourth quarter of the prior year after having absorbed €1,051 thousand in negative exchange differences. The EBIT margin came to 17.7%, an increase against the comparison period of 2.1 p.p.

## Asia Pacific

Operating profit (EBIT) amounted to €38,872 thousand in 2017 (with an EBIT margin of 21.7%) versus €37,682 thousand in the prior year (and an EBIT margin of 23.1%), an increase of €1,190 thousand (+3.2%) that includes €286 thousand in positive exchange differences and a decrease of 1.4 p.p. in the EBIT margin.

In the fourth quarter alone EBIT amounted to €10,082 thousand, an increase of €640 thousand (+6.8%) against the fourth quarter of the prior year after having absorbed €710 thousand in negative exchange differences. The EBIT margin came to 22.4%, up 0.5 p.p. against the comparison period.



## Corporate

The net costs of centralized Corporate functions at the EBIT level amounted to €34,580 thousand in 2017 (2.7% of the revenues generated by the Group's sales and services) versus €31,948 thousand in the prior year (2.8% of the revenues generated by the Group's sales and services) which were, however, impacted by the €2,502 thousand in non-recurring expenses incurred linked to an acquisition which was not completed. Net of this item, the increase in centralized corporate costs comes to €5,134 thousand.

In the fourth quarter alone, centralized corporate costs amounted to €9,798 thousand (2.7% of the revenues generated by Group's sales and services), an increase of €1,452 thousand (+17.4%) with respect to the comparison period.

## Profit before tax

(€ thousands)	FY 2017			FY 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	135,553	(5,206)	130,347	115,362	(7,991)	107,371

(€ thousands)	Q4 2017			Q4 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	54,624	(1,294)	53,330	46,209	(5,489)	40,720

Profit before tax amounted to €130,347 thousand in 2017 (with a gross profit margin of 10.3%) versus €107,371 thousand in the prior year (and a gross profit margin of 9.5%), an increase of €22,976 thousand (+21.4%) in line with the increase in EBIT described above: financial expenses, which reflect the Group's gross debt that is placed almost entirely on the debt capital markets at a fixed rate, were slightly higher compared to the prior year due to the commitment fees paid on unutilized irrevocable credit lines stipulated between year-end 2016 and the beginning of 2017 and on bank loans negotiated in the second part of 2017 which will be utilized in the second quarter of 2018 as part of the program to refinance the Eurobond which will be repaid in July 2018.

In the fourth quarter alone, the profit before tax reached €53,330 thousand, an increase of €12,610 thousand (+31.0%) against the fourth quarter of the prior year.

The period under examination reflects non-recurring expenses of €5,206 thousand relating to the integration of the AudioNova businesses acquired in France and in Portugal, while the result in the comparison period was impacted by non-recurring expenses of €7,991 thousand explained, for €5,489 thousand, by the partial write-down of goodwill recognized in the UK and for €2,502 thousand by the costs incurred for an acquisition which was not made.

Net of these one-offs, the increase in profit before tax reaches €20,191 thousand (+17.5%) in FY 2017 and €8,415 thousand (+18.2%) in the fourth quarter alone.

## Net profit attributable to the Group

(€ thousands)	FY 2017			FY 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Net profit attributable to the Group	95,020	5,558	100,578	70,826	(7,206)	63,620

(€ thousands)	Q4 2017			Q4 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Net profit attributable to the Group	44,072	8,346	52,418	29,772	(5,489)	24,283

The Group's net profit amounted to €100,578 thousand in 2017 (with a profit margin of 7.9%), versus €63,620 thousand in the prior year (and a profit margin of 5.6%), an increase of €36,958 thousand (+58.1%) against the comparison period. Recurring net profit was €24,194 thousand (+34.2%) higher.

In addition to the higher profit before tax, the increase in the Group's bottom line is explained by a lower tax rate which came to 22.9% (versus 40.6% in the prior year). The decrease in the fiscal burden is primarily attributable to the recording of a non-recurring income of €9,604 thousand related to the change in deferred taxes in the United States following the approval of the reform that reduces the tax rate on company income from 35% to 21%. Net of this amount, the tax rate referring to recurring operations alone amounts to 30.0%. Among the other factors that contributed to the decrease compared to the previous year we mention (i) the agreement signed with the Italian Tax Authority relating to the methods and criteria used to calculate the economic contribution of intangible assets to the company's income as per the Patent Box regime for the period 2015-2019 which resulted in a tax benefit for the three-year period 2015-2017 of €5,918 thousand, €2,709 thousand of which for the period 2015-2016 and €3,209 thousand of which for 2017; (ii) the utilization, following confirmation during the year of their recoverability, of deferred tax assets relating to carried forward losses and other temporary differences recorded in previous years which, net of the previous write-downs of tax assets, amounted to €5,039 thousand and the improved performance of subsidiaries for which no deferred tax assets were recognized and, consequently, the latter fell from the 7% of the Group tax rate recorded in 2016 to 1.8% in 2017.

In the fourth quarter alone, the Group's net profit amounted to €52,418 thousand, versus €24,283 thousand in the same period of the prior year. The increase of €28,135 thousand (+115.9%) is explained for €20,561 thousand by the factors mentioned above.

## Balance Sheet Review

### Consolidated balance sheet by geographical area (\*)

(€ thousands)	31/12/2017				
	EMEA	Americas	Asia Pacific	Elimination	Total
Goodwill	365,022	78,585	241,028	-	684,635
Non-competition agreements, trademarks, customer lists and lease rights	93,289	4,271	45,813	-	143,373
Software, licences, other intangible fixed assets, fixed assets in progress and advances	37,401	12,188	6,994	-	56,583
Tangible assets	118,641	3,440	20,922	-	143,003
Financial fixed assets	2,490	40,902	-	-	43,392
Other non-current financial assets	6,971	49	556	-	7,576
<b>Non-current assets</b>	<b>623,814</b>	<b>139,435</b>	<b>315,313</b>	<b>-</b>	<b>1,078,562</b>
Inventories	34,640	314	2,127	-	37,081
Trade receivables	98,780	27,038	10,507	(3,533)	132,792
Other receivables	37,158	6,513	3,920	(7)	47,584
<b>Current assets (A)</b>	<b>170,578</b>	<b>33,865</b>	<b>16,554</b>	<b>(3,540)</b>	<b>217,457</b>
<b>Operating assets</b>	<b>794,392</b>	<b>173,300</b>	<b>331,867</b>	<b>(3,540)</b>	<b>1,296,019</b>
Trade payables	(93,277)	(32,166)	(15,491)	3,533	(137,401)
Other payables	(106,265)	(8,618)	(18,547)	7	(133,423)
Provisions for risks and charges (current portion)	(4,055)	-	-	-	(4,055)
<b>Current liabilities (B)</b>	<b>(203,597)</b>	<b>(40,784)</b>	<b>(34,038)</b>	<b>3,540</b>	<b>(274,879)</b>
<b>Net working capital (A) - (B)</b>	<b>(33,019)</b>	<b>(6,919)</b>	<b>(17,484)</b>	<b>-</b>	<b>(57,422)</b>
Derivative instruments	(9,866)	-	-	-	(9,866)
Deferred tax assets	40,831	30	4,439	-	45,300
Deferred tax liabilities	(30,945)	(15,744)	(13,355)	-	(60,044)
Provisions for risks and charges (non-current portion)	(36,994)	(27,461)	(935)	-	(65,390)
Liabilities for employees' benefits (non-current portion)	(14,768)	(140)	(1,809)	-	(16,717)
Loan fees	631	1	-	-	632
Other non-current payables	(28,865)	(100)	(1,407)	-	(30,372)
<b>NET INVESTED CAPITAL</b>	<b>510,819</b>	<b>89,102</b>	<b>284,762</b>	<b>-</b>	<b>884,683</b>
Group net equity					588,681
Minority interests					(263)
<b>Total net equity</b>					<b>588,418</b>
Net medium and long-term financial indebtedness					119,193
Net short-term financial indebtedness					177,072
<b>Total net financial indebtedness</b>					<b>296,265</b>
<b>OWN FUNDS AND NET FINANCIAL INDEBTEDNESS</b>					<b>884,683</b>

(\*) The balance sheet items are analyzed by the Chief Executive Officer and the Top Management by geographical area without separation of the Corporate structures that are natively included in EMEA.

(€ thousands)	31/12/2016				
	EMEA	Americas	Asia Pacific	Elimination	Total
Goodwill	298,310	84,310	252,512	-	635,132
Non-competition agreements, trademarks, customer lists and lease rights	51,643	3,917	54,841	-	110,401
Software, licences, other intangible fixed assets, fixed assets in progress and advances	30,749	13,483	7,273	-	51,505
Tangible assets	98,968	3,884	16,942	-	119,794
Financial fixed assets	2,336	42,935	-	-	45,271
Other non-current financial assets	5,792	51	371	-	6,214
<b>Non-current assets</b>	<b>487,798</b>	<b>148,580</b>	<b>331,939</b>	<b>-</b>	<b>968,317</b>
Inventories	29,020	484	1,866	-	31,370
Trade receivables	89,203	32,400	8,973	(3,298)	127,278
Other receivables	32,220	8,825	1,124	(7)	42,162
<b>Current assets (A)</b>	<b>150,443</b>	<b>41,709</b>	<b>11,963</b>	<b>(3,305)</b>	<b>200,810</b>
<b>Operating assets</b>	<b>638,241</b>	<b>190,289</b>	<b>343,902</b>	<b>(3,305)</b>	<b>1,169,127</b>
Trade payables	(82,434)	(39,399)	(12,646)	3,298	(131,181)
Other payables	(98,105)	(5,100)	(17,839)	7	(121,037)
Provisions for risks and charges (current portion)	(2,346)	-	-	-	(2,346)
<b>Current liabilities (B)</b>	<b>(182,885)</b>	<b>(44,499)</b>	<b>(30,485)</b>	<b>3,305</b>	<b>(254,564)</b>
<b>Net working capital (A) - (B)</b>	<b>(32,442)</b>	<b>(2,790)</b>	<b>(18,522)</b>	<b>-</b>	<b>(53,754)</b>
Derivative instruments	(10,212)	-	-	-	(10,212)
Deferred tax assets	37,287	651	2,806	-	40,744
Deferred tax liabilities	(20,854)	(25,817)	(15,734)	-	(62,405)
Provisions for risks and charges (non-current portion)	(31,745)	(26,709)	(887)	-	(59,341)
Liabilities for employees' benefits (non-current portion)	(14,313)	(172)	(2,124)	-	(16,609)
Loan fees	1,393	12	63	-	1,468
Other non-current payables	(25,513)	(27)	(587)	-	(26,127)
<b>NET INVESTED CAPITAL</b>	<b>391,399</b>	<b>93,728</b>	<b>296,954</b>	<b>-</b>	<b>782,081</b>
Group net equity					557,371
Minority interests					289
<b>Total net equity</b>					<b>557,660</b>
Net medium and long-term financial indebtedness					379,566
Net short-term financial indebtedness					(155,145)
<b>Total net financial indebtedness</b>					<b>224,421</b>
<b>OWN FUNDS AND NET FINANCIAL INDEBTEDNESS</b>					<b>782,081</b>

## Non-current assets

Non-current assets amounted to €1,078,562 thousand at 31 December 2017 versus €968,317 thousand at 31 December 2016, a net increase of €110,245 thousand explained (i) for €72,170 thousand by capital expenditure; (ii) for €134,957 thousand by acquisitions; (iii) for €62,891 thousand by depreciation, amortization and impairment and (iv) for €33,992 thousand by other net decreases relating primarily to the negative impact of exchange differences.

## Investments

In 2017 the Amplifon Group, in line with its growth strategy continued with and accelerated the development of its distribution network, by opening new stores, as well as renewing and relocating existing ones for a total investment of almost €35 million. Increased customer focus and the objective to increase control of operations also drove IT investments, where a lot of work was done on digital marketing and CRM systems, technological infrastructures and store systems.

The following table shows a breakdown of non-current assets by geographical area.

(€ thousands)		31/12/2017	31/12/2016	Change
EMEA	Goodwill	365,022	298,310	66,712
	Non-competition agreements, trademarks, customer lists and lease rights	93,289	51,643	41,646
	Software, licences, other intangible fixed assets, fixed assets in progress and advances	37,401	30,749	6,652
	Tangible assets	118,641	98,968	19,673
	Financial fixed assets	2,490	2,336	154
	Other non-current financial assets	6,971	5,792	1,179
	<b>Non-current assets</b>	<b>623,814</b>	<b>487,798</b>	<b>136,016</b>
Americas	Goodwill	78,585	84,310	(5,725)
	Non-competition agreements, trademarks, customer lists and lease rights	4,271	3,917	354
	Software, licences, other intangible fixed assets, fixed assets in progress and advances	12,188	13,483	(1,295)
	Tangible assets	3,440	3,884	(444)
	Financial fixed assets	40,902	42,935	(2,033)
	Other non-current financial assets	49	51	(2)
<b>Non-current assets</b>	<b>139,435</b>	<b>148,580</b>	<b>(9,145)</b>	
Asia Pacific	Goodwill	241,028	252,512	(11,484)
	Non-competition agreements, trademarks, customer lists and lease rights	45,813	54,841	(9,028)
	Software, licences, other intangible fixed assets, fixed assets in progress and advances	6,994	7,273	(279)
	Tangible assets	20,922	16,942	3,980
	Financial fixed assets	-	-	-
	Other non-current financial assets	556	371	185
<b>Non-current assets</b>	<b>315,313</b>	<b>331,939</b>	<b>(16,626)</b>	

### Europe, Middle - East and Africa

Non-current assets amounted to €623,814 thousand at 31 December 2017 versus €487,798 thousand at 31 December 2016, an increase of €136,016 thousand explained:

- for €40,444 thousand, by investments in plant, property and equipment, relating primarily to the opening of new and renewal of existing stores as part of the continuing introduction of the new concept store;
- for €14,713 thousand, by investments in intangible assets, relating primarily to the implementation of digital marketing and store systems;
- for €128,049 thousand, by acquisitions made in the period;
- for €45,179 thousand, by amortization, depreciation and impairment;
- for €2,011 thousand, by other net decreases relating primarily to negative exchange differences.

### Americas

Non-current assets came to €139,435 thousand at 31 December 2017 versus €148,580 thousand at 31 December 2016, a decrease of €9,145 thousand explained:

- for €820 thousand, by investments in plant, property and equipment;
- for €4,337 thousand, by investments in intangible assets relating primarily to the implementation of front-office systems and the website, renewal of the headquarters, relocation of proprietary stores and joint investment plans entered into with the franchisees for the renewal and relocation of stores;
- for €5,303 thousand by acquisitions made in the period;
- for €5,093 thousand, by amortization and depreciation;
- for €14,512 thousand, by other net decreases linked primarily to exchange losses.

### Asia Pacific

Non-current assets came to €315,313 thousand at 31 December 2017 versus €331,939 thousand at 31 December 2016, a decrease of €16,626 thousand explained:

- for €9,603 thousand, by investments in plant, property and equipment, relating primarily to the opening, restructuring and relocation of a few stores;
- for €2,254 thousand, by investments in intangible assets, relating primarily to the implementation of a new front-office system;
- for €1,605 thousand, by acquisitions made in the period;
- for €12,619 thousand, by amortization and depreciation;
- for €17,469 thousand, by other net decreases, relating primarily to exchange losses.

## Net invested capital

Net invested capital came to €884,683 thousand at 31 December 2017 versus €782,081 thousand at 31 December 2016, an increase of €102,602 thousand linked to the increase in non-current assets, partially offset by a decrease in working capital and an increase in other liabilities recognized following acquisitions.

The following table shows the breakdown of net invested capital by geographical area.

(€ thousands)	31/12/2017	31/12/2016	Change
EMEA	510,819	391,399	119,420
Americas	89,102	93,728	(4,626)
Asia Pacific	284,762	296,954	(12,192)
<b>Total</b>	<b>884,683</b>	<b>782,081</b>	<b>102,602</b>

### Europe, Middle - East and Africa

Net invested capital came to €510,819 thousand at 31 December 2017, an increase of €119,420 thousand against 31 December 2016. The increase in non-current assets described above was partially offset by an increase in non-current liabilities relating to the deferred tax and other liabilities recognized as a result of the acquisitions made.

Factoring without recourse in the period involved trade receivables with a face value of €52,339 thousand (€43,948 thousand in the prior year) and VAT credits with a face value of €22,839 thousand (€21,096 thousand in the prior year).

### Americas

Net invested capital came to €89,102 thousand at 31 December 2017, a decrease of €4,626 thousand against the amount recorded at 31 December 2016. The decrease in non-current assets described above attributable primarily to foreign exchange losses and the decrease in working capital were partially offset by a strong decrease in deferred tax liabilities following a change in the tax rate in the United States.

### Asia Pacific

Net invested capital came to €284,761 thousand at 31 December 2017, a decrease of €12,193 thousand against the amount recorded at 31 December 2016. The decrease in non-current assets described above, attributable primarily to foreign exchange losses, was partially offset by a slight increase in working capital and a positive net effect regarding deferred tax assets and liabilities.

## Net financial indebtedness

(€ thousands)	31/12/2017	31/12/2016	Change
Net medium and long-term financial indebtedness	119,193	379,566	(260,373)
Net short-term financial indebtedness	301,154	28,689	272,465
Cash and cash equivalents	(124,082)	(183,834)	59,752
<b>Net financial indebtedness</b>	<b>296,265</b>	<b>224,421</b>	<b>71,844</b>
Group net equity	588,681	557,371	31,310
Minority interests	(263)	289	(552)
<b>Net Equity</b>	<b>588,418</b>	<b>557,660</b>	<b>30,758</b>
<b>Financial indebtedness/Group net equity</b>	<b>0.50</b>	<b>0.40</b>	
<b>Financial indebtedness/net equity</b>	<b>0.50</b>	<b>0.40</b>	
<b>Financial indebtedness/EBITDA</b>	<b>1.35</b>	<b>1.17</b>	

Net financial indebtedness amounted to €296,265 thousand at 31 December 2017, an increase of €71,844 thousand with respect to 31 December 2016.

The increase in debt is attributable primarily to the acquisitions made in the period (€111,516 thousand), the purchase of treasury shares (€36,160 thousand) and the payment of dividends to shareholders (€ 15,292 thousand).

The ability of ordinary operations to generate excellent cash flow was also confirmed, with free cash flow reaching a positive €97,979 thousand (versus €82,477 thousand in the prior year) after absorbing capital expenditure that was €9,657 thousand higher than in the comparison period.

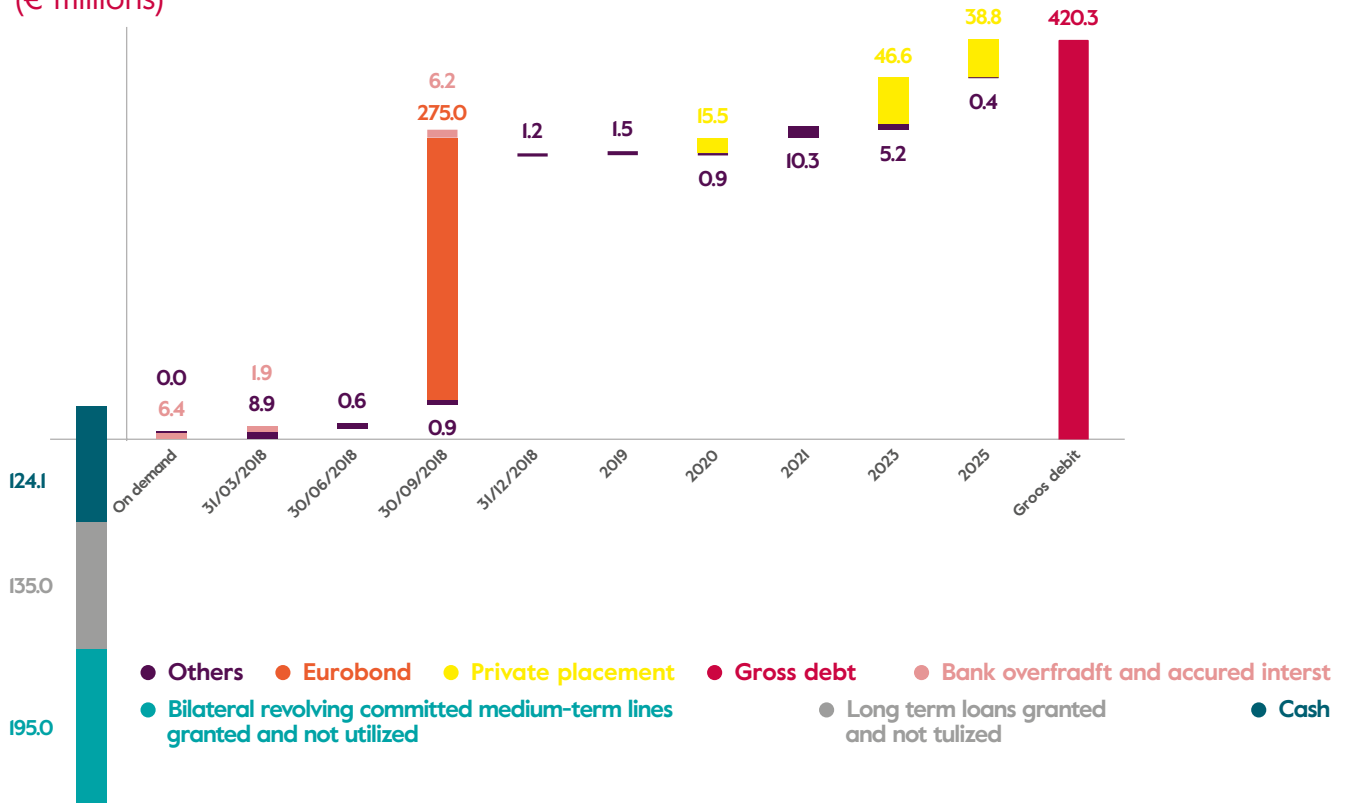
At 31 December 2017 the Group's total financial indebtedness amounted to €296,265 thousand net of cash and cash equivalents totaling €124,082 thousand. Long-term debt amounted to €119,193 thousand, €2,355 thousand of which reflects the long-term portion of deferred payments for acquisitions. The noticeable decline is attributable to the reclassification of the €275 million Eurobond, which expires in July 2018, as short-term debt. Short-term debt amounted to €301,154 thousand explained for €275,000 thousand by the above mentioned reclassified Eurobond, for €5,609 thousand to drawdowns of credit lines used primarily by a few subsidiaries, for €7,806 thousand by the interest payable on the Eurobond and the Private Placement, and for €9,468 thousand by the best estimate of the deferred payments for acquisitions.

With a view to repaying the above-mentioned Eurobond in July 2018, in addition to the €165 million in irrevocable credit lines granted through 2012-2022 (already in place at the end of the prior year), in 2017 the Group finalized another €30 million 5-year irrevocable revolving credit line and two long-term bank loans for €150 million, also expiring in 2021-2022, which will be utilized beginning in second quarter 2018. The terms and conditions of both the credit lines and the bank loans are significantly better than the terms of the Eurobond. More in detail, the latter were swapped to fixed rate between year-end 2017 and the beginning of 2018.



The chart below shows that there are no other significant maturities, other than the one described above, and that cash and cash equivalents of €124.5 million along with the irrevocable credit lines and unutilized loans described above which amount to €330 million, as well as the €126.1 million in other available credit lines, ensure the flexibility needed to take advantage of any opportunities to consolidate and develop business that might materialize.

**Debt Maturity & Cash Equivalents at 31.12.2017**  
(€ millions)



Interest payable on financial indebtedness amounted to €18,766 thousand at 31 December 2017, versus €18,566 thousand at 31 December 2016. The slight increase is explained by the commitment fees payable on the unutilized 5-year irrevocable credit lines granted beginning year-end 2016 and the bank loans taken out in the second half of 2017 and not yet utilized.

Interest receivable on bank deposits came to €572 thousand at 31 December 2017, versus €624 thousand at 31 December 2016.

The reasons for the changes in net debt are described in the next section on the cash flow statement.

## Cash Flow

The reclassified statement of cash flows shows the change in net financial indebtedness from the beginning to the end of the period.

Pursuant to IAS 7 the financial statements include a statement of cash flows that shows the change in cash and cash equivalents from the beginning to the end of the period.

(€ thousands)	FY 2017	FY 2016
<b>OPERATING ACTIVITIES</b>		
Net profit (loss) attributable to the Group	100,578	63,620
Minority interests	(100)	156
<i>Amortization, depreciation and write-downs:</i>		
- <i>Intangible fixed assets</i>	30,899	25,429
- <i>Tangible fixed assets</i>	31,860	28,892
- <i>Goodwill</i>	55	5,489
Total amortization, depreciation and write-downs	62,814	59,810
Provisions, other non-monetary items and gain/losses from disposals	27,841	22,997
Group's share of the result of associated companies	(500)	(419)
Financial income and charges	19,829	20,098
Current and deferred income taxes	29,869	43,594
<i>Change in assets and liabilities:</i>		
- <i>Utilization of provisions</i>	(13,283)	(8,000)
- <i>(Increase) decrease in inventories</i>	(2,462)	175
- <i>Decrease (increase) in trade receivables</i>	(9,062)	(12,513)
- <i>Increase (decrease) in trade payables</i>	8,398	14,946
- <i>Changes in other receivables and other payables</i>	8,910	(1,631)
Total change in assets and liabilities	(7,499)	(7,023)
Dividends received	302	1
Net interest charges	(18,624)	(18,673)
Taxes paid	(45,866)	(40,539)
<b>Cash flow generated from (absorbed) by operating activities</b>	<b>168,644</b>	<b>143,622</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of intangible fixed assets	(21,304)	(17,876)
Purchase of tangible fixed assets	(50,867)	(44,638)
Consideration from sale of tangible fixed assets and businesses	1,506	1,369
<b>Cash flow generated from (absorbed) by investing activities</b>	<b>(70,665)</b>	<b>(61,145)</b>
<b>Cash flow generated from operating and investing activities (Free cash flow)</b>	<b>97,979</b>	<b>82,477</b>
Business combinations (*)	(111,516)	(79,355)
(Purchase) sale of other investments and securities	23	34
<b>Net cash flow generated from acquisitions</b>	<b>(111,493)</b>	<b>(79,321)</b>
<b>Cash flow generated from (absorbed) by investing activities</b>	<b>(182,158)</b>	<b>(140,466)</b>

(€ thousands)	FY 2017	FY 2016
<b>FINANCING ACTIVITIES:</b>		
Changes in hedging derivatives	-	-
Fees paid on medium/long-term financing	(775)	(322)
Other non-current assets	(710)	(305)
Distributed dividends	(15,292)	(9,427)
Treasury shares	(36,160)	(18,841)
Capital increases (reduction), third parties' contributions in subsidiaries and dividends paid to third parties by the subsidiaries	144	2,349
<b>Cash flow generated from (absorbed) by financing activities</b>	<b>(52,793)</b>	<b>(26,546)</b>
<b>Changes in net financial indebtedness</b>	<b>(66,307)</b>	<b>(23,390)</b>
Net financial indebtedness at the beginning of the period	(224,421)	(204,911)
Effect of disposal of assets on net financial indebtedness	-	-
Effect of exchange rate fluctuations on net financial indebtedness	(5,537)	3,880
Changes in net indebtedness	(66,307)	(23,390)
<b>Net financial indebtedness at the end of the period</b>	<b>(296,265)</b>	<b>(224,421)</b>

(\*) The item refers to the net cash flow absorbed by the acquisition of businesses and equity investments.

The change in net debt of €71,844 thousand is explained by:

(i) Investing activities:

- capital expenditure on property, plant and equipment and intangible assets of €72,171 thousand relating primarily to the opening, renewal and repositioning of stores based on the concept store and Amplifon's new brand image, digital marketing and CRM systems and the implementation of store and sales support systems;
- acquisitions amounting to €111,516 thousand, including the impact of the acquired companies' debt and the net change in the best estimate of the earn-out linked to sales and profitability targets payable over the next few years;
- net proceeds from the disposal of assets amounting to €1,506 thousand.

(ii) Operating activities:

- interest payable on financial indebtedness and other net financial expenses of €18,624 thousand;
- payment of taxes amounting to €45,866 thousand;
- cash flow generated by operations of €233,134 thousand.

(iii) Financing activities:

- payment of €15,292 thousand in dividends to shareholders;
- payment of €775 thousand in commitment fees on long term credit lines granted in the year;
- net proceeds from capital increases following the exercise of stock options of €538 thousand;
- payment of €394 thousand in dividends to minorities by subsidiaries;
- purchase of treasury shares amounting to €36,160 thousand;
- increase in other non-current assets of €710 thousand.

(iv) Exchange losses of €5,537 thousand.

The non-recurring transactions described above in the section about the change in net financial debt had a negative impact on the cash flow generated of €2,000 thousand in 2017 versus a negative €3,084 thousand in the prior year, as shown below:

(€ thousands)	FY 2017	FY 2016
Restructuring charges related to the acquisition of the retail businesses of AudioNova in France and Portugal	(2,000)	-
Restructuring charges paid in FY 2015 and 2016	-	(582)
Advisory fees and expenses related to an acquisition process which was not completed	-	(2,502)
<b>Cash flow generated (absorbed) by operating activities</b>	<b>(2,000)</b>	<b>(3,084)</b>
<b>Cash flow generated from (absorbed) by investing activities</b>	<b>-</b>	<b>-</b>
<b>Free Cash Flow</b>	<b>(2,000)</b>	<b>(3,084)</b>
<b>Cash flow generated from acquisitions</b>	<b>-</b>	<b>-</b>
<b>Total cash flow generated by non-recurring transactions</b>	<b>(2,000)</b>	<b>(3,084)</b>

## Acquisition of Companies and Businesses

The Group's external growth continued in 2017. A total of 359 points of sale were acquired for a total investment of €111,516 thousand, including the debt consolidated and the best estimate of the net change in the earn-out linked to sales and profitability targets payable over the next few years.

Of note is the acquisition of the AudioNova retail business in France (59 stores) and in Portugal (81 stores).

More in detail:

- 129 points of sale were acquired in France;
- 81 points of sale were acquired in Portugal;
- 74 points of sale were acquired in Germany;
- 11 points of sale, which were previously part of the indirect network, were purchased in Belgium;
- 16 points of sale and a customer list relating to one store were acquired in Spain;
- 2 points of sale were acquired in Switzerland;
- customer lists relating to 17 stores were acquired in the United States;
- 8 points of sale were acquired in Canada;
- 1 point of sale, which was previously part of the indirect network, was purchased in Brazil;
- 37 points of sale were acquired in India.

# Statement of changes

## Statement of changes in Net Equity and the results for the period of the Parent Company Amplifon S.p.A. and the Group Net Equity and results for the period in question as at 31 December 2017

(€ thousands)	Net equity	Net result
<b>Net equity and year-end result as reported in the Parent company's financial statements</b>	<b>397,033</b>	<b>62,166</b>
<b>Elimination of carrying amount of consolidated investments:</b>		
- difference between carrying amount and the pro-quota value of net equity	(35,745)	-
- pro-quota results reported by the subsidiaries	62,405	62,405
- pro-quota results reported by investments valued at equity	1,890	500
- difference from consolidation	163,912	-
<b>Elimination of the effects of intercompany transactions:</b>		
- elimination of impairment net of reversals of investments and intercompany receivables	-	65,858
- intercompany dividends	-	(90,577)
- intercompany profits included in the year-end value of inventories net of fiscal effect	(699)	(30)
- exchange differences and other changes	(378)	156
<b>Net equity and year-end result as stated in the consolidated financial statements</b>	<b>588,418</b>	<b>100,478</b>
Minority equity and result for the year	(263)	(100)
<b>Group net equity and result for the year</b>	<b>588,681</b>	<b>100,578</b>

# Risk Management

Everything that we do involves risk. It is not possible for any business to create value added without assuming risk. Risk management is, therefore, an integral part of the company's operations: in environments characterized by extremely volatile and unstable global market cycles subject to rapid and continuous change, risk management is even more important and puts companies in a position to identify them, as well as take advantage of any opportunities that materialize.

Amplifon pays the utmost attention to the management of risk and has implemented internal policies in line with the most advanced management systems and best practices for the design and implementation of internal control and risk management systems in compliance, therefore, with the Corporate Governance Code issued by *Borsa Italiana's* Corporate Governance Committee.

Risk management is an ongoing activity which, based on the initial identification and assessment of the events that could negatively impact the ability of the Group and its subsidiaries to reach targets (particularly strategic goals), includes defining which steps need to be taken to respond to risk and how to implement these steps, as well as updates which should be done at least one a year at a Group level.

Risk management allows for better informed business decisions, reduces the gaps between actual results and objectives and, lastly, nurtures a competitive advantage.

Risk management is entrusted to the Group's top management, Country General Managers and local Management teams which are supported by the Group Risk and Compliance Officer who use professional methods to gather information and assess risks, as well as find ways to address and mitigate them.

The implementation of the measures proposed and updating of the risks identified is supported and monitored through a continuous dialogue between Group and local management, as well as with the Group Risk and Compliance Officer. At least once a year, during the annual risk review, the Chief Executive Officer contributes directly to the mapping of the Group's risk with a view to identifying priorities in order to align risk with strategies.

For ease of assessment, risk factors are grouped into categories: those originating outside the company, those stemming from Amplifon's own organization, and those that are strictly financial in nature.

## The main external risks

### Political and regulatory environment

The Amplifon Group operates in the “medical” sector which is regulated differently in different countries. A change in regulations (for example, in reimbursement conditions, the way in which coverage is calculated, in the ability to access national health coverage, in the role of the ENT doctors and hearing aid specialists, in the requisites needed to sell hearing aids and related services, or, more in general, in the laws relating to hearing aids and/or social policies which result in a bigger or smaller role of the public sector in the treatment of hearing disorders), does and will continue to have a direct, and potentially significant, negative or positive impact on performances depending on the type of change. In the past these changes have affected Switzerland, the Netherlands, New Zealand and Germany, and assessment is underway in Australia.

Typically, the impact on the market of any regulatory changes relating to refunds is felt for a limited period of time, between two and six quarters, after which the market returns to the pre-change growth rates. The impact of changes in regulations, including those governing the final sale price of hearing aids, however, lasts longer. On the one hand, there is a strong decline in the revenue per unit and, consequently, in the bottom line and, on the other hand, it takes longer to recover from the effects these changes have on penetration rates and market growth.

There are also systems in which insurance companies call for periodic tenders which grants the latter greater contractual power which results in price pressure.

In the medium term the regulatory changes focused on reducing the requisites needed to sell and customize hearing aids in order to increase access to the hearing solutions market (like the separate after sales care providers called for in new French laws or the ability to sale hearing aids over the counter without requiring specialized professional assistance introduced in the US’s OTC Hearing Aid Act) open the market to less complicated and less performing products, as well as an increase in competition with new potential players who can access the market more easily and cause a loss of market share and increase price pressure. The long-term effects, however, are difficult to foresee in a context characterized by the presence of numerous stakeholders.

Well aware that other unexpected and unforeseen changes could take place in addition to those mentioned above, including in light of the widespread adoption of austerity programs and the growing attention of the media, social networks and different regulatory authorities on the hearing aid sector, the Group has implemented a series of measures which ensure the ability to constantly monitor and react in a timely manner to these events with a view to reducing the impact of any unfavorable changes or maximizing the upside in the event the changes are favorable, including through advocacy (and participation in the most important industry associations).

More in detail, the dedicated Corporate division is strengthened continuously in order to: (i) develop and maintain continuous monitoring of regulatory changes and their repercussions in all the countries where the Group operates; (ii) define the responsibilities (local or central) in managing current or potential problems; (iii) develop, including with the support of outside experts, plans of action relative to the problems defined on a corporate and local level, as well as monitor implementation; (iv) monitor news, information and discussions relating to the hearing aid sector on the main media and social networks; (v) develop and coordinate the Group’s external communication strategy and actively participate in debates, associations, and institutions in order to make the voice of the industry “heard”.



## Competition and the market

The biggest risk in this area is the arrival of new players on the market, like optical chains, retail distributors (including pharmaceutical companies) and on-line retailers. This risk is particularly pertinent in Australia and New Zealand where a British chain is entering the market, and the arrival of others in other countries could also be facilitated by regulatory changes relating to the separation of after sales assistance, as well as the store personnel authorized to sell hearing aids. In the event qualifications should become less stringent (as has already happened in some countries) and/or professions like audiologist/hearing aid specialist become more accessible it could become easier to recruit these professionals.

To address this risk the Group is investing significant resources in brand differentiation, in its value proposition, as well as the engagement and development of its employees.

Another important risk in this area is the vertical integration of the hearing aid manufacturers. More specifically, in the last few years two of them (Sonova and William Demant) have acquired two primary chains (Audionova and Audika, respectively) at significant multiples causing, in addition to an increase in sector concentration and competition, the market to look for higher multiples. In order to address these risks, when developing its purchasing strategy, the Group also considers the competitive positioning of its suppliers and, with regard to acquisitions specifically, has strengthened both the corporate and the country teams in order to assess all opportunities more carefully.

The arrival of new competitors on the market, in addition to being a potential obstacle to external growth due to increased competition for acquisition targets, increases the risk of greater price pressure which for Amplifon, a company that stands out for the quality of the service provided with high fixed costs, could mean lower margins, at least in the short term. It should also be noted typically the new players are part of big, complex entrepreneurial organizations which has a positive effect on competitive dynamics relating to ethics and compliance.

On the other hand, changing demographics and factors like the growing number of senior citizens (baby boomers), the increased average life expectancy and the declining age at which the hearing aid market is being accessed, could drive market growth and, therefore, represent both an opportunity and, if the opportunity is missed, a risk. In the marketing plans, therefore, particular attention is paid to interpreting and influencing trends through the development of both communications and technology by making significant investments in digital marketing, CRM systems, as well as the continuous assessment of the outcomes of the campaigns/activities.

For Amplifon, therefore, it is extremely important to maintain a sustainable position in the high end of the market, and to differentiate from the competition through organic growth, supported by investments in the renewal of stores, new openings, increased productivity and marketing, particularly with regard to the new brand image and digital marketing, as well as external growth through acquisitions.

These activities call for significant financial resources and the Group, pays the utmost attention to both treasury management, as well as to the continuous maintenance of existing credit lines (between 2016 and 2017 the Group completely refinanced the Eurobond expiring in 2018 by negotiating €345 million in long term credit lines and loans) and management of relationships with both banks and capital market investors, in order to easily finance new investments and growth, as well as repayments, with significant amounts of available cash, operating cash flow and "new finance".

## Economic environment

The market sector in which the Amplifon Group operates is less sensitive than others to fluctuations in the general economic cycle, but it is, however, influenced: even though the current global market conditions are basically stable and positive, new changes and/or sudden trend inversions cannot be excluded which lessens the visibility of future results with the risk that lower or less buoyant sales will, in the short term, have a direct impact on margins due to the cost structure of the stores which is largely fixed.

## Technological innovation and customer relations

The Amplifon Group stands out for the quality of its customer assistance provided during the selection process and the personalization of the hearing solutions provided, combining technology with a human touch in order to provide customers with the best service possible and, at the same time, build a strong element of competitive differentiation. The failure to satisfy customers could, therefore, create a significant risk for the company.

In order to monitor and increase customer service and satisfaction Amplifon has not only developed a new store protocol focused on customer service excellence, but is also investing significant resources in the development of technologies and tools to remain in constant contact with its customers and test the “remote fitting & tuning” activities with a view to providing an even better “customer experience”. Customer satisfaction surveys are also conducted regularly, as is continuous training of the hearing aid specialists and sales policies focused on customer satisfaction are developed continuously.

The development of an alternative to the hearing aid as a remedy for hearing loss (e.g. surgical techniques or the use of pharmaceuticals) would have a very significant impact, but the risk is considered very remote.

## The main internal risks

### Organization and processes

In the current economic situation, characterized by extreme volatility, and in light of the Group's strategy to grow both internally (opening of new stores) and externally (through acquisitions), the organizational ability to define corporate processes capable of providing the information needed to make decisions in a timely manner, while also supporting operational efficiency and controls, is extremely important. These processes are even more important with acquisitions as it is crucial to assess all the risks arising from these transactions: mistakes in assessing those risks, like slow and delayed integration of acquired businesses, could result in significantly higher costs and inefficiencies for the Group.

Over time the Group has, therefore, implemented, in all the main countries of operation, a number of projects to standardize IT processes, guarantee the adequacy of and compliance with the administrative/accounting procedures defined in Law 262/2005 and the Business Performance Management projects in the stores, with a view to more effective monitoring and international comparison, along with the worldwide Cash Pooling project the purpose of which is to manage liquidity more efficiently, as well as monitor the Group's daily cash position in order to take timely action with regard to any critical area. After the launch in Italy and other countries, the Group is now gradually deploying in Europe and Asia Pacific the new proprietary front office system (FOX) developed based on the experience matured by Amplifon over the years. This system allows for more efficient and effective management of all store activities, and also makes customer information available immediately. Amplifon also renews all the websites continuously with innovative applications (relating, for example, to setting up appointments and the customer's personal profile), develops new methodologies and marketing analysis tools.

As mentioned above, the Amplifon Group stands out for the quality of its customer service and, therefore, store procedures are of fundamental importance. Toward this end, a specific programme, the Retail Excellence Programme was developed which aims to define all the stores procedures designed to maximize the "Customer Experience", as well as the efficacy and efficiency of the sales process. The success of this programme is based on the involvement of both regional and store personnel and, therefore, change management activities, along with consistent HR management, are key.

Furthermore, in line with changes in the industry and as the implementation of the Group's strategies progresses, after having worked over the past few years to strengthen the IT structures with a particular focus on project management and cyber security, marketing is now being reinforced, particularly digital marketing which is increasingly key to the continuous interaction with customers, as well as the efficacy and efficiency of campaigns and the media mix. These activities call for considerable investments and a series of tools and activities designed to measure their profitability have been implemented.

Rapid implementation of strategic decisions is ensured by an organization based on uniform geographical regions and a leadership team that works with the Chief Executive Officer and is comprised of, in addition to the Vice Presidents of the three geographical regions (EMEA, Americas and Asia Pacific), the corporate heads of the various functions (strategic business development, human resources, marketing, administration and finance, purchasing and legal affairs).

## Human resources

One of Amplifon's strengths is its customer service. Human resources, particularly those in contact with customers, are very important in this regard, but they also present certain issues and areas of risk. Specifically:

- limited availability of hearing aid specialists, the difficulty of attracting new ones while also running the risk that others begin working for the competition can significantly affect the Group's organic growth, together with the risk of losing customers and increased labor costs due to salary increases;
- deficiencies in staff's technical and sales skills can lead to ineffective sales teams in certain countries and could pose a significant risk to the ability to reach organic growth targets;
- the risk that the sales force commits illegal acts or violates the Group's rules.

The Group has taken the following steps to address the above-mentioned risks:

- defined and included its values in a Code of Conduct, which has been distributed in all countries of operation and in Italy the Internal Organizational Model adopted pursuant to Legislative Decree 231/2001 was implemented and a Group anti-corruption policy was defined (which will be fully implemented in all the countries where the Group is present in 2018);
- defined a profile of the ideal hearing aid specialist in order to assure that recruitment methods reflect the Group's commercial policies. Relationships are also maintained with universities and industry association in order to increase, including through specialization programs, the amount of hearing aid specialists on the market;
- strengthened both corporate and country Human Resources divisions;
- developed and gone live with the Global Career Website, as well local career websites, in order to facilitate the recruiting of key talent including by providing more detailed information about the company, the Group and the opportunities it can provide;
- increased internal training and developed centralized coordination of the training carried out in individual countries;
- implemented a structured performance management system with a view to aligning individual objectives, corporate strategies, the incentive system and the results achieved, as well as providing all employees and staff members with a valid tool to support their professional development;
- increased the attention being paid to store procedures through both the development of a new procedure focused on providing excellent customer service and the definition of a standardized store manual in order to facilitate rapid implementation in countries where the Group's presence is more recent.

## Financial risks

With a view to structured management of treasury activities and financial risks, in 2012 the Group finalized and adopted a Treasury Policy which contains guidelines for the management of:

- currency risk
- interest rate risk
- credit risk
- price risk
- liquidity risk

### Currency risk

This includes the following types:

- foreign exchange transaction risk, that is the risk of changes in the value of a financial asset or liability, of a forecasted transaction or a firm commitment, changes due to exchange rate fluctuations;
- foreign exchange translation risk, that is the risk that the translation of the assets, liabilities, costs and revenues relating to net investment in a foreign operation into the reporting currency gives rise to an exchange gain or loss.

The Amplifon Group's foreign exchange transaction risk is largely limited as each country is largely autonomous in the operation of its business, sustaining costs in the same currency as it realizes revenue, with the sole exception of Israel, where purchases are made in Euros and US dollars and Canada where the minority portion of the purchase costs are incurred in US dollars. The size, however, of the subsidiaries with respect to the Group and the fact that the products purchased subject to currency risk represent only a small part of total costs, ensures that any significant currency volatility will not have a material impact on the subsidiary or the Group.

The foreign exchange transaction risk, therefore, derives primarily from intercompany transactions (medium-long term and short-term loans, charge backs for intercompany service agreements) which result in currency risk for the companies operating in currencies other than that of the intercompany transaction. Additionally, investments in financial instruments denominated in a currency different from the investor's home currency can result in foreign exchange transaction risk. Foreign exchange translation risk arises from investments in the United States, Canada, the United Kingdom, Switzerland, Hungary, Turkey, Poland, Israel, Australia, New Zealand, India, Egypt and Brazil.

The Group's strategy aims to minimize the impact of currency volatility on the income statement and calls for significant positions in foreign currency to be hedged against foreign exchange risk through specific derivative instruments. These include: (i) bonds issued in US dollars by Amplifon S.p.A. and subscribed by Amplifon USA Inc, (ii) intercompany loans in currencies other than the Euro between Amplifon S.p.A. and the Group companies in the United Kingdom.

The intercompany loans between the Australian and New Zealand companies and between the American and Canadian companies are considered equity investments insofar as the loans are non-interest-bearing and not expected to be repaid. The impact of exchange differences is recognized directly in the translation reserve at equity without passing through the income statement.

The risks arising from other intercompany transactions worth less than €1 million (or the equivalent if denominated in another currency) are not hedged as the amounts are not material.

In light of the above, during the year currency fluctuations did not result in significant foreign exchange gains or losses being recognized in the Amplifon Group's consolidated financial statements.

The foreign exchange translation risk, in accordance with the Group Treasury Policy, is not hedged. Overall the impact of the foreign exchange translation risk can be seen in the Group's Euro denominated EBITDA which dropped by €629 thousand (-0.04%) with respect to the Group's total EBITDA.

### Interest rate risk

Interest rate risk includes the following situations:

- fair value risk, namely the risk that the value of a fixed rate financial asset or liability changes due to fluctuations in market interest rates;
- cash flow risk, namely the risk that the future cash flows of a floating rate financial asset or liability fluctuate due to changes in market interest rates.

In the Amplifon Group fair value risk arises on the issue of fixed rate bonds (private placement and Eurobond). The cash flow risk derives from floating rate bank loans.

The Group's strategy is to minimize cash flow risk, especially with respect to long-term exposures, through a balanced mix of fixed- and floating-rate loans and assessing whether to switch floating-rate borrowings to fixed-rate when each loan is taken out, as well as over the life of the loans including in light of the current market rates. In any event, at least 50% of the debt must be hedged against interest rate risk. At 31 December 2017, the Group's medium/long term debt of €376 million (at the hedging rate) comprises fixed rate capital market issues, which to date have yet to be converted to floating rate debt as currently interest rates are low and the possibility that they will increase is limited, and €150 million (€15 million of which utilized) in floating rate bank loans which were switched to fixed rate using interest rates swaps.

### Credit risk

Credit risk is the risk that the issuer of a financial instrument defaults on its obligations resulting in a financial loss for the holder/investor.

In the Amplifon Group credit risk arises from:

- (i) sales made as part of ordinary business operations;
- (ii) the use of financial instruments that require settlement of positions with other counterparties;
- (iii) from the loans granted to members of the indirect channel and commercial partners in the United States and in Spain for investments and business development;
- (iv) from the residual amounts receivable for the sale of the American subsidiary Sonus in the period 2010-2011 which was switched from the direct to the indirect channel.

With regard to the risk under (i) above, the only positions with a high unit value are amounts due from Italian public-sector entities for which the risk of insolvency - while existing - is remote and further mitigated by the fact that they are factored without recourse, on a quarterly basis, by specialized factoring companies. Conversely, the credit risk arising from sales to private individuals based on instalment payment plans is increasing, as is the credit risk arising from sales to US indirect channel operators (wholesalers and franchisees). This credit risk, however, is spread out over a number of partners and the amount owed by any single partner does not exceed a few million US dollars. Due to typical business risks, some may not be able to honor their debts. This would result in higher working capital and credit losses. While each subsidiary is responsible for collection of receivables, the Group

has set up a centralized system of monthly reporting relative to trade receivables in order to monitor the composition and due dates for each country, and shares credit recovery initiatives and policies with local management. With regard to private customers, the majority of which do, however, use cash, payment options like installment plans or loans (with terms limited to a few months) are offered. These are managed by external finance companies, except for Brazil which is not material for the Group, which advance the whole amount of the sale to Amplifon. The situation of the indirect channel in the US is closely monitored by local management.

The risk referred to in (ii) above, notwithstanding the inevitable uncertainties linked to sudden and unforeseeable counterparty default, is managed by making diversified investments with the main national and international investment grade financial institutions and through the use of specific counterparty limits with regard to both liquidity invested and/or deposited and to the notional amount of derivatives. The counterparty limits are higher if the counterparty has a Standard & Poor's and Moody's short-term rating equal to at least A-1 and P-1, respectively. Transactions with non-investment grade counterparties are not allowed unless specifically authorized by the Group's CEO and CFO.

With regard to the risk referred to in (iii) above, in the event payments fail to be made on the stores sold, ownership will revert back to Amplifon, while the receivables referred to in (iv) above, are generally personally guaranteed by the beneficiaries and repayments are typically made when the invoices for the purchases of hearing aids are paid.

### **Price risk**

This arises from the possibility that the value of a financial asset or liability may change due to changes in market prices (other than those caused by currency or interest-rate fluctuations) due to both characteristics specific to the financial asset or liability or the issuer, as well as market factors. This risk is typical of financial assets not listed on an active market, which may not be easy to liquidate quickly or at a level close to their fair value. The Amplifon Group does not have investments in these kinds of instruments and, therefore, this risk currently does not exist.

### **Liquidity risk**

This risk often arises when an entity is experiencing difficulty finding sufficient funds to meet its obligations and includes the risk that the counterparties that have granted loans and/or lines of credit may request repayment. This risk, which had become particularly significant due, initially, to the 2008 financial crisis and, more recently, to the sovereign debt crisis affecting the peripheral Eurozone countries and the single currency itself, while smaller, still exists.

In this situation the Group continues to pay the utmost attention to cash flow and debt management, maximizing the positive cash flow from operations, while also carefully monitoring credit lines, even though gross debt is entirely long-term. More in detail, in the last part of 2016 and in 2017 the Group was granted €195 million in irrevocable 5-year credit lines and €150 million in 4-5-year bank loans which, along with the liquidity recorded at year-end and without taking into account future cash flow, already guarantee full coverage of the first significant portion of debt falling due in July 2018.

We believe therefore, including in light of the positive cash flow that the Group continues to generate, that at least in the short term, liquidity risk is not significant.



## Hedging instruments

Hedging instruments are used by the Group exclusively to mitigate, in line with company strategy, interest rate and currency risk and comprise exclusively financial derivatives. In order to maximize the effectiveness of these hedges the Group's strategy calls for:

- large counterparties with high credit ratings and transactions which fall within the limits determined in the treasury policy in order to minimize counterparty risk;
- the use of instruments which match, to the extent possible, the characteristics of the risk hedged;
- monitoring of the effectiveness of the instruments used in order to check and, possibly, optimize the structure of the instruments used to achieve the purposes of the hedge.

The derivatives used by the Group are generally plain vanilla financial instruments. More in detail, the types of derivatives used include:

- cross currency swaps;
- foreign exchange forwards.

On initial recognition these instruments are measured at fair value. At subsequent reporting dates the fair value of derivatives must be re-measured and:

- (i) if these instruments fail to qualify for hedge accounting, any changes in fair value that occur after initial recognition are taken to profit and loss;
- (ii) if these instruments subsequently qualify as fair value hedges, from that date any changes in the fair value of the derivative are taken to profit and loss; at the same time, any fair value changes due to the hedged risk are recorded as an adjustment to the book value of the hedged item and the same amount is recorded in the income statement; any ineffectiveness of the hedge is recognized in profit and loss;
- (iii) if these instruments qualify as cash flow hedges, from that date any changes in the fair value of the derivative are taken to net equity; changes in the fair value of the derivative that are recognized in net equity are subsequently transferred to the income statement in the period in which the hedged transaction affects the income statement; when the object of the hedge is the purchase of a non-financial asset, changes to the fair value of the derivative taken to net equity are reclassified to adjust the purchase cost of the asset hedged (basis adjustment); any ineffectiveness of the hedge is recognized in profit and loss.

The Group's hedging strategy is reflected in the accounts as described above starting from the time when the following conditions are satisfied:

- the hedging relationship, its purpose and the overall strategy are formally defined and documented; the documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk to be neutralized and the procedures whereby the entity will assess the effectiveness of the hedge;
- the effectiveness of the hedge may be reliably assessed and there is a reasonable expectation, confirmed by evidence, that the hedge will be highly effective for the period in which the hedged risk exists;
- the hedged risk relates to changes in cash flow due to a future transaction, the latter is highly probable and entails exposure to changes in cash flow which could affect profit and loss.



Derivatives are recognized as assets if their fair value is positive and as liabilities if their fair value is negative. These balances are shown under assets or liabilities if related to derivatives which do not qualify for hedge accounting, conversely they are classified consistently with the hedged item.

In detail, if the hedged item is classified as a current asset or liability, the positive or negative fair value of the hedging instrument is included under current assets or liabilities; if the hedged item is classified as a non-current asset or liability, the positive or negative fair value of the hedging instrument is included under non-current assets or liabilities.

The Group does not have in place any hedges of net investments in place.

# Treasury Shares

During the year continued the implementation of the buyback program approved during the Shareholders' Meetings held on 18 April 2016 and on 20 April 2017 when shareholders (following withdrawal of the current program expiring October 2017) approved a new buyback program, pursuant to Articles 2357 and 2357-ter of the Italian Civil Code and Art. 132 of Legislative Decree n. 58 of 24 February 1998, for a period of 18 months beginning on 20 April 2017.

The purpose of the program is to increase treasury shares in order to service stock-based incentive plans, as well as ensure the availability of treasury shares to use as a form of payment for acquisitions. As resolved by the shareholders, the treasury shares may be purchased on one or more occasions on a rotating basis for up to a total number of treasury shares, which together with the treasury shares already held and in accordance with the law, amounts to 10% of the company's share capital. The purchase price of the shares may not be 10% higher or lower than the stock price registered at the close of the trading session prior to each single purchase.

In 2017 3,062,000 shares were purchased under this program at an average price of €11.809.

A total of 2,866,288 of the performance stock grant rights were exercised in the period, as a result of which the Company transferred the same number of treasury shares to the beneficiaries.

At 31 December 2017 the treasury shares held amounted to 7,155,463 or 3.162% of the Company's share capital.

Information relating to the treasury shares held is provided below.

	N. of shares	Average purchase price (Euro) FV of transferred rights (Euro)	Total amount (€ thousand)
<b>Held at 31 December 2016</b>	<b>6,959,751</b>	<b>6.922</b>	<b>48,177</b>
Purchases	3,062,000	11.809	36,160
Transfers due to exercise of performance stock grants	(2,866,288)	8.415	(24,120)
<b>Total at 31 December 2017</b>	<b>7,155,463</b>	<b>8.415</b>	<b>60,217</b>

# Research and Development

The Group did not carry out any research and development activities in the year.

# Transactions between Group Companies and with related parties

Pursuant to and in accordance with Consob Regulation n. 17221 of 12 March 2010, on 27 July 2016, subject to the favourable opinion of the Independent Directors' Committee, Amplifon S.p.A.'s Board of Directors adopted new Regulations for Related Party Transactions which substituted the version approved by the Board on 24 October 2012.

The transactions with related parties, including intercompany transactions do not qualify as atypical or unusual, and fall within the Group's normal course of business and are conducted at arm's-length as dictated by the nature of the goods and services provided.

Information on transactions with related parties, including specific disclosures required pursuant to Consob Bulletin of 28 July 2006, is provided in Note 31 of the consolidated financial statements and in Note 28 of the separate financial statements.

# Contingent Liabilities

Currently the Group is not subject to any particular risks or uncertainties.

# Outlook

Amplifon expects to continue strengthening its global leadership position, recording a favorable trend in revenues and in key profitability indicators. These objectives will be achieved thanks to sizeable investments in marketing in order to increase the penetration rate of hearing solutions and boost organic growth, as well as the contribution of targeted acquisitions in core countries and the continued focus on execution. Amplifon reiterates the confidence in its ability to achieve the medium-long term targets.

## Report on Corporate Governance and Ownership Structure at 31 December 2017

(pursuant to art. 123-bis TUF)

Report on Corporate Governance and Ownership Structure is available on the company's website at <http://corporate.amplifon.com/en/web/guest/governance/corporate-governance-report>.

## Sustainability Report at 31 December 2017

Sustainability Report is available on the company's website at <http://corporate.amplifon.com/en/investors/financial-reports>.

# Comments on the Financial Results of Amplifon S.p.A.

## Reclassified Income Statement

(€ thousands)	FY 2017				FY 2016			
	Recurring	Non-recurring	Total	% on recurring	Recurring	Non-recurring	Total	% on recurring
Revenues from sales and services	295,353	-	295,353	100.0%	269,093	-	269,093	100.0%
Operating cost	(266,833)	-	(266,833)	-90.3%	(241,994) (*)	-	(241,994)	-89.9%
Other income and revenues	44,395	-	44,395	15.0%	32,632 (*)	-	32,632	12.1%
Other expenses	(324)	-	(324)	-0.1%	(2,761)	(2,502)	(5,263)	-1.0%
<b>Gross operating profit (EBITDA)</b>	<b>72,591</b>	<b>-</b>	<b>72,591</b>	<b>24.6%</b>	<b>56,970</b>	<b>(2,502)</b>	<b>54,468</b>	<b>21.2%</b>
Depreciation and write-downs of non-current assets	(13,548)	-	(13,548)	-4.6%	(12,310)	-	(12,310)	-4.6%
<b>Operating profit (EBIT)</b>	<b>59,043</b>	<b>-</b>	<b>59,043</b>	<b>20.0%</b>	<b>44,660</b>	<b>(2,502)</b>	<b>42,158</b>	<b>16.6%</b>
Income, expenses, valuation and adjustments of financial assets	40,587	(559)	40,028	13.7%	41,114	(7,588)	33,526	15.3%
Net financial expenses	(15,782)	(8,934)	(24,716)	-5.3%	(15,074)	(9,211)	(24,285)	-5.6%
Exchange differences and non-hedge accounting instruments	(222)	-	(222)	-0.1%	(2,747)	-	(2,747)	-1.0%
<b>Income (loss) before taxes</b>	<b>83,626</b>	<b>(9,493)</b>	<b>74,133</b>	<b>28.3%</b>	<b>67,953</b>	<b>(19,301)</b>	<b>48,652</b>	<b>25.3%</b>
Tax	(9,411)	-	(9,411)	-3.2%	(10,467)	785	(9,682)	-3.9%
<b>Net profit (loss)</b>	<b>74,215</b>	<b>(9,493)</b>	<b>64,722</b>	<b>25.1%</b>	<b>57,486</b>	<b>(18,516)</b>	<b>38,970</b>	<b>21.4%</b>

(\*) For a more correct allocation of the data in compliance with IAS 8, a reclassification of €6,361 thousand was made between operating costs and other income and revenues.

**EBITDA** is the operating result before charging amortisation, depreciation and impairment of both tangible and intangible fixed assets

**EBIT** is the operating result before financial income and charges and taxes

The details of the non-recurring transactions included in the previous table are shown below.

(€ thousands)	FY 2017	FY 2016
Advisory fees and expenses related to an acquisition process which was not completed	-	(2,502)
<b>Impact of the non-recurring items on EBITDA</b>	-	<b>(2,502)</b>
<b>Impact of the non-recurring items on EBIT</b>	-	<b>(2,502)</b>
Write-down of equity investments	(559)	(7,588)
Write-down of financial receivables payable by Amplifon UK Ltd	(8,934)	(9,211)
<b>Impact of the non-recurring items pre-tax</b>	<b>(9,493)</b>	<b>(19,301)</b>
Impact of the above items on the taxes for the year	-	785
<b>Impact of the non-recurring items on net profit (loss)</b>	<b>(9,493)</b>	<b>(18,516)</b>

## Reclassified Balance Sheet

The reclassified Balance Sheet aggregates assets and liabilities according to operating functionality criteria, subdivided by convention into the following three key functions: investments, operations and finance.

(€ thousands)	31/12/2017	31/12/2016	Change
Goodwill	540	540	-
Other intangible assets	29,542	24,368	5,174
Tangible assets	26,533	22,863	3,670
Financial fixed assets	615,555	521,700	93,855
Other non-current financial assets	1,520	1,241	279
<b>Non-current assets</b>	<b>673,690</b>	<b>570,712</b>	<b>102,978</b>
Inventories	10,164	8,248	1,916
Trade receivables (1)	54,673	45,242	9,431
Other receivables (2)	15,236	12,114	3,122
<b>Current assets (A)</b>	<b>80,073</b>	<b>65,604</b>	<b>14,469</b>
<b>Operating assets</b>	<b>753,763</b>	<b>636,316</b>	<b>117,447</b>
Trade payables (3)	(42,437)	(34,252)	(8,185)
Other payables (4)	(46,354)	(44,616)	(1,738)
<b>Current liabilities (B)</b>	<b>(88,791)</b>	<b>(78,868)</b>	<b>(9,923)</b>
<b>Net working capital (A)+(B)</b>	<b>(8,718)</b>	<b>(13,264)</b>	<b>4,546</b>
Derivative instruments (5)	(9,866)	(10,212)	346
Deferred tax assets	18,534	20,802	(2,268)
Provisions for contingency and obligations (non-current portion)	(13,115)	(12,166)	(949)
Liabilities for employees' benefits (non-current portion)	(3,259)	(3,671)	412
Trade payables (non-current portion)	(240)	-	(240)
Deferred tax liabilities	(1,378)	(1,596)	218
Loan fees (6)	631	1,069	(438)
<b>NET INVESTED CAPITAL</b>	<b>656,279</b>	<b>551,674</b>	<b>104,605</b>
<b>Net Equity</b>	<b>423,882</b>	<b>393,437</b>	<b>30,445</b>
Net short-term financial indebtedness	190,068	(116,838)	306,906
Net medium and long-term financial indebtedness	42,329	275,075	(232,746)
<b>Total net financial indebtedness</b>	<b>232,397</b>	<b>158,237</b>	<b>74,160</b>
<b>OWN FUNDS AND NET FINANCIAL INDEBTEDNESS</b>	<b>656,279</b>	<b>551,674</b>	<b>104,605</b>

(1) The item "Trade receivables" includes "Trade receivables" and "Receivables – related parties"

(2) The item "Other receivables" includes "Other receivables" and "Other receivables – related parties"

(3) The item "Trade payables" includes "Trade payables" and "Trade payables – related parties"

(4) The item "Other payables" includes "Other payables – third parties", "Other payables – related parties", "Liabilities for employees' benefits - current portion" and "Tax payables"

(5) The item "Derivative instruments" includes cash flow hedges, fair value hedges and non-hedge accounting instruments not comprised in the item "Net medium and long-term financial indebtedness"

(6) The item "Loan fees" is recognized in the balance sheet as a direct reduction of the short and long-term components of "Financial payables" and "Financial liabilities"

## Condensed Reclassified Cash Flow Statement

The condensed cash flow statement represents a summary version of the reclassified cash flow statement detailed in the following pages and its purpose is, starting from EBIT, to detail the flows generated from or absorbed by operating, investing and financing activities.

(€ thousands)	FY 2017	FY 2016
<b>Operating profit (EBIT)</b>	<b>59,043</b>	<b>42,158</b>
Amortization, depreciation and write-downs	13,549	12,310
Provisions, other non-monetary items and gain/losses from disposals	9,274	6,416
Net financial expenses	(15,455)	(17,247)
Write-down of financial current assets	(8,934)	(9,211)
Dividends received	40,587	41,114
Taxes paid	(13,663)	(3,058)
Change in net working capital	4,663	925
<b>Cash flow generated from (absorbed by) operating activities (A)</b>	<b>89,064</b>	<b>73,407</b>
Cash flow generated from (absorbed by) operating investing activities (B)	(22,525)	(18,138)
<b>Free cash Flow (A +B)</b>	<b>66,539</b>	<b>55,269</b>
Purchases of equity investments/share capital increases in subsidiaries (C)	(89,289)	(30,527)
(Purchase) sale of other investments and securities (D)	325	-
<b>Cash flow generated from (absorbed by) investing activities (B+C+D)</b>	<b>(111,489)</b>	<b>(48,665)</b>
Other non-current assets	(46)	69
Fees paid on medium and long-term borrowings	(775)	(322)
Dividends paid	(15,292)	(9,427)
Treasury shares	(36,160)	(18,841)
Share capital increases	538	2,696
<b>Net cash flow from the period</b>	<b>(74,160)</b>	<b>(1,083)</b>
<b>Net financial indebtedness at the beginning of the period</b>	<b>(158,237)</b>	<b>(157,154)</b>
Changes in net financial position	(74,160)	(1,083)
<b>Net financial indebtedness at the end of the period</b>	<b>(232,397)</b>	<b>(158,237)</b>



## Revenues from sales and services

(€ thousands)	FY 2017		FY 2016		Change	
		%		%		%
Hearing aid line sales	293,247	99.3%	267,154	99.3%	26,093	9.8%
Hearing aid line services	2,106	0.7%	1,939	0.7%	167	8.6%
<b>Revenues from sales and services</b>	<b>295,353</b>	<b>100.0%</b>	<b>269,093</b>	<b>100.0%</b>	<b>26,260</b>	<b>9.8%</b>

Revenue from sales and services, including the €60 thousand generated by the French branch, increased by €26,260 thousand (+9.8%) with respect to the prior year rising from the €269,093 thousand posted in 2016 to €295,353 thousand in 2017. This sizeable increase is even more significant considering that revenue was already up 8.6% in 2016.

In 2017 sales for hearing aids rose 9.5% against 2016 to €276 million. Revenue for accessories, cochlear products and sales related services rose 14.0% to €19.6 million. The increase in turnover is attributable entirely to organic growth. The three commercial regions into which Italy is divided all posted significant growth. The number of customers who went to Amplifon to purchase a hearing solution, both monaural and binaural, rose significantly in both clusters; new customers and return customers. All three sales channels (private, social and paid-up) reported significant growth in turnover compared to 2016.

The television campaigns launched in 2017 produced important results to which the significant contribution of the other marketing channels should be added. The excellent results achieved by Customer Relationship Management (CRM) and digital marketing were particularly noteworthy. This further strengthens the business's solidity and prospects for the future.

The continuous training of the hearing aid specialists continues to be one of Amplifon's most important goals which the company is pursuing with determination and perseverance in order to maintain a high level of customer satisfaction.

## Gross operating profit (EBITDA)

(€ thousands)	FY 2017			FY 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
<b>Gross operating profit (EBITDA)</b>	<b>72,591</b>	<b>-</b>	<b>72,591</b>	<b>56,970</b>	<b>(2,502)</b>	<b>54,468</b>

Gross operating profit (EBITDA) amounted to €72,591 thousand in 2017 versus €54,468 thousand in 2016, an increase of €18,123 thousand (+33.3%).

The non-recurring item recorded in 2016 relates to the costs incurred for an acquisition process which was not completed.

Recurring EBITDA was €15,621 thousand (+27.4%) higher than in the prior year.

The comparison of the increase in total net sales (+9.8%) with the increase in recurring EBITDA (+27.4%) reveals the very satisfying result linked to careful management of costs. EBITDA as a percentage of total net sales rose from the 21.2% posted in 2016 to 24.6% in 2017.

## Operating profit (EBIT)

(€ thousands)	FY 2017			FY 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	59,043	-	59,043	44,660	(2,502)	42,158

The operating profit (EBIT) amounted to €59,043 thousand in 2017 versus €42,158 thousand in 2016, an increase of €16,885 thousand (+40.0%). Recurring EBIT rose €14,383 thousand (+32.2%) against the comparison period.

## Profit before tax

(€ thousands)	FY 2017			FY 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	83,626	(9,493)	74,133	67,953	(19,301)	48,652

Profit before tax in 2017 was €25,481 thousand higher than in 2016. Non-recurring transactions in the year refer to the write-downs of an equity investment and financial receivables due from the UK and Brazilian subsidiaries in order to align them with their recoverable value. Recurring profit before tax shows an increase of €15,673 thousand (+23.1% against the comparison period).

## Net profit

(€ thousands)	FY 2017			FY 2016		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
<b>Net profit</b>	74,215	(9,493)	64,722	57,486	(18,516)	38,970

Net profit for 2017, which was impacted by non-recurring expenses of €9,493 thousand net of tax, reached €64,722 thousand versus €38,970 thousand in 2016, an increase of €25,752 thousand. With reference to recurring operations alone, the increase is equal to €16,729 thousand and, in addition to the increase in pre-tax result, is due to the decrease in the tax rate that benefited from the agreement signed with Italian Tax Authority on methods and criteria for calculating the economic contribution to the production of business income of intangible assets for the purposes of the so-called Patent Box with reference to the 2015-2019 tax years which entailed a total tax advantage for the 2015-2017 three-year period of €5,918 thousand, of which €2,709 thousand for the years 2015-2016 and €3,209 thousand for the year 2017.

## Non-current assets

(€ thousands)	31/12/2017	31/12/2016	Change
Goodwill	540	540	-
Other intangible assets	29,542	24,368	5,174
Tangible assets	26,533	22,863	3,670
Financial fixed assets	615,555	521,700	93,855
Other non-current financial assets	1,520	1,241	279
<b>Non-current assets</b>	<b>673,690</b>	<b>570,712</b>	<b>102,978</b>

Non-current assets amounted to €673,690 thousand at 31 December 2017 versus €570,712 thousand at 31 December 2016, an increase of €102,978 thousand attributable to:

- an increase in intangible assets as a result of the development of new software to support both the sales network and head office;
- an increase in plant, property and equipment following the purchase of new hardware, furnishings, decorations and equipment for the branches and headquarters;
- an increase in the value of equity investments explained: for €43,700 thousand, by the capital increase of Amplifon Deutschland GmbH; for €30,000 thousand by the capital increase of Amplifon Iberica SA; for €11,100 thousand by the capital increase of Amplifon UK Ltd; for €3,700 thousand by the formation of the company Amplifon RE SA; for €4,700 thousand by the net amount of the periodic valuation of stock option and stock grant plans held by employees of subsidiaries.

## Net invested capital

Net invested capital amounted to €656,279 thousand at 31 December 2017 versus €551,674 thousand at 31 December 2016, an increase of €104,605 thousand attributable primarily to:

- the increase in non-current assets described above;
- an increase in warehouse inventories of €1,916 thousand;
- an increase in trade receivables of €9,431 thousand due to the significant increase in sales posted in the year;
- an increase in other receivables of €3,122 thousand due mainly to a change in the refundable VAT credits at 31 December and the tax credit for research and development;
- an increase in trade payables due to the increase in purchases of goods and services and careful management of the payment conditions;
- an increase in other payables due primarily to the increase in commissions owed to the sales network;
- an increase in the fair value of derivatives of €346 thousand.

## Net equity

(€ thousands)	31/12/2017	31/12/2016	Change
Share capital	4,526	4,524	2
Share premium account	202,412	201,652	760
Statutory reserve	934	934	-
Treasury shares	(60,217)	(48,178)	(12,039)
Stock option reserve	30,078	25,281	4,797
Cash flow hedge reserve	(7,282)	(7,544)	262
Extraordinary reserve	2,767	2,767	-
Other reserves	826	791	35
Profit (loss) carried forward	185,116	174,240	10,876
Profit (loss) for the year	64,722	38,970	25,752
<b>Net Equity</b>	<b>423,882</b>	<b>393,437</b>	<b>30,445</b>

Net equity amounted to €423,882 thousand at 31 December 2017 versus €393,437 thousand at 31 December 2016, an increase of €30,445 thousand, explained by:

- an increase in share capital and the share premium reserve of 118,445 shares following the exercise of stock options;
- an increase in treasury shares following the purchase of 3,062,000 shares and the exercise of 2,866,288 stock grants;
- the net profit posted in 2017.

## Net financial indebtedness

(€ thousands)	31/12/2017	31/12/2016	Change
Net medium and long-term financial indebtedness	42,329	275,075	(232,746)
Short-term net financial indebtedness	233,685	10,847	222,838
Cash and equivalents	(43,617)	(127,685)	84,068
<b>Net financial indebtedness</b>	<b>232,397</b>	<b>158,237</b>	<b>74,160</b>

Net financial indebtedness amounted to €232,397 thousand at 31 December 2017, an increase of €74,160 thousand with respect to 31 December 2016.

The company maintained the debt structure set up in 2013 as a result of the USD 130 million private placement made by the American subsidiary Amplifon USA Inc. with 7, 10 and 12-year maturities (falling due between 2013 and 2025) and the issue of a €275 million 5-year bond loan reserved for non-American institutional investors that is listed on the Luxembourg Stock Exchange's Euro MTF market.

The undrawn portion of credit lines granted amounted to €444 million, €330 million of which irrevocable.

## Reclassified Cash Flow Statement

The reclassified cash flow statement shows the change in net debt between the start and the end of the period. The notes to the financial statements include a cash flow statement based on cash holdings as per IAS 7 showing the change in opening and closing cash in the period.

(€ thousands)	FY 2017	FY 2016
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	64,722	38,970
<i>Amortization, depreciation and write-downs:</i>		
- other intangible fixed assets	7,108	5,976
- tangible fixed assets	6,441	6,334
Total amortization, depreciation and write-downs	13,549	12,310
Provisions and other non-monetary items	9,565	6,396
(Gains) losses from sale of fixed assets	(291)	20
Financial income and charges	(15,269)	(6,961)
Current and deferred income taxes	9,411	9,681
<i>Change in assets and liabilities</i>		
- Utilization of provisions	(2,105)	(1,179)
- (Increase) decrease in inventories	(1,916)	473
- Decrease (increase) in trade receivables	(4,774)	(6,214)
- Increase (decrease) in trade payables	8,207	7,503
- Increase (decrease) in other receivables/payables non-financial net of tax receivables/payables	5,251	342
Total change in current assets and liabilities	4,663	925
Dividends received	40,587	41,114
Interest received/paid	(15,276)	(16,779)
Taxes paid	(13,663)	(3,058)
Write-down of financial current assets	(8,934)	(9,211)
<b>Cash flow generated from (absorbed by) operating activities</b>	<b>89,064</b>	<b>73,407</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of intangible fixed assets	(12,360)	(8,544)
Purchase of tangible fixed assets	(10,173)	(9,623)
Consideration from sale of tangible fixed assets and businesses	8	29
<b>Cash flow generated from (absorbed by) investing activities</b>	<b>(22,525)</b>	<b>(18,138)</b>
<b>Cash flow generated from operating and investing activities (Free cash flow)</b>	<b>66,539</b>	<b>55,269</b>
<b>Cash flow generated from acquisitions (*)</b>	<b>(88,964)</b>	<b>(30,527)</b>
<b>Cash flow generated from (absorbed by) investing activities</b>	<b>(111,489)</b>	<b>(48,665)</b>

(€ thousands)	FY 2017	FY 2016
<b>FINANCING ACTIVITIES:</b>		
Commissions paid for medium/long-term financing	(775)	(322)
Other non-current assets	(46)	69
Dividends distributions	(15,292)	(9,427)
Treasury shares	(36,160)	(18,841)
Capital increases	538	2,696
<b>Cash flow generated from (absorbed by) financing activities</b>	<b>(51,735)</b>	<b>(25,825)</b>
<b>Net financial indebtedness at the beginning of the period</b>	<b>(74,160)</b>	<b>(1,083)</b>
Opening net financial indebtedness	(158,237)	(157,154)
Changes in net indebtedness	(74,160)	(1,083)
<b>Net financial indebtedness at the end of the period</b>	<b>(232,397)</b>	<b>(158,237)</b>

(\*) The item refers to the net cash flow absorbed by the acquisition of businesses and equity investments.

The change in net debt of €74,160 thousand is explained by:

a) investing activities:

- net increase in property, plant and equipment and intangible assets of €22,525 thousand relating largely to investments in information technology, the development of digital, hardware and updating of the headquarters;
- an increase in the value of equity investments due mainly to the capital increases of Amplifon Deutschland GmbH, Amplifon Iberica SA and Amplifon UK Ltd.

b) operating activities:

- interest payable on financial indebtedness and other net financial charges of €15,276 thousand;
- payment of taxes which amounted to €13,663 thousand;
- dividends received from subsidiaries amounting to €40,587 thousand;
- write-downs of subsidiaries' financial assets amounting to €8,934 thousand;
- cash flow generated by current operations of €86,350 thousand.

c) financing activities:

- net proceeds from the capital increase following the exercise of stock options of €538 thousand;
- purchase of treasury shares for €36,160 thousand;
- dividends paid shareholders amounting to €15,292 thousand;
- payment of €775 thousand in commitment fees on long-term credit lines negotiated in the year;
- increase in non-current assets of €46 thousand.

## Related party transactions

Pursuant to Consob Regulation n 17221 of 12 March 2010, on 27 July 2016, Amplifon S.p.A.'s Board of Directors, subject to the favourable opinion of the Independent Directors' Committee, approved new regulations for related party transactions. The new regulations substituted the regulations approved by the Board on 24 October 2012.

The transactions carried out with related parties, including intra-group transactions, do not qualify as atypical, unusual, are part of the Group companies' normal course of business and are conducted at arm's length and are carried out in accordance with market conditions, taking into account the characteristics of the goods and services provided.

The information regarding related party transactions, including the information requested in Consob Bulletin of 28 July 2006, can be found in Note 28 of the separate financial statements.

### Parent company

Transactions carried out with the parent company Amplifin S.p.A. relate to:

- a lease for the premises owned by Amplifin S.p.A., located in Milan, via Ripamonti 133, where Amplifon S.p.A.'s registered office and head office are located, and the pertinent share of the condominium fees and maintenance costs;
- leases relating to stores owned by the parent company and used for commercial activities.

### Subsidiaries

#### Financial transactions with subsidiaries

Amplifon S.p.A. and its subsidiaries have short and long-term loans outstanding, and participate in cash pooling. All such transactions are subject to market rates.

#### Service contracts with subsidiaries

Amplifon S.p.A. has entered into contracts with its subsidiaries which govern certain centralized services, such as strategic planning, human resource management (with special reference to the shared remuneration policy, incentives, the training and hiring of personnel, and career internationalization programs), marketing, administration and control, assistance in banking relationships and the implementation of shared information systems. The cost of these services is charged to them by Amplifon S.p.A. as agreed upon in the relative contracts.



## Representative of Data controller

During the Board of Directors meeting held on 22 October 2015 the Board appointed Enrico Vita, currently the Group's Chief Executive Officer, representative of "Data controller" in accordance with the law.

## Branch offices

Amplifon S.p.A. has set up a branch office - 'Amplifon Succursale de Paris' - with offices in Arcueil, 22 avenue Aristide Briand, France.

## Outlook

In 2018 Amplifon S.p.A. aims to comfortably exceed the €300 million target for turnover, never reached before. Toward this end, investments will be made to further increase the reach of the network in targeted areas, through both the opening of new stores and the "store in store" format. Significant investments will be made in all marketing channels in order to fully develop the potential of each channel and the Company will implement synergic commercial initiatives. The customers will be offered new customized payment options based on personal needs. As for technology, Amplifon will continue to provide cutting edge solutions which, along with the exceptional professionalism of the hearing aid specialists, will continue to guarantee a high level of customer satisfaction.

### Disclaimer

This report contains forward looking statements ("Outlook") relating to future events and the Amplifon Group's operating, economic and financial results. These forecasts, by definition, contain elements of risk and uncertainty, insofar as they are linked to the occurrence of future events and developments. The actual results may be very different with respect to the original forecast due to a number of factors, the majority of which are out of the Group's control.







# Consolidated Financial Statements at 31 December 2017

# Consolidated Financial Statements at 31 December 2017

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# Consolidated Statement of Financial Position

(€ thousands)		31/12/2017	31/12/2016	Change
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill	Note 2	684,635	635,132	49,503
Intangible fixed assets with finite useful life	Note 3	199,956	161,906	38,050
Tangible fixed assets	Note 4	143,003	119,794	23,209
Investments valued at equity	Note 29	1,976	1,759	217
Financial assets measured at fair value through profit or loss	Note 5	35	43	(8)
Long - term hedging instruments	Note 6	-	12,223	(12,223)
Deferred tax assets	Note 21	45,300	40,744	4,556
Other assets	Note 5	48,956	49,683	(727)
<b>Total non-current assets</b>		<b>1,123,861</b>	<b>1,021,284</b>	<b>102,577</b>
<b>Current assets</b>				
Inventories	Note 7	37,081	31,370	5,711
Trade receivables	Note 8	132,792	127,278	5,514
Other receivables	Note 8	47,584	42,162	5,422
Hedging instruments	Note 6	-	35	(35)
Other financial assets		19	-	19
Cash and cash equivalents	Note 9	124,082	183,834	(59,752)
<b>Total current assets</b>		<b>341,558</b>	<b>384,679</b>	<b>(43,121)</b>
<b>TOTAL ASSETS</b>		<b>1,465,419</b>	<b>1,405,963</b>	<b>59,456</b>

(€ thousands)		31/12/2017	31/12/2016	Change
<b>LIABILITIES</b>				
<b>Net Equity</b>				
Share capital	<b>Note 10</b>	4,527	4,524	3
Share premium account		202,412	201,648	764
Treasury shares		(60,217)	(48,178)	(12,039)
Other reserves		(14,333)	14,938	(29,271)
Profit (loss) carried forward		355,714	320,819	34,895
Profit (loss) for the period		100,578	63,620	36,958
<b>Group net equity</b>		<b>588,681</b>	<b>557,371</b>	<b>31,310</b>
<b>Minority interests</b>		<b>(263)</b>	<b>289</b>	<b>(552)</b>
<b>Total net equity</b>		<b>588,418</b>	<b>557,660</b>	<b>30,758</b>
<b>Non-current liabilities</b>				
Medium/long-term financial liabilities	<b>Note 12</b>	123,990	399,166	(275,176)
Provisions for risks and charges	<b>Note 13</b>	65,390	59,341	6,049
Liabilities for employees' benefits	<b>Note 14</b>	16,717	16,609	108
Hedging instruments	<b>Note 6</b>	2,362	-	2,362
Deferred tax liabilities	<b>Note 21</b>	60,044	62,405	(2,361)
Payables for business acquisitions	<b>Note 15</b>	2,355	2,087	268
Other long-term debt	<b>Note 15</b>	30,372	26,127	4,245
<b>Total non-current liabilities</b>		<b>301,230</b>	<b>565,735</b>	<b>(264,505)</b>
<b>Current liabilities</b>				
Trade payables	<b>Note 16</b>	137,401	131,181	6,220
Payables for business acquisitions	<b>Note 17</b>	9,468	14,485	(5,017)
Other payables	<b>Note 17</b>	132,572	120,298	12,274
Hedging instruments	<b>Note 6</b>	43	3	40
Provisions for risks and charges	<b>Note 18</b>	4,055	2,346	1,709
Liabilities for employees' benefits	<b>Note 19</b>	851	739	112
Short-term financial liabilities	<b>Note 20</b>	291,381	13,516	277,865
<b>Total current liabilities</b>		<b>575,771</b>	<b>282,568</b>	<b>293,203</b>
<b>TOTAL LIABILITIES</b>		<b>1,465,419</b>	<b>1,405,963</b>	<b>59,456</b>



# Consolidated Income Statement

(€ thousands)		FY 2017			FY 2016			Change
		Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	
Revenues from sales and services	Note 22	1,265,994	-	1,265,994	1,133,097	-	1,133,097	132,897
Operating costs	Note 23	(1,053,167)	(4,992)	(1,058,159)	(942,279)	-	(942,279)	(115,880)
Other income and costs	Note 24	4,656	-	4,656	(1,457)	(2,502)	(3,959)	8,615
<b>Gross operating profit (EBITDA)</b>		<b>217,483</b>	<b>(4,992)</b>	<b>212,491</b>	<b>189,361</b>	<b>(2,502)</b>	<b>186,859</b>	<b>25,632</b>
<b>Amortisation, depreciation and impairment</b>	<b>Note 25</b>							
Amortisation of intangible fixed assets		(30,685)	(214)	(30,899)	(25,424)	-	(25,424)	(5,475)
Depreciation of tangible fixed assets		(30,788)	-	(30,788)	(27,033)	-	(27,033)	(3,755)
Impairment and impairment reversals of non-current assets		(1,127)	-	(1,127)	(1,864)	(5,489)	(7,353)	6,226
		<b>(62,600)</b>	<b>(214)</b>	<b>(62,814)</b>	<b>(54,321)</b>	<b>(5,489)</b>	<b>(59,810)</b>	<b>(3,004)</b>
<b>Operating result</b>		<b>154,883</b>	<b>(5,206)</b>	<b>149,677</b>	<b>135,040</b>	<b>(7,991)</b>	<b>127,049</b>	<b>22,628</b>
<b>Financial income, charges and value adjustments to financial assets</b>	<b>Note 26</b>							
Group's share of the result of associated companies valued at equity		500	-	500	419	-	419	81
Other income and charges, impairment and revaluations of financial assets		2	-	2	13	-	13	(11)
Interest income and charges		(18,194)	-	(18,194)	(17,942)	-	(17,942)	(252)
Other financial income and charges		(1,090)	-	(1,090)	(1,011)	-	(1,011)	(79)
Exchange gains and losses		(692)	-	(692)	(2,445)	-	(2,445)	1,753
Gain (loss) on assets measured at fair value		144	-	144	1,288	-	1,288	(1,144)
		<b>(19,330)</b>	<b>-</b>	<b>(19,330)</b>	<b>(19,678)</b>	<b>-</b>	<b>(19,678)</b>	<b>348</b>
<b>Profit (loss) before tax</b>		<b>135,553</b>	<b>(5,206)</b>	<b>130,347</b>	<b>115,362</b>	<b>(7,991)</b>	<b>107,371</b>	<b>22,976</b>
<b>Current and deferred income tax</b>	<b>Note 27</b>							
Current tax		(46,245)	1,480	(44,765)	(45,042)	785	(44,257)	(508)
Deferred tax		5,612	9,284	14,896	662	-	662	14,234
		<b>(40,633)</b>	<b>10,764</b>	<b>(29,869)</b>	<b>(44,380)</b>	<b>785</b>	<b>(43,595)</b>	<b>13,726</b>
<b>Total net profit (loss)</b>		<b>94,920</b>	<b>5,558</b>	<b>100,478</b>	<b>70,982</b>	<b>(7,206)</b>	<b>63,776</b>	<b>36,702</b>
Net profit (loss) attributable to Minority interests		(100)	-	(100)	156	-	156	(256)
<b>Net profit (loss) attributable to the Group</b>		<b>95,020</b>	<b>5,558</b>	<b>100,578</b>	<b>70,826</b>	<b>(7,206)</b>	<b>63,620</b>	<b>36,958</b>
<b>Income (loss) and earnings per share (£ per share)</b>	<b>Note 30</b>			<b>FY 2017</b>				<b>FY 2016</b>
Earnings per share								
- base				0.45906				0.29008
- diluted				0.44779				0.28262
Dividend per share				0.11 (*)				0.07

(\*) Proposed by the Board of Directors to the shareholders' meeting called for April 20<sup>th</sup>, 2018.

# Statement of Comprehensive Income

(€ thousands)		<b>FY 2017</b>	<b>FY 2016</b>
<b>Net income (loss) for the period</b>		<b>100,478</b>	<b>63,776</b>
<b>Other comprehensive income (loss) that will not be reclassified subsequently to profit or loss:</b>			
Re-measurement of defined benefit plans	<b>Note 14</b>	(1,209)	80
Tax effect on components of other comprehensive income that will not be reclassified subsequently to profit or loss		193	16
<b>Total other comprehensive income (loss) that will not be reclassified subsequently to profit or loss after the tax effect (A)</b>		<b>(1,016)</b>	<b>96</b>
<b>Other comprehensive income that will be reclassified subsequently to profit or loss</b>			
Gains/(losses) on cash flow hedging instruments	<b>Note 6</b>	345	(3,222)
Gains/(losses) on exchange differences from translation of financial statements of foreign entities		(33,422)	10,737
Tax effect on components of other comprehensive income that will be reclassified subsequently to profit or loss		(82)	773
<b>Total other comprehensive income (loss) that will be reclassified subsequently to profit or loss after the tax effect (B)</b>		<b>(33,159)</b>	<b>8,288</b>
<b>Total other comprehensive income (loss) (A)+(B)</b>		<b>(34,175)</b>	<b>8,384</b>
<b>Comprehensive income (loss) for the period</b>		<b>66,303</b>	<b>72,160</b>
Attributable to the Group		66,461	72,265
Attributable to Minority interests		(158)	(105)

# Statement of Changes in Consolidated Net Equity

(€ thousands)	Share capital	Share premium account	Legal reserve	Other reserves	Treasury shares reserve	Stock option reserve
<b>Balance at 1 January 2016</b>	<b>4,510</b>	<b>197,774</b>	<b>934</b>	<b>3,636</b>	<b>(39,740)</b>	<b>21,835</b>
Appropriation of FY 2015 result						
Share capital increase	14	2,682				
Treasury shares					(18,841)	
Dividend distribution						
Notional cost of stock options and stock grants <b>Note 28</b>						11,261
Other changes		1,192			10,403	(7,555)
- <i>Hedge accounting</i> <b>Note 6</b>						
- <i>Actuarial gains (losses)</i>						
- <i>Translation difference</i>						
- <i>Result for FY 2016</i>						
Total comprehensive income (loss) for the period						
<b>Balance at 31 December 2016</b>	<b>4,524</b>	<b>201,648</b>	<b>934</b>	<b>3,636</b>	<b>(48,178)</b>	<b>25,541</b>

(€ thousands)	Share capital	Share premium account	Legal reserve	Other reserves	Treasury shares reserve	Stock option reserve
<b>Balance at 1 January 2017</b>	<b>4,524</b>	<b>201,648</b>	<b>934</b>	<b>3,636</b>	<b>(48,178)</b>	<b>25,541</b>
Appropriation of FY 2016 result						
Share capital increase	3	535				
Treasury shares					(36,160)	
Dividend distribution						
Notional cost of stock options and stock grants <b>Note 28</b>						16,394
Other changes		229			24,121	(11,548)
- <i>Hedge accounting</i> <b>Note 6</b>						
- <i>Actuarial gains (losses)</i>						
- <i>Translation difference</i>						
- <i>Result for FY 2017</i>						
Total comprehensive income (loss) for the period						
<b>Balance at 31 December 2017</b>	<b>4,527</b>	<b>202,412</b>	<b>934</b>	<b>3,636</b>	<b>(60,217)</b>	<b>30,387</b>

Cash flow hedge reserve	Actuarial gains and losses	Profit (loss) carried forward	Translation difference	Profit (loss) for the period	Total Shareholders' equity	Minority interests	Total net equity
(5,096)	(4,404)	287,535	(14,318)	46,805	499,471	694	500,165
		46,805		(46,805)	-		-
					2,696		2,696
					(18,841)		(18,841)
		(9,427)			(9,427)		(9,427)
					11,261		11,261
		(4,094)			(54)	(300)	(354)
(2,449)					(2,449)		(2,449)
	96				96		96
			10,998		10,998	(261)	10,737
				63,620	63,620	156	63,776
(2,449)	96		10,998	63,620	72,265	(105)	72,160
(7,545)	(4,308)	320,819	(3,320)	63,620	557,371	289	557,660

Cash flow hedge reserve	Actuarial gains and losses	Profit (loss) carried forward	Translation difference	Profit (loss) for the period	Total Shareholders' equity	Minority interests	Total net equity
(7,545)	(4,308)	320,819	(3,320)	63,620	557,371	289	557,660
		63,620		(63,620)	-		-
					538		538
					(36,160)		(36,160)
		(15,292)			(15,292)		(15,292)
					16,394		16,394
		(13,433)			(631)	(394)	(1,025)
263					263		263
	(1,016)				(1,016)		(1,016)
			(33,364)		(33,364)	(58)	(33,422)
				100,578	100,578	(100)	100,478
263	(1,016)		(33,364)	100,578	66,461	(158)	66,303
(7,282)	(5,324)	355,714	(36,684)	100,578	588,681	(263)	588,418

# Consolidated Cash Flow Statement

(€ thousands)	FY 2017	FY 2016
<b>OPERATING ACTIVITIES</b>		
Net profit (loss)	100,478	63,776
Amortization, depreciation and write-downs:		
- intangible fixed assets	30,899	25,429
- tangible fixed assets	31,860	28,892
- goodwill	55	5,489
Provisions, (Gains) losses from sale of fixed assets	27,841	22,955
Group's share of the result of associated companies	(500)	(419)
Financial income and charges	19,829	20,098
Current, deferred tax assets and liabilities	29,869	43,594
<b>Cash flow from operating activities before change in working capital</b>	<b>240,331</b>	<b>209,856</b>
Utilization of provisions	(13,283)	(8,000)
(Increase) decrease in inventories	(2,462)	175
Decrease (increase) in trade receivables	(9,062)	(12,513)
Increase (decrease) in trade payables	8,398	14,946
Changes in other receivables and other payables	8,910	(1,631)
<b>Total change in assets and liabilities</b>	<b>(7,499)</b>	<b>(7,023)</b>
Dividends received	302	1
Interest received (paid)	(18,320)	(18,606)
Taxes paid	(45,866)	(40,539)
<b>Cash flow generated from (absorbed by) operating activities (A)</b>	<b>168,948</b>	<b>143,689</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of intangible fixed assets	(21,304)	(17,876)
Purchase of tangible fixed assets	(50,867)	(44,638)
Consideration from sale of tangible fixed assets	1,506	1,369
<b>Cash flow generated from (absorbed by) operating investing activities (B)</b>	<b>(70,665)</b>	<b>(61,145)</b>
Purchase of subsidiaries and business units	(116,511)	(82,115)
Increase (decrease) in payables through business acquisition	(4,865)	3,967
(Purchase) sale of other investments, and securities	23	34
<b>Cash flow generated from (absorbed by) acquisition activities (C)</b>	<b>(121,353)</b>	<b>(78,114)</b>
<b>Cash flow generated from (absorbed by) investing activities (B+C)</b>	<b>(192,018)</b>	<b>(139,259)</b>
<b>FINANCING ACTIVITIES:</b>		
Increase (decrease) in financial payables	15,312	5,615
(Increase) decrease in financial receivables	(142)	52
Derivatives instruments and other non-current assets	-	-
Commissions paid for medium/long-term financing	(775)	(322)
Other non-current assets and liabilities	(710)	(305)
Treasury shares	(36,160)	(18,841)
Dividends distributed	(15,292)	(9,427)
Capital increases and minority shareholders' contributions and dividends paid to third parties by subsidiaries	144	2,349
<b>Cash flow generated from (absorbed by) financing activities (D)</b>	<b>(37,623)</b>	<b>(20,983)</b>
<b>Net increase in cash and cash equivalents (A+B+C+D)</b>	<b>(60,693)</b>	<b>(16,553)</b>

(€ thousands)	FY 2017	FY 2016
<b>Cash and cash equivalents at beginning of period</b>	<b>183,834</b>	<b>196,714</b>
Effect of discontinued operations on cash & cash equivalents	-	-
Effect of exchange rate fluctuations on cash & cash equivalents	(617)	913
Liquid assets acquired	4,994	2,760
Flows of cash and cash equivalents	(60,693)	(16,553)
<b>Cash and cash equivalents at end of period</b>	<b>124,082</b>	<b>183,834</b>

Related-party transactions relate to rentals of the main office and certain stores, to recharges of maintenance costs and general services of the above-mentioned buildings and to commercial transactions, personnel costs and loans. They are detailed in Note 31. The impact of these transactions on the Group's cash flows is not material.

# Supplementary Information to Cash Flow Statement

The fair values of the assets and liabilities acquired are summarised in the following table:

(€ thousands)	FY 2017	FY 2016
- Goodwill	73,316	62,796
- Customer lists	50,409	24,819
- Trademarks and non-competition agreements	2,870	-
- Other intangible fixed assets	989	1,115
- Tangible fixed assets	6,911	3,238
- Financial fixed assets	-	-
- Current assets	15,113	10,863
- Provisions for risks and charges	(4,921)	(3,589)
- Current liabilities	(25,654)	(14,938)
- Other non-current assets and liabilities	(12,349)	(8,562)
- Minority interests	-	-
<b>Total investments</b>	<b>106,684</b>	<b>75,742</b>
Net financial debt acquired	9,827	6,373
<b>Total business combinations</b>	<b>116,511</b>	<b>82,115</b>
(Increase) decrease in payables for businesses combinations	4,865	(3,967)
Disposal of businesses purchase of investments and shares	(23)	(34)
<b>Cash flow absorbed by (generated from) acquisitions</b>	<b>121,353</b>	<b>78,114</b>
(Cash and cash equivalents acquired)	(4,994)	(2,760)
<b>Net cash flow absorbed by (generated from) acquisitions</b>	<b>116,359</b>	<b>75,354</b>

# Explanatory Notes

## I. General Information

The Amplifon Group is global leader in the hearing care retail market and in the service and fitting of personalized products to meet the needs of the customers.

The parent company, Amplifon S.p.A. is based in Milan, in Via Ripamonti 133. The Group is controlled directly by Ampliter Srl (already Ampliter N.V.) and indirectly by Amplifin S.p.A., owned by Susan Carol Holland, with 100% of the shares, whilst Anna Maria Formiggini Holland retains usufruct.

The consolidated financial statements at 31 December 2017 have been prepared in accordance with International Accounting Standards and the regulations implementing Article 9 of legislative Decree No. 38 of 28 February 2005. These standards include the IAS and IFRS issued by the International Accounting Standard Board, as well as the SIC and IFRIC interpretations issued by the International Financial Reporting Interpretations Committee, which were endorsed in accordance with the procedure set out in Article 6 of Regulation (EC) no. 1606 of 19 July 2002 by 31 December 2017. International Accounting Standards endorsed after that date and before the preparation of these financial statements are adopted in the preparation of the consolidated financial statements only if early adoption is allowed by the Endorsing Regulation and the accounting standard itself and the Group has elected to do so.

The publication of the consolidated financial statements of the Amplifon Group at 31 December 2017 was authorised by the resolution of the Board of Directors of 1 March 2018. These financial statements are subject to the approval of the Shareholders' Meeting of Amplifon S.p.A. on 20 April 2018.

The accounting policies adopted in the preparation of the consolidated financial statements and a disclosure of the accounting principles and interpretation of future application are detailed in section 37.

## 2. Acquisitions and goodwill

The Group's external growth continued in 2017. A total of 359 points of sale (313 in EMEA, 37 APAC and 9 in Americas) were acquired for a total investment of €111,516 thousand, including the debt consolidated and the best estimate of the net change in the earn-out linked to sales and profitability targets payable over the next few years.



More in detail:

- 129 points of sale were acquired in France;
- 81 points of sale were acquired in Portugal;
- 74 points of sale were acquired in Germany;
- 11 points of sale, which were previously part of the indirect network, were purchased in Belgium;
- 16 points of sale and a customer list relating to one store were acquired in Spain;
- 2 points of sale were acquired in Switzerland;
- customer lists relating to 17 stores were acquired in the United States;
- 8 points of sale were acquired in Canada;
- 1 point of sale, which was previously part of the indirect network, was purchased in Brazil;
- 37 points of sale were acquired in India.

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#### SHARE DEALS

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Company Name	Date	Location	Company Name	Date	Location
Audition Médicale de Bouc Bel Air SARL	01/01/2017	France	Audio-Conseil SAS	01/11/2017	France
Audition Médicale deTrets SAS	01/01/2017	France	Laboratoire Provost Audition SAS	01/11/2017	France
Audition Bonin SARL	01/01/2017	France	Laboratoire de Corrections Auditives Sylvain Chopinaud SAS	01/12/2017	France
Audition 47 SAS	01/02/2017	France	Voir et Entendre SAS	01/12/2017	France
Laboratoires Coscas Audition SAS	01/03/2017	France	Besacier Couvrat SAS	01/12/2017	France
Mirande Audition SAS	01/03/2017	France	Egger Hörgeräte + Gehörschutz GmbH, Kempten	01/02/2017	Germany
V.B. Audition SARL	01/03/2017	France	Egger Hörgeräte + Gehörschutz GmbH, Amberg	01/02/2017	Germany
Saint-Clair Audition SARL	01/03/2017	France	MiniSom SA	01/04/2017	Portugal
Audionova SAS	01/03/2017	France	Hoorcentrum Xavier Branquaer BVBA	01/04/2017	Belgium
AudioPrev Arnage SARL	01/05/2017	France	Hoorcentrum Tom De Neve BVBA	01/07/2017	Belgium
AudioPrev Les Maillets SARL	01/05/2017	France	Witte BVBA	01/11/2017	Belgium
AudioPrev Bonnetable SARL	01/05/2017	France	Hörakustik Weber GmbH	02/10/2017	Switzerland
Centre de Surdit� du Roussillon SAS	01/06/2017	France	Boreal Hearing Centre Inc.	03/01/2017	Canada
Audi-C SAS	01/07/2017	France	Sound Authority, Inc (Pindrop)	20/07/2017	Canada
Comaudio SAS	01/10/2017	France			

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## ASSET DEALS

Company Name - Buyer	Date	Location	Company Name - Buyer	Date	Location
Amplifon Groupe France SA	24/01/2017	France	Amplifon Deutschland GmbH	01/08/2017	Germany
Amplifon Groupe France SA	24/01/2017	France	Amplifon Deutschland GmbH	01/08/2017	Germany
Amplifon Groupe France SA	24/01/2017	France	Amplifon Deutschland GmbH	01/10/2017	Germany
Amplifon Groupe France SA	27/02/2017	France	Amplifon Deutschland GmbH	01/10/2017	Germany
Amplifon Groupe France SA	08/03/2017	France	Amplifon Deutschland GmbH	01/10/2017	Germany
Amplifon Groupe France SA	03/05/2017	France	Amplifon Deutschland GmbH	01/10/2017	Germany
Amplifon Groupe France SA	16/05/2017	France	Amplifon Deutschland GmbH	06/11/2017	Germany
Amplifon Groupe France SA	19/06/2017	France	Amplifon Deutschland GmbH	06/11/2017	Germany
Amplifon Groupe France SA	17/07/2017	France	Amplifon Deutschland GmbH	07/11/2017	Germany
Amplifon Groupe France SA	29/08/2017	France	Amplifon Iberica SA	31/03/2017	Spain
Amplifon Groupe France SA	29/08/2017	France	Amplifon Iberica SA	04/04/2017	Spain
Amplifon Groupe France SA	31/08/2017	France	Amplifon Iberica SA	18/04/2017	Spain
Amplifon Groupe France SA	11/10/2017	France	Amplifon Iberica SA	01/06/2017	Spain
Amplifon Deutschland GmbH	01/01/2017	Germany	Amplifon Iberica SA	20/07/2017	Spain
Amplifon Deutschland GmbH	01/01/2017	Germany	Amplifon Iberica SA	05/10/2017	Spain
Amplifon Deutschland GmbH	01/01/2017	Germany	Amplifon Iberica SA	03/10/2017	Spain
Amplifon Deutschland GmbH	01/01/2017	Germany	Amplifon Iberica SA	07/11/2017	Spain
Amplifon Deutschland GmbH	01/01/2017	Germany	Amplifon Belgium NV	01/10/2017	Belgium
Amplifon Deutschland GmbH	01/01/2017	Germany	Amplifon AG	01/07/2017	Switzerland
Amplifon Deutschland GmbH	01/01/2017	Germany	Miracle Ear Inc.	01/02/2017	USA
Amplifon Deutschland GmbH	01/02/2017	Germany	Miracle Ear Inc.	01/04/2017	USA
Amplifon Deutschland GmbH	01/02/2017	Germany	Miracle Ear Inc.	01/07/2017	USA
Amplifon Deutschland GmbH	01/02/2017	Germany	Miracle Ear Inc.	01/07/2017	USA
Amplifon Deutschland GmbH	01/03/2017	Germany	Miracle Ear Inc.	01/08/2017	USA
Amplifon Deutschland GmbH	01/03/2017	Germany	Miracle Ear Inc.	01/08/2017	USA
Amplifon Deutschland GmbH	01/03/2017	Germany	Miracle Ear Inc.	01/09/2017	USA
Amplifon Deutschland GmbH	01/03/2017	Germany	Miracle Ear Inc.	01/09/2017	USA
Amplifon Deutschland GmbH	01/04/2017	Germany	Miracle Ear Inc.	01/09/2017	USA
Amplifon Deutschland GmbH	01/05/2017	Germany	Miracle Ear Inc.	01/10/2017	USA
Amplifon Deutschland GmbH	01/05/2017	Germany	Miracle Ear Inc.	01/10/2017	USA
Amplifon Deutschland GmbH	01/06/2017	Germany	Miracle Ear Inc.	01/11/2017	USA
Amplifon Deutschland GmbH	01/06/2017	Germany	Miracle Ear Inc.	01/12/2017	USA
Amplifon Deutschland GmbH	01/07/2017	Germany	Amplifon (India) Pvt Ltd	01/01/2017	India
Amplifon Deutschland GmbH	01/07/2017	Germany	Direito de Ouvir Amplifon Brasil S.A.	13/07/2017	Brazil
Amplifon Deutschland GmbH	01/07/2017	Germany			

(€ thousands)	Total Purchase Price	Cash acquired	Financial debts acquired	Total Cost	Expected annual turnover (*)	Contribution to turnover from the purchase date
Total share deals	75,331	(4,994)	9,826	80,163	56,552	32,207
Total asset deals	31,353			31,353	26,587	11,891
<b>Total</b>	<b>106,684</b>	<b>(4,994)</b>	<b>9,826</b>	<b>111,516</b>	<b>83,139</b>	<b>44,098</b>

(\*) Annual turnover is the best available estimate of the turnover of the firm or business acquired.

A summary of the book values and fair values of assets and liabilities, deriving from the provisional allocation of the purchase price due to business combinations, is provided in the following table.

(€ thousands)	EMEA	Americas	Asia Pacific	Total
<b>Cost of acquisitions of the period</b>	<b>102,400</b>	<b>2,854</b>	<b>1,430</b>	<b>106,684</b>
<b>Assets and liabilities acquired – Book value</b>				
Current assets	9,910	200	9	10,119
Current liabilities	(13,307)	(2,462)	(58)	(15,827)
<b>Net working capital</b>	<b>(3,397)</b>	<b>(2,262)</b>	<b>(49)</b>	<b>(5,708)</b>
Other intangible and tangible assets	7,468	130	302	7,900
Provisions for risks and charges	(4,921)	-	-	(4,921)
Other non-current assets and liabilities	(1,313)	(93)	-	(1,406)
<b>Non-current assets and liabilities</b>	<b>1,234</b>	<b>37</b>	<b>302</b>	<b>1,573</b>
<b>Net invested capital</b>	<b>(2,163)</b>	<b>(2,225)</b>	<b>253</b>	<b>(4,135)</b>
<b>Minority interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net financial position</b>	<b>(4,783)</b>	<b>(49)</b>	<b>-</b>	<b>(4,832)</b>
<b>NET EQUITY ACQUIRED - BOOK VALUE</b>	<b>(6,946)</b>	<b>(2,274)</b>	<b>253</b>	<b>(8,967)</b>
<b>DIFFERENCE TO BE ALLOCATED</b>	<b>109,346</b>	<b>5,128</b>	<b>1,177</b>	<b>115,651</b>
<b>ALLOCATIONS</b>				
Trademarks	2,649	-	115	2,764
Non-competition agreements	-	-	106	106
Customer lists	49,285	1,124	-	50,409
Deferred tax assets	2,344	42	-	2,386
Deferred tax liabilities	(13,116)	(87)	(127)	(13,330)
<b>Total allocations</b>	<b>41,162</b>	<b>1,079</b>	<b>94</b>	<b>42,335</b>
<b>GOODWILL</b>	<b>68,184</b>	<b>4,049</b>	<b>1,083</b>	<b>73,316</b>

Changes in goodwill and amounts booked as such during the year are detailed in the table below.

(€ thousands)	Net carrying value at 31/12/2016	Business combinations	Disposals	Impairment	Other net changes	Net carrying value at 31/12/2017
Italy	540	-	-	-	-	540
France	70,491	29,863	-	-	-	100,354
Iberian Peninsula	23,975	8,092	-	-	-	32,067
Hungary	1,033	-	-	-	-	1,033
Switzerland	13,719	551	-	-	(1,136)	13,134
The Netherlands	32,781	-	-	-	-	32,781
Belgium & Luxembourg	11,136	1,150	-	-	-	12,286
Germany	130,871	28,529	-	-	-	159,400
Poland	217	-	-	-	-	217
United Kingdom & Ireland	8,820	-	-	-	(309)	8,511
Turkey	1,050	-	-	-	(12)	1,038
Israel	3,677	-	-	-	(15)	3,662
USA & Canada	84,310	3,994	-	-	(9,719)	78,585
Brazil	-	55	-	(55)	-	-
Australia & New Zealand	252,512	-	-	-	(12,523)	239,989
India	-	1,082	-	-	(44)	1,038
<b>Total</b>	<b>635,132</b>	<b>73,316</b>	<b>-</b>	<b>(55)</b>	<b>(23,758)</b>	<b>684,635</b>

“Business combinations” contains the provisional allocation to goodwill of the portion of the purchase price not directly attributable to the fair value of the assets and liabilities, but which reflects the expectations of obtaining a positive contribution in terms of free cash flow for an indefinite period.

“Impairment” refers to the write-down of goodwill recognized in relation to a small acquisition made in Brazil as a result of impairment testing.

The item "Other net changes" is almost entirely related to differences in exchange rates.

The recoverable value of the goodwill assigned to each cash generating unit was calculated; the cash generating units generally coincide with the markets in which the Group operates. The goodwill allocated to each market is shown in the table at the beginning of this section.

All the cash generating units (CGU) are subject to impairment tests based on value in use calculated using the discounted cash flow (DCF) method net of tax consistent with the post-tax discount rates used.

The value in use of the cash generating units was determined by discounting the estimated future cash flows forecast in the three-year business plan (2018-2020). The impairment test of the CGU “United Kingdom and Ireland”, which is still in a transition phase and for which the third year of the business plan does not reflect a situation at full capacity, were done based on a 5-year plan developed in line with the three-year business plan (2018-2020).

The DCF calculation assumed a weighted average cost of capital which reflects the current market borrowing costs and takes into account, through adequate increases in the “Beta” as described below, the specific risks of each CGU, including the risk that the plan targets fail to be fully met.

In accordance with international best practices, the “Beta” (the gauge of a financial asset’s systemic risk) was determined based on the data found in a well-known international database relative to the sector “medical retail products and services”.

The perpetual growth rate for each country was adjusted to reflect the International Monetary Fund’s forecast for inflation in 2021. As the impairment test for the United Kingdom was based on a 5-year plan, the IMF forecast for 2022 was used.

	Italy	CH	France	Germany	Iberica	NL	UK	North America	Hungary	BeLux	Turkey	Israel	Poland	India	Oceania	Brazil
Growth rate	1.40%	1.00%	1.80%	2.30%	1.90%	1.60%	2.00%	2.30%	3.00%	2.10%	7.00%	2.00%	2.50%	4.90%	2.38%	4.50%
WACC (*) 2017	6.53%	4.92%	5.38%	5.12%	6.29%	5.29%	8.28%	6.60%	7.14%	5.29%	15.50%	6.23%	8.42%	11.99%	7.89%	14.87%
Cash flow time horizon	3Y	3Y	3Y	3Y	3Y	3Y	5Y	3Y	3Y	3Y	3Y	3Y	3Y	3Y	3Y	3Y
WACC (*) 2016	6.59%	5.76%	5.59%	5.52%	6.63%	5.62%	8.88%	6.92%	8.03%	5.54%	16.67%	6.98%	8.55%	16.68%	8.96%	18.41%

(\*) WACC: weighted average cost of capital.

No loss in value was identified as a result of impairment testing with the exception of the CGU “Brazil” for which a total write-down of goodwill (€55 thousand).

A sensitivity analysis was also carried out to determine the changes in values of underlying assumptions, which after considering any consequent changes to the other variables used make the CGU’s recoverable value equal to its book value. This analysis, shown in the table below, showed that only significant deviations from the business targets, in interest rates and perpetual growth rates, would reduce recoverable value to a level close to book value for all the CGU with the exception of India, for which the recoverable value is substantially in line with the carrying amount but where the goodwill allocated is only €1,038 thousand and the long-term forecasts suggest that the expected results are well above those represented in the third year of the plan that was taken as a basis in the calculation of perpetuity in the impairment test.

	Negative changes growth rate expected on the basis of each business plan which would make the CGU's recoverable value equal to its book value	Negative % changes in cash flow expected on the basis of each business plan which would make the CGU's recoverable value equal to its book value	Changes in the discount rates which would make the CGU's recoverable value equal to its book value
Italy	>100%	97.0%	>100%
France	9.8%	67.0%	7.7%
The Netherlands	10.3%	67.0%	8.0%
Germany	10.8%	75.0%	8.5%
Belgium and Luxembourg	45.0%	85.0%	21.0%
Switzerland	>100%	92.0%	43.0%
Iberian Peninsula	7.0%	57.0%	5.7%
United States	>100%	84.0%	26.0%
Hungary	17.0%	79.0%	12.6%
Oceania	9.5%	58.0%	7.4%
India	0.7%	9.0%	0.6%
Poland	8.5%	61.0%	8.5%
Israel	39.0%	85.0%	21.0%
Turkey	24.0%	69.0%	16.0%

### 3. Intangible fixed assets

The following table shows the changes in intangible fixed assets.

(€ thousands)	31/12/2016			31/12/2017		
	Historical cost at 31/12/2016	Accumulated amortisation and write-downs at 31/12/2016	Net book value at 31/12/2016	Historical cost at 31/12/2017	Accumulated amortisation and write-downs at 31/12/2017	Net book value at 31/12/2017
Software	93,004	(62,284)	30,720	101,858	(69,551)	32,307
Licenses	10,931	(9,122)	1,809	12,388	(10,060)	2,328
Non-competition agreements	4,685	(4,390)	295	5,333	(4,661)	672
Customer lists	202,766	(110,496)	92,270	247,254	(121,597)	125,657
Trademarks and concessions	33,002	(15,816)	17,186	33,513	(17,127)	16,386
Other	22,333	(7,073)	15,260	23,364	(7,956)	15,408
Fixed assets in progress and advances	4,366	-	4,366	7,198	-	7,198
<b>Total</b>	<b>371,087</b>	<b>(209,181)</b>	<b>161,906</b>	<b>430,908</b>	<b>(230,952)</b>	<b>199,956</b>

(€ thousands)	Net book value at 31/12/2016	Investments	Disposals	Amortisation	Business combinations	Impairment	Other net changes	Net book value at 31/12/2017
Software	30,720	8,590	-	(10,487)	23	-	3,461	32,307
Licenses	1,809	839	-	(984)	23	-	641	2,328
Non-competition agreements	295	984	-	(709)	106	-	(4)	672
Customer lists	92,270	-	-	(14,661)	50,409	-	(2,361)	125,657
Trademarks and concessions	17,186	-	-	(2,430)	2,764	-	(1,134)	16,386
Other	15,260	2,645	(351)	(1,705)	943	(65)	(1,319)	15,408
Fixed assets in progress and advances	4,366	8,246	(33)	-	-	-	(5,381)	7,198
<b>Total</b>	<b>161,906</b>	<b>21,304</b>	<b>(384)</b>	<b>(30,976)</b>	<b>54,268</b>	<b>(65)</b>	<b>(6,097)</b>	<b>199,956</b>

The variation of the item “Business combinations” is detailed as follows:

- for €52,923 thousand to the temporary allocation of the considerations paid for the acquisitions made in EMEA;
- for €1,124 thousand to the temporary allocation of the consideration paid for the acquisitions made in the Americas;
- for €221 thousand to the temporary allocation of the consideration paid for the acquisitions made in APAC.

The increase in intangible assets in the period is primarily attributable to investments in digital marketing, new deployment of store and sales support systems.

The item “other net changes” is mainly due to exchange rate fluctuations during the period and to the allocation of the fixed assets in progress completed in the period to the related fixed assets lines.

## 4. Tangible fixed assets

The following table shows the changes in tangible fixed assets.

(€ thousands)	Historical cost at 31/12/2016	Accumulated amortisation and write-downs at 31/12/2016	Net book value at 31/12/2016	Historical cost at 31/12/2017	Accumulated amortisation and write-downs at 31/12/2017	Net book value at 31/12/2017
Land	162	-	162	162	-	162
Buildings, constructions and leasehold improvements	140,239	(87,869)	52,370	157,862	(99,388)	58,474
Plant and machines	35,243	(27,225)	8,018	43,555	(31,498)	12,057
Industrial and commercial equipment	40,660	(28,785)	11,875	44,462	(31,288)	13,174
Motor vehicles	6,259	(3,589)	2,670	6,186	(3,635)	2,551
Computers and office machinery	39,066	(30,932)	8,134	45,194	(34,500)	10,694
Furniture and fittings	84,918	(54,698)	30,220	95,542	(59,943)	35,599
Other tangible fixed assets	504	(379)	125	704	(566)	138
Fixed assets in progress and advances	6,220	-	6,220	10,154	-	10,154
<b>Total</b>	<b>353,271</b>	<b>(233,477)</b>	<b>119,794</b>	<b>403,821</b>	<b>(260,818)</b>	<b>143,003</b>

(€ thousands)	Net book value at 31/12/2016	Investments	Disposals	Amortisation	Business combinations	Impairment	Other net changes	Net book value at 31/12/2017
Land	162	-	-	-	-	-	-	162
Buildings, constructions and leasehold improvements	52,370	15,003	(46)	(12,622)	3,056	(457)	1,170	58,474
Plant and machines	8,018	4,061	(11)	(2,326)	1,838	(378)	855	12,057
Industrial and commercial equipment	11,875	3,965	(11)	(3,156)	548	(12)	(35)	13,174
Motor vehicles	2,670	965	(113)	(1,121)	210	-	(60)	2,551
Computers and office machinery	8,134	5,118	(15)	(4,102)	280	(15)	1,294	10,694
Furniture and fittings	30,220	11,480	(32)	(7,301)	905	(145)	472	35,599
Other tangible fixed assets	125	123	(4)	(160)	54	-	-	138
Fixed assets in progress and advances	6,220	10,152	(45)	-	20	-	(6,193)	10,154
<b>Total</b>	<b>119,794</b>	<b>50,867</b>	<b>(277)</b>	<b>(30,788)</b>	<b>6,911</b>	<b>(1,007)</b>	<b>(2,497)</b>	<b>143,003</b>

The investments made in the period refer primarily to network expansion with the opening of new stores and renewal of existing ones based on the concept store.

The variation of the item "Business combinations" is detailed as follows:

- for €6,479 thousand to the temporary allocation of the price related to the acquisitions made in the EMEA region;
- for €130 thousand to the temporary allocation of the price related to an acquisition made in the Americas region;
- for €302 thousand to the temporary allocation of the price related to the acquisitions made in APAC region.

Other net changes were mainly due to exchange rate fluctuations during the period and to the allocation of the fixed assets in progress completed in the period to the related other fixed assets lines.

## 5. Other non-current assets

(€ thousands)	31/12/2017	31/12/2016	Change
Financial assets measured at fair value through profit and loss	35	43	(8)
Long-term financial receivables	10,282	12,084	(1,802)
Deposits and other restricted amounts	27,972	27,219	753
Other non-current assets	10,702	10,380	322
<b>Total</b>	<b>48,991</b>	<b>49,726</b>	<b>(735)</b>



Long-term financial receivables refer largely to the loans granted by American subsidiaries to franchisees and partners of the Elite network in order support investment and development in the United States.

Deposits and other restricted amounts refer for €27,575 thousand to contributions made to asset plans linked to the deferred compensation plans of commercial partners in the United States against which a liability is recognized as described in note 13.

The other non-current assets include the medium/long-term portion of the amounts payable to the American subsidiaries for the sale of freehold stores to franchisees which came to €2,867 thousand (€3,869 thousand in the comparison period).

Both long-term financial receivables and other non-current assets are discounted when the interest rate applied differs from the market rate.

The following tables show the non-current assets in accordance with the accounting treatment applied.

31 December 2017					
(€ thousands)					
Consolidated statement of financial position	Amortised cost		Fair value	Net Equity	
	Loans and receivables	Financial liabilities	Hedge	Cash flow	Fair Value through P&L
					Financial assets and liabilities at FVPL
<b>Non-current assets</b>					
Financial assets measured at FV through P&L					35
Financial long-term receivables, deposits and other restricted amounts	38,254				
Other non-current assets	10,702				

31 December 2016					
(€ thousands)					
Consolidated statement of financial position	Amortised cost		Fair value	Net Equity	
	Loans and receivables	Financial liabilities	Hedge	Cash flow	Fair Value through P&L
					Financial assets and liabilities at FVPL
<b>Non-current assets</b>					
Financial assets measured at FV through P&L					43
Financial long-term receivables, deposits and other restricted amounts	39,303				
Other non-current assets	10,380				

## 6. Derivatives and hedge accounting

These are instruments not listed in official markets; entered into for the purpose of hedging interest-rate and/or currency risk. The fair value of these instruments is determined by the dedicated department using valuation models based on market-derived inputs such as forward interest-rate curve, exchange rates, etc. (source: Bloomberg). The measurement technique adopted is the discounted cash flow approach. Own risk and counterparty risk (credit/debit value adjustments) were taken into account

when calculating fair value. These credit/debit value adjustments were determined based on market information such as the value of CDSs (Credit Default Swaps) in order to determine the counterparty risk of individual banks and the yield to maturity of the Eurobond when determining Amplifon's risk and taking into account the mutual break close where present.

The following table shows the fair values of the derivatives outstanding at the end of the comparative period and at the reporting date giving separately the fair value of those derivatives that qualify as fair value hedges and cash flow hedges and those that do not qualify for hedge accounting.

(€ thousands)				
Type	Fair value 31/12/2017		Fair value 31/12/2016	
	Assets	(Liabilities)	Assets	(Liabilities)
Fair value hedge	-	-	-	-
Cash flow hedge	-	(2,362)	12,223	-
<b>Total hedge accounting</b>	-	<b>(2,362)</b>	<b>12,223</b>	-
Non hedge accounting	-	(43)	35	(3)
<b>Total</b>	-	<b>(2,405)</b>	<b>12,258</b>	<b>(3)</b>

## Cash Flow Hedges

In 2017, cash flow hedges were made against the currency and interest rate risk relating to the US\$130 million 2013-2025 private placement and the interest rate risk associated with the €100 million long-term loan, effective 10 April 2018 when the loan will be utilized in full.

(€ thousands)					
Purpose of hedging	Hedged risk	Fair value 31/12/2017		Fair value 31/12/2016	
		Assets	(Liabilities)	Assets	(Liabilities)
Private placement 2013-2025	Exchange rate and interest rate	-	(2,257)	12,223	-
Long Term Loan	Interest rate	-	(105)	-	-
	<b>Total</b>	-	<b>(2,362)</b>	<b>12,223</b>	-

The following table details the gains or losses from the derivatives currently in place and the impact on the statement of financial position of the cash flow hedge reserve. Amounts are shown before the tax effect.

(€ thousands)			
	Recognised in net equity	Reclassified to the income statement - Effective portion	Reclassified to the income statement - Ineffective portion
	(Debit) / Credit	(Loss) Gain	(Loss) Gain
1/1/2016 - 31/12/2016	697	3,222	-
1/1/2017 - 31/12/2017	(14,587)	(346)	-

The maturity of the hedges is in line with the duration of the item hedged. Please refer to Note 12 for details.

## Non-hedge accounting derivatives

Non-hedge accounting derivatives comprise forwards hedging the exchange risk on intercompany loans denominated in British pounds between Amplifon S.p.A. and a subsidiary in the UK which expire in January 2018.

The following tables show the derivative instruments in accordance with the accounting treatment applied:

(€ thousands)		31 December 2017			
Consolidated statement of financial position	Amortised cost		Fair value Net Equity		Fair Value through P&L
	Loans and receivables	Financial liabilities	Cash flow Hedge derivatives	Fair Value Hedge non HA	Financial assets and liabilities at FVPL
Hedging instruments - Cash flow hedge			(2,362)		
Assets Derivative Instruments - Non-hedge accounting					
Liabilities Derivative Instruments - Non-hedge accounting				(43)	

(€ thousands)		31 December 2016			
Consolidated statement of financial position	Amortised cost		Fair value Net Equity		Fair Value thorough PL
	Loans and receivables	Financial liabilities	Cash flow Hedge derivatives	Fair Value Hedge non HA	Financial assets and liabilities at FVPL
Hedging instruments - Cash flow hedge			12,223		
Assets Derivative Instruments - Non-hedge accounting				35	
Liabilities Derivative Instruments - Non-hedge accounting				(3)	

The following table shows the fair value measurement on the basis of a hierarchy reflecting the level of significance of the data used for the valuation.

This hierarchy consists of the following levels:

1. quoted (unadjusted) prices in active markets for identical assets and liabilities;
2. input data other than the above quoted prices, but which can be observed directly or indirectly in the market;
3. input data on assets or liabilities not based on observable market data.

(€ thousands)	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Hedging instruments								
- Long-term						12,223		12,223
- Short-term						35		35
<b>Liabilities</b>								
Hedging instruments								
- Long-term		(2,362)		(2,362)				
- Short-term		(43)		(43)		(3)		(3)

There were no transfers between the levels during the period.

## 7. Inventories

(€ thousands)	31/12/2017			31/12/2016		
	Cost	Obsolescence provision	Net	Cost	Obsolescence provision	Net
Goods	41,127	(4,046)	37,081	35,652	(4,282)	31,370
Work-in-progress	-	-	-	-	-	-
<b>Total</b>	<b>41,127</b>	<b>(4,046)</b>	<b>37,081</b>	<b>35,652</b>	<b>(4,282)</b>	<b>31,370</b>

Movements in the provision for obsolescence for inventories in the year were as follows:

(€ thousands)	
<b>Balance at 31/12/2016</b>	<b>(4,282)</b>
Provision	(2,756)
Utilization	3,305
Business combination	(416)
Translation differences and other movements	103
<b>Balance at 31/12/2017</b>	<b>(4,046)</b>

## 8. Receivables

(€ thousands)	31/12/2017	31/12/2016	Change
Trade receivables	132,643	127,085	5,558
Trade receivables - Subsidiaries	123	165	(42)
Trade receivables - Parent company	15	15	-
Trade receivables - Associated companies and joint ventures	11	13	(2)
<b>Total trade receivables</b>	<b>132,792</b>	<b>127,278</b>	<b>5,514</b>
Tax receivables	14,867	12,049	2,818
Other receivables	19,399	17,284	2,115
Non-financial prepayments and accrued income	13,318	12,829	489
<b>Trade receivables</b>	<b>47,584</b>	<b>42,162</b>	<b>5,422</b>
<b>Total</b>	<b>180,376</b>	<b>169,440</b>	<b>10,936</b>

## Trade receivables

The breakdown of trade receivables is detailed in the table below:

(€ thousands)	31/12/2017	31/12/2016	Change
Trade receivables	148,154	142,942	5,212
Sales returns provision	(7,233)	(8,242)	1,009
Allowance for doubtful accounts	(8,278)	(7,615)	(663)
<b>Total</b>	<b>132,643</b>	<b>127,085</b>	<b>5,558</b>

All the other receivables have payment term of between 30 and 120 days and there is no significant concentration of credit risk.

Movements in the allowance for doubtful accounts in the year were as follows:

(€ thousands)	
<b>Net value at 31/12/2016</b>	<b>(7,615)</b>
Provisions	(3,902)
Reversals	1,219
Utilisation for charges	2,278
Business combinations	(529)
Translation differences and other net changes	271
<b>Net value at 31/12/2017</b>	<b>(8,278)</b>

The face value of the factoring without recourse transactions carried out in the year amounted to €52,339 thousand and net proceeds to €51,701 thousand (versus €43,948 thousand and €43,315 thousand at 31 December 2016), relate to receivables generated in the year and, therefore, did not have a significant impact on working capital compared with the prior year.

## Tax receivables

Tax receivables, amounted to €14,867 thousand and include:

- €10,565 thousand in VAT and other indirect tax credits. Factoring without recourse of VAT credits amounted to €22,839 thousand with net proceeds reaching €22,596 thousand (respectively €21,096 thousand and €20,812 thousand at 31 December 2016);
- €4,033 thousand in tax advances.

## Other receivables

Other receivables amounted to €19,399 thousand and include:

- the current portion of the amounts owed to US companies for the sale of freehold stores to franchisees and loans granted to franchisees and partners of the Elite network in order support investment and development in the United States which amounts to €4,416 thousand;
- €1,881 thousand in receivables from employees;
- advances paid to suppliers which amounted to €1,708 thousand.

## Non-financial prepayments and accrued income

This item refers primarily to prepaid rent of €3,392 thousand, services of €1,726 thousand, advertising expenses of €1,574 thousand and insurance premiums of €1,036 thousand.

## 9. Cash and cash equivalents

(€ thousands)	31/12/2017	31/12/2016	Change
Bank current accounts	98,028	107,998	(9,970)
Short-term bank deposits	5,001	35,020	(30,019)
Funds	19,893	39,993	(20,100)
Cash on hand	1,160	823	337
<b>Total</b>	<b>124,082</b>	<b>183,834</b>	<b>(59,752)</b>

Cash and cash equivalents are deposited with top rated banks and earn interest at market rates.

The credit rating of financial assets represented by S&P rating (short-term for current items and long-term for the relevant items) is detailed below:

(€ thousands)	31/12/2017		Rating S&P short-term					Others (*)
			A-1+	A-1	A-2	A-3	B	
<b>Non-current assets</b>								
Financial assets at fair value through profit and loss	35	<b>Note 5</b>						35
Hedging instruments – long-term	-	<b>Note 6</b>						
<b>Current assets</b>								
Hedging instruments – short-term	-							
Bank current accounts, short-term bank deposits and funds	122,922	<b>Note 9</b>	32,886	33,111	19,118	196	692	36,919
Cash on hand	1,160							

(\*) Other financial assets are primarily representative of investments in time deposits with unrated counterparties but that amply meet the minimum capital requirements set by ECB, and investments in money market liquidity funds mainly targeted towards bank deposits, usually with credit institutions having their registered office in an EU member state, that are repayable on demand and money market instruments and government of European Union bonds.

## 10. Share capital

At 31 December 2017 the fully paid in and subscribed share capital consisted of 226,330,247 ordinary shares with a par value of €0.02.

At 31 December 2016 share capital was made up of 226,211,802 shares. The increase recorded in the period is due to the exercise of 118,445 stock options, equivalent to 0.052% of the share capital.

During the period, continued the share buy-back program started following the resolution of the Shareholders Meetings held on 18 April 2016 and 20 April 2017 when the Assembly authorized (after revoking the current shares buy-back plan due to expire in October 2017) a new plan of shares buy-back and disposal, pursuant the dispositions of articles 2357 and 2357-ter of the Italian Civil Code and 132 of Legislative Decree n. 58 of 24 February 1998, effective for a period of 18 months starting from 20 April 2017.

The program has the purpose to increase treasury shares in order to service stock-based incentive plans and, if necessary, to ensure the availability of treasury shares to use as a form of payment for acquisitions. As resolved by the shareholders, the treasury shares may be purchased on one or more occasions on a revolving basis for up to a total number of new shares, which together with the treasury shares already held and in accordance with the law, amounts to 10% of the company's share capital. The purchase price of the shares may not be 10% higher or lower than the stock price registered at the close of the trading session prior to each single purchase.

As part of this program during 2017 3,062,000 shares have been purchased at an average price of €11.809.

During the period 2,866,288 performance stock grants rights were exercised. The Company transferred to the beneficiaries an equivalent number of treasury shares.

The total amount of treasury shares held at 31 December 2017 equals 7,155,463 or 3.162% of the Company's share capital.

Following are disclosed the information relating to treasury shares.

	N. of shares	Average purchase price (Euro) FV of transferred rights (Euro)	Total amount (€ thousands)
Held at 31 December 2016	6,959,751	6.922	48,177
Purchases	3,062,000	11.809	36,160
Transfers due to exercise of performance stock grants	(2,866,288)	8.415	(24,120)
<b>Total at 31 December 2017</b>	<b>7,155,463</b>	<b>8.415</b>	<b>60,217</b>

## II. Net financial position

In accordance with the requirements of the Consob communication dated 28 July 2006 and in compliance with the CESR (now ESMA) Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the Group's net financial position at 31 December 2017, was as follows:

(€ thousands)	31/12/2017	31/12/2016	Change
Liquid funds	(124,082)	(183,834)	59,752
Other financial assets	(19)	-	(19)
Eurobond 2013-2018	275,000	-	275,000
Payables for business acquisitions	9,468	14,485	(5,017)
Bank overdraft and other short-term loans from third parties (including current portion of medium/long-term debt)	1,156	681	475
Other financial payables	15,506	13,555	1,951
Non-hedge accounting derivative instruments	43	(32)	75
<b>Short-term financial position</b>	<b>177,072</b>	<b>(155,145)</b>	<b>332,217</b>
Private placement 2013-2025	108,397	123,328	(14,931)
Eurobond 2013-2018	-	275,000	(275,000)
Finance lease obligations	871	1,165	(294)
Other medium/long-term debt	15,074	421	14,653
Hedging derivatives	(7,504)	(22,435)	14,931
Medium/long-term acquisition payables	2,355	2,087	268
<b>Net medium and long-term indebtedness</b>	<b>119,193</b>	<b>379,566</b>	<b>(260,373)</b>
<b>Net financial indebtedness</b>	<b>296,265</b>	<b>224,421</b>	<b>71,844</b>

In order to reconcile the above items with the statutory statement of financial position, we detail the breakdown of the following items.

Long-term loans, the private placement 2013-2025, the Eurobond and finance lease obligations are shown in the statutory statement of financial position:

a. under the caption "Medium/long-term financial liabilities" described in section 12 of the explanatory notes for the long-term portion.

(€ thousands)	31/12/2017
Private placement 2013-2025	108,397
Finance lease obligations	871
Other medium/long-term debt	15,074
Loan, private placement 2013-2025 and Eurobond fees	(352)
<b>Medium/long-term financial liabilities</b>	<b>123,990</b>



b. under the item “financial payables”, described in section 20 of the explanatory notes for the current portion.

(€ thousands)	<b>31/12/2017</b>
Short term debt	14,426
Current portion of finance lease obligations	1,080
<b>Other financial payables</b>	<b>15,506</b>
Eurobond 2013-2018	275,000
Bank overdraft and other short-term debt (including current portion of other long-term debt)	1,156
Loan, private placement 2013-2025 and Eurobond fees	(281)
<b>Short-term financial liabilities</b>	<b>291,381</b>

All the other items in the net financial indebtedness table correspond to items in the statement of financial position schedule.

The **medium/long-term portion of the net financial position** reached €119,193 thousand at 31 December 2017 versus €379,566 thousand at 31 December 2016, an improvement of €260,373 thousand attributable to the reclassification of the €275 million Eurobond, which expires in July 2018, as short-term debt.

The **short-term net financial position** registered a negative variation equal to €332,217 thousand going from a positive amount of €155,145 thousand at 31 December 2016 to a negative amount equal to €177,072 thousand at 31 December 2017. The movement in the year is explained for €275,000 thousand by the above mentioned reclassified Eurobond and for €111,516 thousand by the acquisitions made in the year using available liquidity.

## 12. Financial liabilities

Long-term financial liabilities break down as follows:

(€ thousands)	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>Change</b>
Private placement 2013-2025	108,397	123,328	(14,931)
Eurobond 2013-2018	-	275,000	(275,000)
Other medium long-term debt	15,074	421	14,653
Loan, private placement 2013-2025 and Eurobond 2013-2018 fees	(352)	(748)	396
Finance lease obligations	871	1,165	(294)
<b>Total medium/long-term financial liabilities</b>	<b>123,990</b>	<b>399,166</b>	<b>(275,176)</b>
Short term debt	291,381	13,516	277,865
- of which Eurobond 2013-2018	275,000	-	275,000
- of which loan, private placement 2013-2025 and Eurobond 2013-2018 fees	(281)	(720)	439
- of which current-portion of lease obligations	1,080	1,123	(43)
<b>Total short-term financial liabilities</b>	<b>291,381</b>	<b>13,516</b>	<b>277,865</b>
<b>Total financial liabilities</b>	<b>415,371</b>	<b>412,682</b>	<b>2,689</b>

The main financial liabilities are detailed below.

- *Eurobond 2013-2018*

A €275 million 5-year bond loan reserved for non-American institutional investors and listed on the Luxembourg Stock Exchange's Euro MTF market issued on 16 July 2013.

Issue Date	Debtor	Maturity	Face Value (/000)	Fair value (/000)	Nominal interest rate Euro
16/07/2013	Amplifon S.p.A.	16/07/2018	275,000	282,948	4.875%
<b>Total in Euro</b>			<b>275,000</b>	<b>282,948</b>	<b>4.875%</b>

- *Private placement 2013-2025*

A US\$130 million private placement made in the USA by Amplifon USA and guaranteed by Amplifon S.p.A. and other Group subsidiaries.

Issue Date	Issuer	Maturity	Currency	Face Value (/000)	Fair value (/000)	Nominal interest rate (*)	Euro Interest rate after hedging (**)
30/05/2013	Amplifon USA	31/07/2020	US\$	7,000	7,412	3.85%	3.39%
30/05/2013	Amplifon USA	31/07/2023	US\$	8,000	9,033	4.46%	3.90%
31/07/2013	Amplifon USA	31/07/2020	US\$	13,000	13,783	3.90%	3.42%
31/07/2013	Amplifon USA	31/07/2023	US\$	52,000	58,864	4.51%	3.90%-3.94%
31/07/2013	Amplifon USA	31/07/2025	US\$	50,000	58,773	4.66%	4.00%-4.05%
<b>Total</b>				<b>130,000</b>	<b>147,865</b>		

(\*) The rate applied if the Group's net debt/ EBITDA ratio is less than 2.75x. Above this level a step-up of 25 bps will be applied. When the ratio exceeds 3.25x but is less than or equal to 3.5x an additional step-up of 25 bps will kick-in. If the ratio exceeds 3.50x an additional step-up of 75 bps will be applied.

(\*\*) The hedging instruments that determine the interest rate as detailed above, are also fixing the exchange rate at 1.2885, the total equivalent of the bond resulting in €100,892 thousand.

- *UniCredit loan*

A €100 million bilateral medium-term unsecured loan. The loan calls for a bullet repayment four years from the signing of the loan agreement and was granted at terms and conditions in line with current market standards. At 31 December 2017 €10 million had been utilized.

- *Banco BPM loan*

A €50 million bilateral medium-term unsecured amortizing loan to be repaid every six months beginning on 30 April 2021 in five years from the signing of the loan agreement. The loan was granted at terms and conditions in line with current market standards. At 31 December 2017 €5 million had been utilized.

The following table shows a breakdown of long-term debt by maturity:

(€ thousands)

Debtor Repayments	Nominal amount and maturity date	Average rate 2017/360	Amount at 31/12/16	Exchange rate effect	Repayments as at 31/12/2017	New loans	Business Combination	Amount at 31/12/2017	Short- term portion	Medium and long-term portion
<i>Eurobond Bullet</i> 16/07/2018	€ 275,000	4.88%	275,000					275,000	275,000	
<i>Private placement</i> 2013-2025 Amplifon USA (*) Instalments at 31/1 and 31/7 from 31/1/2014	31/07/2020									
	US\$ 7,000	3.85%	6,641	(804)				5,837		5,837
<i>Private placement</i> 2013-2025 Amplifon USA (*) Instalments at 31/1 and 31/7 from 31/1/2014	31/07/2020									
	US\$ 8,000	4.46%	7,589	(918)				6,671		6,671
<i>Private placement</i> 2013-2025 Amplifon USA (*) Instalments at 31/1 and 31/7 from 31/1/2014	31/07/2020									
	US\$ 13,000	3.90%	12,333	(1,493)				10,840		10,840
<i>Private placement</i> 2013-2025 Amplifon USA (*) Instalments at 31/1 and 31/7 from 31/1/2014	31/07/2020									
	US\$ 52,000	4.51%	49,331	(5,972)				43,359		43,359
<i>Private placement</i> 2013-2025 Amplifon USA (*) Instalments at 31/1 and 31/7 from 31/1/2014	31/07/2023									
	US\$ 50,000	4.66%	47,434	(5,744)				41,690		41,690
<i>UniCredit bullet</i> Expiring 28/9/2021	€ 100,000	0.53%				10,000		10,000		10,000
Amplifon SpA Euribor 6m +0.80%	28/09/2021									
<i>BPM amortizing</i> Expiring 31/10/2022	€ 50,000	0.85%				5,000		5,000		5,000
Amplifon SpA euribor 6m +0.85%										
Bi-annual repayment from 30/04/2021	31/10/2022									
<b>Total long-term debt</b>			<b>398,328</b>	<b>(14,931)</b>	-	<b>15,000</b>	-	<b>398,397</b>	<b>275,000</b>	<b>123,397</b>
<b>Other</b>			827	(82)	-	137	-	882	808	74
<b>Total</b>			<b>399,155</b>	<b>(15,013)</b>	-	<b>15,137</b>	-	<b>399,279</b>	<b>275,808</b>	<b>123,471</b>

(\*) Considering the effect of the interest rate and currency hedges disclosed above, the total Euro equivalent of the private placement 2013-2025 is €100,892 thousand.

The following table shows the maturities of financial debt at 31 December 2017 based on contractual obligations.

(€ thousands)	Private placement 2013-2025 (*)	Eurobond 2013-2018	Long Term Loan	Other	Total
2018		275,000		808	275,808
2019				74	74
2020	15,522				15,522
2021			10,000		10,000
2022			5,000		5,000
2023	46,566				46,566
2025	38,804				38,804
<b>Total</b>	<b>100,892</b>	<b>275,000</b>	<b>15,000</b>	<b>882</b>	<b>391,774</b>

(\*) Amounts related to the private placement are reported at the hedging exchange rate.

The following loans:

- the US\$130 million private placement 2013-2025 (equal to €100.9 million including the fair value of the currency hedges which set the Euro/US\$ exchange rate at 1.2885);
- the €100 million bank loan 2017-2021 of which €10 million had been utilized at year-end 2017;
- the €50 million bank loan 2017-2021 of which €5 million had been utilized at year-end 2017;
- and the €195 million in irrevocable credit lines expiring between 2021 and 2022 which have yet to be utilized

are subject to the covenants listed below:

- the ratio of Group net financial indebtedness to Group shareholders' equity must not exceed 1.5;
- the ratio of net financial indebtedness to EBITDA in the last four quarters (determined based solely on recurring business and restated if the Group's structure should change significantly) must not exceed 3.5.

In the event of relevant acquisitions, the above ratios may be increased to 2.0 and 4.0, respectively, for a period of not more than 12 months, 2 times over the life of the respective loans.

At 31 December 2017 these ratios were as follows:

	Value
Net financial indebtedness/Group net equity	0.50
Net financial indebtedness/EBITDA for the last 4 quarters	1.35

In determining the above mentioned ratios, the EBITDA value has been determined on the basis of restated figures, in order to reflect the main changes in the Group structure:

(€ thousands)	
Group EBITDA 2017	212,491
EBITDA normalised (from acquisitions and disposals)	108
Acquisitions and non-recurring costs	7,065
EBITDA for covenant calculation	219,664

The private placement is also subject to other covenants applied in current international practice which limit the ability to issue guarantees and complete sale and lease back, as well as extraordinary transactions.

The €275 million Eurobond, due in 2018 and issued in July 2013, is not subject to any covenants nor is the remaining €0.9 million in long term debt, including the short-term portion.

The following tables show financial liabilities in accordance with the accounting treatment applied:

(€ thousands)		<b>31 December 2017</b>				
		Amortised cost		Fair value Net Equity	Fair Value through P&L	
		Loans and receivables	Financial liabilities	Cash flow Hedge derivatives	Fair Value Hedge non HA	Financial assets and liabilities at FVPL
Total non-current financial liabilities			123,990			
Total current financial liabilities			291,381			

(€ thousands)		<b>31 December 2016</b>				
		Amortised cost		Fair value Net Equity	Fair Value through P&L	
		Loans and receivables	Financial liabilities	Cash flow Hedge derivatives	Fair Value Hedge non HA	Financial assets and liabilities at FVPL
Total non-current financial liabilities			399,166			
Total current financial liabilities			13,516			

### 13. Provisions for risks and charges (medium/long-term)

(€ thousands)	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>Change</b>
Product warranty provision	21,766	18,767	2,999
Contractual risk provision	2,310	1,815	495
Agents' leaving indemnity	38,495	37,613	882
Other risk provisions	2,819	1,146	1,673
<b>Total</b>	<b>65,390</b>	<b>59,341</b>	<b>6,049</b>

(€ thousands)	Net value at 31/12/2016	Provision	Reversals	Utilisation	Other net changes	Translation differences	Business combinations	Net value at 31/12/2017
Product warranty provision	18,767	7,661	(428)	(7,862)	(499)	(118)	4,245	21,766
Contractual risk provision	1,815	826	(320)	(432)	-	-	421	2,310
Agents' leaving indemnity	37,613	1,526	(1,416)	-	4,251	(3,479)	-	38,495
Other risk provisions	1,146	2,171	(446)	(157)	-	(50)	155	2,819
<b>Total</b>	<b>59,341</b>	<b>12,184</b>	<b>(2,610)</b>	<b>(8,451)</b>	<b>3,752</b>	<b>(3,647)</b>	<b>4,821</b>	<b>65,390</b>

The “Contractual risk provision” refers to the risk of claims from employees and agents, as well as those arising from the supply of services.

The “Agents’ leaving indemnity” mainly comprises the agents’ leaving indemnity provision recognised in Amplifon S.p.A.’s separate financial statements amounting to €10,785 thousand and equivalent provisions in the US and Belgian subsidiaries amounting to €27,456 thousand and €254 thousand respectively.

The main assumptions used in the actuarial calculation of the agents’ leaving indemnity of Amplifon S.p.A. were:

	FY 2017
<b>Economic assumptions</b>	
Annual discount rate	0.88%
<b>Demographic assumptions</b>	
Probability of agency contract termination by the company	2.70%
Probability of agent’s voluntary termination	8.25%
Mortality rate	RG48
Disability percentage	INPS tables divided by age and sex

## 14. Liabilities for employees’ benefits (medium/long-term)

(€ thousands)	31/12/2017	31/12/2016	Change
Defined-benefit plans	12,571	11,959	612
Other defined-benefit plans	4,146	4,527	(381)
Other provisions for personnel	-	123	(123)
<b>Total</b>	<b>16,717</b>	<b>16,609</b>	<b>108</b>

Provisions for defined-benefit plans include mainly the severance pay potentially owed by the Parent Company, as well as severance owed by the Swiss subsidiaries.

The way in which these benefits are guaranteed varies based on the legal, tax and economic conditions of each country in which the Group operates.

The change in the provision for defined-benefit plans is detailed below:

(€ thousands)	<b>FY 2017</b>
<b>Net present value of the liability at the beginning of the year</b>	<b>(11,959)</b>
Current service cost	(166)
Financial charges	(148)
Business combinations	-
Actuarial losses (gains)	(1,321)
Amounts paid	307
Translation differences	716
<b>Net present value of the liability at the end of the year</b>	<b>(12,571)</b>

It should be noted that the current cost of severance indemnity is recognised under personnel expenses in the consolidated financial statements, while actuarial gains and losses are recognised, in the other comprehensive income.

The main assumptions used in the actuarial estimate of the liability for employee benefits were as follows:

	Italy		Switzerland	
	<b>FY 2017</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2016</b>
<b>Economic assumptions</b>				
Annual discount rate	0.88%	0.86%	0.70%	0.70%
Expected annual inflation rate	1.50%	1.50%	1.00%	1.00%
Annual rate of increase of severance indemnity	2.625%	2.625%	2.00%	2.00%
<b>Demographic assumptions</b>				
Mortality rate	RG48 mortality tables published by the General Accounting Office of the State	RG48 mortality tables published by the General Accounting Office of the State	BVG GT tables	BVG GT tables
Disability percentage	INPS tables divided by age and sex	INPS tables divided by age and sex	BVG GT tables	BVG GT tables
Retirement age	100% on meeting the requirements for compulsory national social insurance	100% on meeting the requirements for compulsory national social insurance	100% on meeting the requirements for compulsory national social insurance (65m / 64f)	100% on meeting the requirements for compulsory national social insurance (65m / 64f)

The sensitivity analysis performed with a change of economic variables (detailed above) of 0.25% shows no material impacts.

Provisions for other benefits are explained primarily by:

- for €1,809 thousand, the payment of mandatory seniority benefits in Australia;
- for €2,208 thousand, the other severance benefits payable upon termination in France that are similar to the “trattamento di fine rapporto” or “TFR” in Italy.

## 15. Other long-term liabilities

(€ thousands)	31/12/2017	31/12/2016	Change
Payables for business acquisitions	2,355	2,087	268
Other long-term debt	30,372	26,127	4,245
<b>Total</b>	<b>32,727</b>	<b>28,214</b>	<b>4,513</b>

Acquisition liabilities include the estimate of the contingent consideration to be paid on acquisitions made mainly in Germany if certain sales and/or profit targets are reached.

Other long-term debt includes primarily the deferred income from after-sales services, insurances and guarantees for a total amount of €29,235 thousand.

The following tables show the long-term liabilities in accordance with the accounting treatment applied:

(€ thousands)	31 December 2017				
	Amortised cost		Fair value Net Equity		Fair Value through P&L
	Loans and receivables	Financial liabilities	Cash flow Hedge derivatives	Fair Value Hedge non HA	Financial assets and liabilities at FVPL
Payable for business acquisition		2,355			
Other long-term debt		30,372			

(€ thousands)	31 December 2016				
	Amortised cost		Fair value Net Equity		Fair Value through P&L
	Loans and receivables	Financial liabilities	Cash flow Hedge derivatives	Fair Value Hedge non HA	Financial assets and liabilities at FVPL
Payable for business acquisition		2,087			
Other long-term debt		26,127			

## 16. Trade payables

(€ thousands)	31/12/2017	31/12/2016	Change
Trade payables – Associated companies	2	4	(2)
Trade payables – Joint ventures	252	145	107
Trade payables – Related parties	1,345	1,366	(21)
Trade payables – Third parties	135,802	129,666	6,136
<b>Total</b>	<b>137,401</b>	<b>131,181</b>	<b>6,220</b>

Trade payables do not bear interest and are paid within 60 to 120 days.



## 17. Other payables

(€ thousands)	31/12/2017	31/12/2016	Change
Other payables	86,172	75,872	10,300
Accrued expenses and deferred income	20,163	18,979	1,184
Tax payables	26,237	25,447	790
<b>Total other debt</b>	<b>132,572</b>	<b>120,298</b>	<b>12,274</b>
Payables for business acquisitions	9,468	14,485	(5,017)
<b>Total</b>	<b>142,040</b>	<b>134,783</b>	<b>7,257</b>

The other payables mainly comprise: (i) €2,140 thousand relating to customer down-payments; (ii) €18,201 thousand relating to social security liabilities; (iii) €35,855 thousand liabilities to personnel; and (iv) €16,565 thousand relating to commission due to agents.

Accrued expenses and deferred income include €9,507 thousand relating to deferred income from after-sales services, insurances and guarantees.

Payables for business acquisitions refer to the current portion of the contingent consideration (earn-out) to be paid upon reaching certain sales and/or profitability targets relating to acquisitions made in Israel (Medtechnica Ortophone Ltd), Germany, France, Belgium, Canada and Spain (various acquisitions of companies and business units).

Tax payables include mainly: (i) €14,578 thousand in direct taxes; (ii) €5,531 thousand in withholding taxes; (iii) €5,550 thousand in VAT and other indirect taxes.

The following tables show other payables in accordance with the accounting treatment applied:

(€ thousands)	31 December 2017				
	Amortised cost		Fair value Net Equity		Fair Value through PL
	Loans and receivables	Financial liabilities	Cash flow Hedge derivatives	Fair Value Hedge non HA	Financial assets and liabilities at FVPL
Other debts		132,572			
Payables for business acquisitions		9,468			

(€ thousands)	31 December 2016				
	Amortised cost		Fair value Net Equity		Fair Value through P&L
	Loans and receivables	Financial liabilities	Cash flow Hedge derivatives	Fair Value Hedge non HA	Financial assets and liabilities at FVPL
Other debts		120,298			
Payables for business acquisitions		14,485			

## 18. Provisions for risks and charges (current portion)

(€ thousands)	31/12/2017	31/12/2016	Change
Other provisions for risks	4,055	2,346	1,709
<b>Total</b>	<b>4,055</b>	<b>2,346</b>	<b>1,709</b>

The other provisions for risks mainly include the current portion of provisions for product warranties and the costs allocated for restoring premises to the original condition when leases expire.

## 19. Liabilities for employees' benefit (current option)

(€ thousands)	31/12/2017	31/12/2016	Change
Liabilities for employees' benefits - current portion	851	739	112
<b>Total</b>	<b>851</b>	<b>739</b>	<b>112</b>

This item mainly includes the current portion of long-term incentives for some employees of the Group.

## 20. Short-term financial debt

(€ thousands)	31/12/2017	31/12/2016	Change
<i>Bank current accounts</i>	727	340	387
<i>Short-term bank borrowings</i>	5,609	4,061	1,548
<i>Current Portion of Eurobond 2013-2018</i>	275,000	-	275,000
<i>Current portion of long-term debts</i>	496	230	266
<i>Current portion of debts vs. other institutions</i>	16	-	16
<i>Current portion of finance lease obligations</i>	1,080	1,123	(43)
Payables to banks and other financing	282,928	5,754	277,174
Current portion of fees on loans	(281)	(720)	439
Short-term financial debt	660	452	208
Financial accrued expenses and deferred income	8,074	8,030	44
<b>Total</b>	<b>291,381</b>	<b>13,516</b>	<b>277,865</b>

For the current portion of medium and long-term loans refer to the section 12.

Accrued expenses and deferred income of €8,074 thousand relate to the interest owed on the Eurobond (€6,171 thousand) and the 2013-2025 private placement (€1,635 thousand).

## 21. Deferred tax assets and liabilities

The net balance of deferred tax assets and liabilities at 31 December 2017 was as follows:

(€ thousands)	31/12/2017	31/12/2016	Change
Deferred tax assets	45,300	40,744	4,556
Deferred tax liabilities	(60,044)	(62,405)	2,361
<b>Net position</b>	<b>(14,744)</b>	<b>(21,661)</b>	<b>6,917</b>

The changes in deferred tax assets and liabilities during the year, without considering the balances offsets, are detailed below:

### Deferred tax assets

(€ thousands)	Balance at 31/12/2016	Recognised in P&L	Recognised in net equity	Businesses combinations and changes in consolidation area	Exchange differences and other changes	Balance at 31/12/2017
Deferred tax on severance indemnity and pension funds	3,468	(619)	-	43	(218)	2,674
Deferred tax on tax losses carried forward	7,283	2,525	-	-	33	9,841
Deferred tax on intangible, tangible fixed assets & goodwill	3,359	(84)	-	1,828	2,670	7,773
Deferred tax on trademarks and concessions	13,688	(1,522)	-	-	-	12,166
Deferred tax on other provisions	8,386	553	-	42	(2,175)	6,806
Other deferred tax	4,560	1,274	92	473	(359)	6,040
<b>Total</b>	<b>40,744</b>	<b>2,127</b>	<b>92</b>	<b>2,386</b>	<b>(49)</b>	<b>45,300</b>

### Deferred tax liabilities

(€ thousands)	Balance at 31/12/2016	Recognised in P&L	Recognised in net equity	Businesses combinations and changes in consolidation area	Exchange differences and other changes	Balance at 31/12/2017
Deferred tax on severance indemnity and pension funds	(42)	(169)	-	-	187	(24)
Deferred tax on intangible, tangible fixed assets & goodwill	(57,364)	12,268	-	(13,328)	941	(57,483)
Deferred tax on trademarks and concessions	(4,949)	621	-	-	324	(4,004)
Deferred tax on other provisions	(48)	49	-	-	1,468	1,469
Other deferred tax	(2)	-	-	-	-	(2)
<b>Total</b>	<b>(62,405)</b>	<b>12,769</b>	<b>-</b>	<b>(13,328)</b>	<b>2,920</b>	<b>(60,044)</b>

The net change in deferred tax assets and liabilities is provided below:

(€ thousands)	Balance at 31/12/2016	Recognised in PL	Recognised in net equity	Businesses combinations and changes in consolidation area	Exchange differences and other changes	Balance at 31/12/2017
Deferred tax on severance indemnity and pension funds	3,426	(788)	-	43	(31)	2,650
Deferred tax on tax losses carried forward	7,283	2,525	-	-	33	9,841
Deferred tax on intangible, tangible fixed assets & goodwill	(54,005)	12,184	-	(11,500)	3,611	(49,710)
Deferred tax on trademarks and concessions	8,739	(901)	-	-	324	8,162
Deferred tax on other provisions	8,338	602	-	42	(707)	8,275
Other deferred tax	4,558	1,274	92	473	(359)	6,038
<b>Total</b>	<b>(21,661)</b>	<b>14,896</b>	<b>92</b>	<b>(10,942)</b>	<b>2,871</b>	<b>(14,744)</b>

The net change in deferred taxes recorded in the income statement amounting to €14,896 thousand, for € 9,604 thousand is related to the correction of deferred taxes in the United States following the reform that reduced the tax rate on corporate income from 35% to 21%.

Deferred tax assets on prior-year tax losses carried forward are as follows:

(€ thousands)	31/12/2017	31/12/2016	Change
Iberian Peninsula	-	2,615	(2,615)
Germany	9,649	3,858	5,791
The Netherlands	-	601	(601)
United States and Canada	-	23	(23)
Israel	192	186	6
<b>Total</b>	<b>9,841</b>	<b>7,283</b>	<b>2,558</b>

At 31 December 2017 the following prior-year losses had not given rise to deferred tax assets:

(€ thousands)	Prior-year tax losses	Rate	Deferred tax assets not recognised in the accounts	Due date
Spain	12,423	25.0%	3,106	None
Portugal	1,277	21.0%	268	14 years
UK	65,419	17.0%	11,121	None
India	11,002	30.9%	3,400	3-10 years
Canada	8,167	26.5%	2,164	14-20 years
Poland	2,434	19.0%	462	1-5 years
<b>Total</b>	<b>100,722</b>		<b>20,521</b>	

## 22. Revenues from sales and services

(€ thousands)	FY 2017	FY 2016	Change
Revenues from sale of products	1,223,948	1,096,827	127,121
Revenues from services	42,046	36,270	5,776
<b>Total</b>	<b>1,265,994</b>	<b>1,133,097</b>	<b>132,897</b>

The increase of €132,897 thousand in revenues from sales and services in the period is explained for €75,204 thousand (+6.6%) by organic growth including the contribution of new store openings and for €66,164 thousand (+5.9%), by acquisitions, while foreign exchange differences had a negative impact of €8,471 thousand (-0.8%).

## 23. Operating costs

(€ thousands)	FY 2017	FY 2016	Change
Cost of raw materials, consumables and supplies and change in inventories of raw materials, consumables and supplies	(269,988)	(254,142)	(15,846)
Personnel expenses – Points of sale	(239,009)	(199,560)	(39,449)
Commissions – Points of sale	(90,664)	(85,130)	(5,534)
Rental costs – Points of sale	(64,506)	(54,218)	(10,288)
<b>Total</b>	<b>(664,167)</b>	<b>(593,050)</b>	<b>(71,117)</b>
Other personnel expenses	(159,015)	(139,308)	(19,707)
Other rental costs	(6,494)	(5,448)	(1,046)
Other costs for services	(228,483)	(204,473)	(24,010)
<b>Total other operating costs</b>	<b>(393,992)</b>	<b>(349,229)</b>	<b>(44,763)</b>
<b>Total operating costs</b>	<b>(1,058,159)</b>	<b>(942,279)</b>	<b>(115,880)</b>

The balance shown for FY 2017 includes €4,992 thousand in non-recurring expenses incurred to integrate the AudioNova businesses acquired in France and Portugal.

The breakdown of “Personnel expenses – Points of sale” and “Other personnel expenses” is as follows:

(€ thousands)	FY 2017	FY 2016	Change
Wages and salaries	(298,321)	(256,735)	(41,586)
Stock options and performance stock grant	(16,394)	(11,261)	(5,133)
Social contributions	(61,809)	(52,589)	(9,220)
Other personnel costs	(20,209)	(17,074)	(3,135)
Directors’ remuneration and oversight bodies	(1,291)	(1,209)	(82)
<b>Total</b>	<b>(398,024)</b>	<b>(338,868)</b>	<b>(59,156)</b>

## Staff headcount by geographical area:

	31/12/2017		31/12/2016	
	Number	Average	Number	Average
Italy	480	465	449	439
France	1,133	1,015	897	853
Switzerland	288	272	256	247
Hungary	178	163	147	129
Germany	1,453	1,312	1,170	967
Iberian Peninsula	543	523	503	461
Belgium and Luxemburg	152	148	144	130
The Netherlands	691	691	691	673
Poland	141	136	130	110
United Kingdom and Ireland	500	505	509	505
Israel	197	200	202	164
Turkey	73	70	67	56
Egypt	171	168	165	168
<b>Total EMEA</b>	<b>6,000</b>	<b>5,668</b>	<b>5,330</b>	<b>4,900</b>
USA and Canada	364	375	385	383
Brazil	40	42	44	39
<b>Total Americas</b>	<b>404</b>	<b>417</b>	<b>429</b>	<b>423</b>
Australia	950	877	803	784
New Zealand	391	369	347	338
India	385	340	295	315
Singapore	2	1	-	-
<b>Total Asia Pacific</b>	<b>1,728</b>	<b>1,587</b>	<b>1,445</b>	<b>1,437</b>
<b>Total Group</b>	<b>8,132</b>	<b>7,672</b>	<b>7,204</b>	<b>6,760</b>

## 24. Other income and costs

(€ thousands)	FY 2017	FY 2016	Change
Other income and costs	4,656	(3,959)	8,615
<b>Total</b>	<b>4,656</b>	<b>(3,959)</b>	<b>8,615</b>

The balance shown for the year relates primarily to the positive impact of a few deferred payments for acquisitions which were not made. Please note that the figure for the comparison period includes €2,502 thousand in non-recurring expenses explained by advisory fees paid related to an acquisition which was not completed.

## 25. Depreciation and amortisation

(€ thousands)	FY 2017	FY 2016	Change
<i>Amortisation of intangible fixed assets</i>	(30,899)	(25,424)	(5,475)
<i>Depreciation of tangible fixed assets</i>	(30,788)	(27,033)	(3,755)
Amortisation and depreciation	(61,687)	(52,457)	(9,230)
Impairment	(1,127)	(7,353)	6,226
<b>Total</b>	<b>(62,814)</b>	<b>(59,810)</b>	<b>(3,004)</b>

“Impairment” includes the following non-recurring items:

- write-downs of assets pertaining to the AudioNova stores closed as part of the restructuring process recognized in 2017 (€214 thousand);
- the partial write-down of goodwill recognized in the UK in 2006 when the Ultravox Group was acquired based on the results of impairment tests conducted in 2016 (€5,489 thousand).

## 26. Financial income, charges and changes in value of financial assets

(€ thousands)	FY 2017	FY 2016	Change
<b>Proportionate share of the result of associated companies valued at equity</b>	<b>500</b>	<b>419</b>	<b>81</b>
<b>Other income, charges, revaluation and write-downs of financial assets</b>	<b>2</b>	<b>13</b>	<b>(11)</b>
Interest income on bank accounts	572	624	(52)
Interest expenses on short and long-term bank loans	(18,766)	(18,566)	(200)
<b>Interest income and expenses</b>	<b>(18,194)</b>	<b>(17,942)</b>	<b>(252)</b>
<b>Other financial income and charges</b>	<b>(1,090)</b>	<b>(1,011)</b>	<b>(79)</b>
Exchange gains	1,575	3,101	(1,526)
Exchange losses	(2,267)	(5,546)	3,279
Gain/(losses) on financial assets at fair value – Non hedge accounting (derivates)	144	1,288	(1,144)
<b>Exchange differences and non hedge accounting derivatives</b>	<b>(548)</b>	<b>(1,157)</b>	<b>609</b>
<b>Total</b>	<b>(19,330)</b>	<b>(19,678)</b>	<b>348</b>

Interest payable on financial indebtedness amounted to €18,766 thousand at 31 December 2017 (versus €18,566 thousand at 31 December 2016). The slight increase is explained by the commitment fees and commissions paid on the 5-year irrevocable credit lines stipulated beginning year-end 2016 and on the bank loans granted in the second half of 2017 which have yet to be utilized.

Interest receivable on bank deposits came to €572 thousand at 31 December 2017, versus €624 thousand at 31 December 2016. The drop is linked to both the decrease in average available funds and the overall decline in interest paid on deposits.

Other financial income and charges include €638 thousand (€633 thousand in 2016) relating to the cost of factoring without recourse of receivables payable by the Italian public sector and insurance companies in the Netherlands.

The gains and losses on financial assets measured at fair value refer primarily to forwards hedging currency risk on intercompany loans denominated in British pounds between Amplifon S.p.A. and a UK subsidiary offset by exchange gains and losses.

### Interest rate risk - sensitivity analysis:

As mentioned above, all the indebtedness generates interest at a fixed rate. More in detail:

- the US\$ private placements are hedged against interest rate risk. As a result of the swaps, the Euro interest rate was set at 3.9% (average rate) for the different tranches of the 2013-2025 private placement (equal to US\$130 million);
- the €275 million 5-year bond loan reserved for non-American institutional investors and listed on the Luxembourg Stock Exchange's Euro MTF issued on 16 July 2013 by Amplifon S.p.A. (Eurobond) has a coupon of 4.875%;
- as a result of hedges, the €100 million loan granted by UniCredit of which €10 million utilized and the €50 million loan granted by Banco BPM of which €5 million utilized are fixed rate. More in detail, as a result of the swap carried out in 2017, effective 6 April 2018 when the remaining €90 million will be disbursed, the UniCredit loan is subject to a fixed rate of 0.987%. The loan granted by Banco BPM has a fixed rate of 1.329% following the hedge completed in 2018, effective 16 July 2018 when the remaining €45 million will be disbursed.

With respect to the remaining financial assets and liabilities at floating-rate the following table highlights the higher/lower income before tax arising from increases/decreases in interest rates.

(€ thousands)					
2017	Note	Balance at 31 December 2017	Average exposure	Increase/ decrease in interest rates (in %)	Effect on profit before tax
<b>Current assets</b>					
Bank current accounts and short-term bank deposits	9	122,922		1.00%	1,300
<b>Current liabilities</b>					
Bank current accounts	20	(727)		1.00%	(13)
Short-term bank borrowings	20	(5,609)		1.00%	(369)
<b>Total effect on profit before tax</b>					<b>918</b>
<b>Current assets</b>					
Bank current accounts and short-term bank deposits	9	122,922		-0.80%	(319)
<b>Current liabilities</b>					
Bank current accounts	20	(727)		-0.80%	6
Short-term bank borrowings	20	(5,609)		-0.80%	45
<b>Total effect on profit before tax</b>					<b>(268)</b>



(€ thousands)					
2016	Note	Balance at 31 December 2016	Average exposure	Increase/ decrease in interest rates (in %)	Effect on profit before tax
<b>Current assets</b>					
Bank current accounts and short-term bank deposits	9	183,011		1.00%	1,830
<b>Current liabilities</b>					
Bank current accounts	20	(340)		1.00%	(3)
Short-term bank borrowings	20	(4,061)		1.00%	(41)
<b>Total effect on profit before tax</b>					<b>1,786</b>
<b>Current assets</b>					
Bank current accounts and short-term bank deposits	9	183,011		-0.25%	(458)
<b>Current liabilities</b>					
Bank current accounts	20	(340)		-0.25%	4
Short-term bank borrowings	20	(4,061)		-0.25%	22
<b>Total effect on profit before tax</b>					<b>(432)</b>

In light of interest rate levels at 31 December 2017 (ECB Euro Rate of 0.0%), sensitivity analysis considers an upside of 1% and a downside of -0.25% for the Euro area, while specific considerations have been made for the remaining countries applying a rate of -0.8%.

### Currency risk - sensitivity analysis:

The 2013-2015 private placement issued in US Dollars and equal to 130 million, is object of currency risk hedging. In particular, as a consequence of the derivative instruments in place, the Group has fixed the Euro/Dollar exchange rate for the whole duration of the loan.

Therefore, it is reasonable to assume that any change in exchange rates will not give rise to a significant profit and loss effect as the foreign currency positions and the hedging derivatives will automatically generate changes of the same amount but of the opposite sign.

Similar considerations may be made with regard both intercompany loans denominated in currencies other than Euro between Amplifon S.p.A. and a UK subsidiary.

The intercompany loans between the Australian and New Zealand companies and between American and Canadian companies are considered equity investments insofar as they are not interest bearing and are not expected to be repaid. Any changes in exchange rates are, therefore, charged directly to the translation reserve without passing through the income statement.

Taking into account the above comments on foreign exchange costs net of the hedging effect, the residual currency risk on receivables, payables and future revenue streams which have not been hedged is not significant.

## 27. Income tax

(€ thousands)	FY 2017	FY 2016	Change
Current income tax	(44,765)	(44,257)	(508)
Deferred income tax	14,896	662	14,234
<b>Total</b>	<b>(29,869)</b>	<b>(43,595)</b>	<b>13,726</b>

(€ thousands)	FY 2017	FY 2016	Change
Profit (loss) before tax	130,347	107,371	22,976
Tax for the year	(29,869)	(43,595)	13,726
<b>Tax rate</b>	<b>-22.9%</b>	<b>-40.6%</b>	<b>17.7%</b>

The following table reconciles tax recognised in the consolidated financial statements to theoretical tax charge calculated on the basis of Italy's current tax rates.

(€ thousands)	December 2017 Tax effect	%	Dicembre 2016 Tax effect	%
Reconciliation to effective tax rate				
<b>Effective tax rate</b>	<b>29,869</b>	<b>22.9%</b>	<b>43,595</b>	<b>40.6%</b>
United Kingdom and other minor: non-recognition of deferred taxes on the year's losses; partial write-down of goodwill recognized in UK	(2,315)	-1.8%	(7,516)	-7.0%
Recognition of tax assets on prior years and write-down of previously recorded tax assets	5,039	3.9%	-	-
Patent Box recognition	5,918	4.5%	-	-
Effect of different tax rate of companies not taxed in Italy	(8,497)	-6.5%	(4,080)	-3.8%
Current and deferred taxes: change of tax rate and corrections of errors	9,449	7.2%	2,040	1.9%
Non-deductible expense net of non taxable income	(2,572)	-2.0%	(1,825)	-1.7%
<b>Effective tax rate net of IRAP/CVAE</b>	<b>36,691</b>	<b>28.3%</b>	<b>32,214</b>	<b>30.0%</b>
IRAP [regional tax on productive activity], CVAE and other taxes not linked to PBT	5,608	-4.3%	(2,684)	-2.5%
<b>Corporate Tax Rate</b>	<b>31,283</b>	<b>24.0%</b>	<b>29,529</b>	<b>27.5%</b>

The decline in the tax rate (from 40.6% in the prior year to 22.9% in 2017) is primarily explained by the one-off tax benefit of €9,604 thousand related to a change in deferred tax in the United States following approval of the tax reform which caused the corporate tax rate to fall from 35% to 21%. Net of this amount, the tax rate for recurring operations comes to 30.0%. Other factors which contributed to the lower tax rate include (i) the agreement signed with the Italian Tax Authority relating to the methods and criteria used to calculate the economic contribution of intangible assets to the company's income as per the so-called Patent Box regime for the period 2015-2019 which resulted in a tax benefit for the three-year period 2015-2017 of €5,918 thousand, €2,709 thousand of which for the period 2015-2016 and €3,209 thousand of which for 2017, (ii) the utilization, following confirmation during the year of their recoverability, of deferred tax assets relating to carried forward losses and other temporary differences recorded in previous years which, net of the previous write-downs of tax assets, amounted to €5,039

thousand, as well as the improved performance of subsidiaries for which no deferred tax assets were recognized which caused the latter to fall as a percentage of the Group's tax rate from the 7.0% recorded in 2016 to 1.8% in 2017.

## 28. Stock option – Performance stock grant

### General characteristics of stock option plans

- The purpose of the issue and therefore of the award of the option rights, is to offer the beneficiaries, who hold particularly important positions within the Group, the possibility to participate in Amplifon's share capital in order to align their interests with those of the Shareholders and to obtain their loyalty, given the significant strategic objectives to be attained;
- the award of the option rights is unconditional;
- the price of the shares includes the information related to the company's performance;
- the awards of 14 March 2005, 30 September 2005 and 23 January 2006 were made in accordance with an EGM resolution taken on 19 February 2001 which authorised the Directors to increase Amplifon S.p.A.'s share capital, in one or more stages, by up to 750,000 ordinary shares with a par value of €0.20 (that is 7,500,000 ordinary shares with a par value of €0.02 following the share split approved by shareholders on 27 April 2006);
- the awards of 15 March 2007, 18 December 2008 and 6 November 2009, 16 December 2010 and 19 April 2011 were made in accordance with an EGM resolution taken on 27 April 2006 which authorised the Directors to increase Amplifon S.p.A.'s share capital, in one or more stages, by up to €150,000 par value through the issuance of 7,500,000 ordinary shares with a par value of €0.02;
- the shares servicing for the purposes of the stock option plan are ordinary shares, issued in accordance with article 2441, paragraphs 5 and 8 for the purpose of a stock option plan;
- the exercise of the rights shall be in compliance with the Regulations filed with Borsa Italiana S.p.A. and Consob;
- the Board of Directors is entitled to draft regulations, choose the beneficiaries and determine the quantity and values for the execution of the stock option plans;
- Amplifon S.p.A reserves the indisputable right to modify the plan and the regulations when deemed necessary or merely opportune, following any modification to the provisions of the laws in force at the time of the award, or for any other objective reason that might justify such modification.

The characteristic of the stock options plans currently in place are as follows:

#### A) Stock option award 30 September 2005

On 30 September 2005 the Board of Directors resolved the following award of stock options:

- the objective of the plan is to offer option rights to beneficiaries covering key positions within the Group;
- one-third of the granted rights awarded vest one year following the award date, one-third two years after the award date and the remaining portion three years after the same date, with the exception of the employees of companies with headquarters in France and Spain for whom the options vest for two-thirds two years following the award date and for the remaining portion after three years;
- for each granted option right awarded, the exercise and therefore the subsequent related subscription of Amplifon ordinary shares must take place within seven years, starting from the vesting date, with the exception of the employees of companies having their headquarters in Switzerland for whom the exercise period lasts 10 years;
- only for employee beneficiaries on the payroll at 1 October 2005 of the companies with registered office

in Italy who have undersigned the new Regulation approved by the Remuneration Committee on 12 September 2007, 100% of their option rights may be exercised not earlier than three years from the date of award, meaning that the beneficiary shall subscribe to Amplifon shares and to the terms and conditions listed below only after three years have elapsed from the date of award. The deadline for subscribing to the shares is seven years from the vesting date;

- non-exercised rights shall be automatically lost after such term;
- the price per share which the beneficiary shall pay to Amplifon S.p.A. for the subscription following the exercise of the option rights is defined as equal to the price per share corresponding to the average of the prices reported in the last month before the granting date, that is €56.97 or €5.697 following the share split approved by the Shareholders' Meeting of 27 April 2006;
- only for employee beneficiaries on the payroll at 1 October 2005 of the companies with registered office in Italy who have undersigned the new Regulation approved by the Remuneration Committee on 12 September 2007, the price per share is fixed at €5.713;
- the exercise of the vested option rights shall take place in one or several *tranches*, as long as the minimum

#### Stock Option Plan of 30 September 2005 - general rules

	FY 2017			FY 2016		
	No. of options	Strike price (€)	Market Price (€)	No. of options	Strike price (€)	Market Price (€)
<b>Option rights at 1 January</b>	<b>16,667</b>	<b>5.697</b>	<b>9.05</b>	<b>175,000</b>	<b>5.697</b>	<b>7.995</b>
(Option rights exercised in the period)	8,334	5.697	9.69 (*)	158,333	5.697	8.908 (*)
(Option rights cancelled in the period)	-	-	-	-	-	-
(Option rights forfeited in the period)	-	-	-	-	-	-
<b>Option rights at 31 December</b>	<b>8,333</b>	<b>5.697</b>	<b>12.84</b>	<b>16,667</b>	<b>5.697</b>	<b>9.05</b>
<i>of which exercisable at 31 December</i>	<i>8,333</i>			<i>16,667</i>		

(\*) Average weighted market price at the exercises.

quantity for each *tranche* is equal to 1,000 rights.

#### B) Stock option award 15 March 2007

On 15 March 2007, the Board of Directors resolved an award of stock options under the following terms and conditions:

- the objective of the plan is to offer option rights to beneficiaries covering key positions within the Group;
- the options awarded to employees resident in Italy vest after three years from the award date; one-third of the granted rights vest one year following the award date, one-third two years after the award date and the remaining portion three years after the same date, with the exception of the employees of companies with headquarters in France for whom the options mature for two-thirds two years following the award date and for the remaining portion after three years;
- for each granted option right awarded, the exercise and therefore the subsequent related subscription of Amplifon ordinary shares must take place within seven years, starting from the vesting date;

- non-exercised rights shall be automatically forfeited after such term;
- the price per share which the beneficiary will pay to Amplifon S.p.A. for the subscription following the exercise of the option rights is equal to the price per share corresponding to the average of the prices reported in the last month before the award date, that is €6.914 after the share split;
- the exercise of the vested option rights shall take place in one or several *tranches*, as long as the minimum quantity for each *tranche* is equal to 1,000 rights.

Stock Option Plan of 15 March 2007						
	FY 2017			FY 2016		
	No. of options	Strike price (€)	Market Price (€)	No. of options	Strike price (€)	Market Price (€)
<b>Option rights at 1 January</b>	<b>43,334</b>	<b>6.914</b>	<b>9.05</b>	<b>156,667</b>	<b>6.914</b>	<b>7.995</b>
(Option rights exercised in the period)	30,000	6.914	10.48 (*)	33,334	6.914	8.801 (*)
(Option rights cancelled in the period)	-	-	-	-	-	-
(Option rights forfeited in the period)	13,334	-	-	79,999	-	-
<b>Option rights at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,334</b>	<b>6.914</b>	<b>9.05</b>
<i>of which exercisable at 31 December</i>	-	-	-	43,334	-	-

(\*) Average weighted market price at the exercises.

### C) Stock option award 6 November 2009

On 6 November 2009, the Board of Directors resolved an award of stock options under the following terms and conditions:

- the objective of the plan is to offer option rights to beneficiaries covering key positions within the Group;
- the option rights grant awarded to each beneficiary vest and therefore give right to the subsequent related subscription of Amplifon ordinary shares, under the following terms and conditions, for an amount of 50% after two years and one day from the award date and the remaining portion after three years and one day from the award date;
- for each granted option right awarded, the exercise and therefore the subsequent related subscription of Amplifon ordinary shares must take place within five years, starting from the date of maturity;
- non-exercised rights shall be automatically forfeited after such term;
- the price per share which the beneficiary shall pay to Amplifon S.p.A. for the subscription following the exercise of the option rights shall be equal to the price per share corresponding to the average of the prices reported in the last month before the award date, that is €2.837;
- the exercise of the vested option rights shall take place in one or several *tranches*, as long as the minimum quantity for each *tranche* is 1,000 rights.

## Stock option plan of 6 November 2009

	FY 2017			FY 2016		
	No. of options	Strike price (€)	Market Price (€)	No. of options	Strike price (€)	Market Price (€)
<b>Option rights at 1 January</b>	<b>35,000</b>	<b>2.837</b>	<b>9.05</b>	<b>70,000</b>	<b>2.837</b>	<b>7.995</b>
(Option rights exercised in the period)	35,000	2.837	12.87 (*)	35,000	2.837	8.887 (*)
(Option rights cancelled in the period)	-	-	-	-	-	-
(Option rights forfeited in the period)	-	-	-	-	-	-
<b>Option rights at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,000</b>	<b>2.837</b>	<b>9.05</b>
<i>of which exercisable at 31 December</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>35,000</i>		

(\*) Average weighted market price at the exercises.

## D) Stock option award 16 December 2010

On 16 December 2010, the Board of Directors resolved an award of stock options under the following terms and conditions:

- the objective of the plan is to offer option rights to beneficiaries covering key positions within the Group;
- the option rights awarded to each beneficiary vest and therefore give right to the subsequent related subscription of Amplifon ordinary shares, for an amount of 50% after two years and one day from the award date and the remaining portion after three years and one day from the award date;
- for each granted option right awarded, the exercise and therefore the subsequent related subscription of Amplifon ordinary shares must take place within five years, starting from the date of maturity;
- non-exercised rights shall be automatically forfeited after such term;
- the price per share which the beneficiary will pay to Amplifon S.p.A. for the subscription following the exercise of the option rights shall be equal to the price per share corresponding to the average of the prices reported in the last month before the award date, that is €3.746;
- the exercise of the vested option rights shall take place in one or several *tranches*, as long as the minimum quantity for each *tranche* is 1,000 rights.

## Stock option plan of 16 December 2010

	FY 2017			FY 2016		
	No. of option	Strike price (€)	Market Price (€)	No. of option	Strike price (€)	Market Price (€)
<b>Option rights at 1 January</b>	<b>35,151</b>	<b>3.746</b>	<b>9.05</b>	<b>402,589</b>	<b>3.746</b>	<b>7.995</b>
(Option rights exercised in the period)	15,111	3.746	12.18 (*)	367,438	3.746	8.435 (*)
(Option rights cancelled in the period)	-	-	-	-	-	-
(Option rights forfeited in the period)	10,000	-	-	-	-	-
<b>Option rights at 31 December</b>	<b>10,040</b>	<b>3.746</b>	<b>12.84</b>	<b>35,151</b>	<b>3.746</b>	<b>9.05</b>
<i>of which exercisable at 31 December</i>	<i>10,040</i>			<i>35,151</i>		

(\*) Average weighted market price at the exercises.

### E) Stock option award 19 April 2011

On 19 April 2011 Amplifon's Board of Directors, under the 2010-2011 stock option plan approved on 16 December 2010 and as indicated by its Remuneration Committee, granted 215,000 options to key Group employees. This completed the 2006-2011 stock option plan launched at the EGM held on 27 April 2006. The conditions set were as follows:

- the objective of the plan is to offer option rights to beneficiaries covering key positions within the Group;
- the option rights awarded to each beneficiary vest and therefore give right to the subsequent related subscription of Amplifon ordinary shares, for an amount of 50% after two years and one day from the award date and the remaining portion after three years and one day from the award date;
- for each option right awarded, the exercise and therefore the subsequent related subscription of Amplifon ordinary shares must take place within five years, starting from the vesting date;
- unexercised rights shall be automatically forfeited after such term;
- the price per share which the beneficiary will pay to Amplifon S.p.A. for the subscription following the exercise of the option rights shall be equal to the price per share corresponding to the average of the prices reported in the last month before the award date, that is €4.227;
- the exercise of the vested option rights shall take place in one or several *tranches*, provided that the minimum quantity for each *tranche* shall be 1,000 rights.

Stock option plan of 19 April 2011						
	FY 2017			FY 2016		
	No. of option	Strike price (€)	Market Price (€)	No. of option	Strike price (€)	Market Price (€)
<b>Option rights at 1 January</b>	<b>70,000</b>	<b>4.227</b>	<b>9.05</b>	<b>70,000</b>	<b>4.227</b>	<b>7.995</b>
(Option rights exercised in the period)	30,000	-	10.48 (*)	-	-	-
(Option rights cancelled in the period)	-	-	-	-	-	-
(Option rights forfeited in the period)	-	-	-	-	-	-
<b>Option rights at 31 December</b>	<b>40,000</b>	<b>4.227</b>	<b>12.84</b>	<b>70,000</b>	<b>4.227</b>	<b>9.05</b>
<i>of which exercisable at 31 December</i>	<i>40,000</i>			<i>70,000</i>		

(\*) Average weighted market price at the exercises.

## Residual life of awarded stock options

Options assigned up to 31/12/2017								
Strike price	Awarded on	Residual life				Total	Exercisable	
		< 1 year	1-5 years	5-10 years	Number of shares		Average expiring date	
5.697	30/09/2005	8,333	-	-	8,333	8,333		1 year
3.746	16/12/2010	10,040	-	-	10,040	10,040		1 year
4.227	19/04/2011	5,000	35,000	-	40,000	40,000		2 years
<b>Total</b>		<b>23,373</b>	<b>35,000</b>	<b>-</b>	<b>58,373</b>	<b>58,373</b>		

### General characteristics of the Performance Stock Grant Plan 2011-2020

On 16 December 2010 the Board of Directors – as resolved by the Shareholders' Meeting held on 13 December 2010 – approved the regulation of the Performance Stock Grant Plan 2011-2020 with the following general characteristics:

- the Plan provides for the grant of rights, each of which gives the right to Company stock to be granted to beneficiaries in key positions in the Group at the end of the vesting period (4.5 years);
- for each grant cycle, the Board of Directors is empowered to identify the beneficiaries and to set the number of rights to be granted to each beneficiary;
- the Board may also make such changes to the Plan as it considers necessary, at its sole discretion, with the aim e.g. of: (i) accommodating changes in the law; or (ii) making it possible for the Beneficiaries to benefit or continue to benefit from favorable regulations;
- the vesting of rights and the consequent grant of all or some of the Shares shall be subject to the following conditions:
  - (i) on the award date of the shares the beneficiary must be an employee of a Group company, and not be working out a period of notice following dismissal or resignation;
  - (ii) on the award date of the shares the reference price should be at least equal to the reference price; and
  - (iii) the individual performance levels assigned to the beneficiary must not be lower - throughout the reference period - than 100% achievement. Where these conditions are not met, the number of shares due to the beneficiary will be reduced by 25% for each reference period in which targets are not met.

On 24 April 2013 the Board of Directors approved, based on proposal of the Remuneration Committee of 27 February 2013, the amendments to the "2011-2020 Performance Stock Grant" plan as approved by the shareholders meeting held on 17 April 2013.

In particular the condition which links the transformation of rights to the performance of Amplifon's stock in the last three months of the vesting period was cancelled.

Furthermore the exercise period, subsequent to vesting, was extended to 2.5 years (each grant cycle, therefore, will have a total duration of 7 years), the prime objective of which is to reduce the risk of a large number of shares being sold at the same time.



Below are reported the details of the cycles of assignment of the Performance Stock Grant plan 2011-2020:

### A) Stock grant 15 January 2011

Stock grant 15 January 2011				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	<b>116,500</b>	<b>9.05</b>	<b>235,292</b>	<b>7.995</b>
(Rights converted in the period)	92,500	12.233 (*)	118,792	8.596 (*)
(Rights cancelled in the period)	24,000	-	-	-
<b>Option rights at 31 December</b>	<b>-</b>	<b>-</b>	<b>116,500</b>	<b>9.05</b>

(\*) Average weighted market price at the exercises.

### B) Stock grant 16 May 2011

Stock grant 16 May 2011				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	<b>103,833</b>	<b>9.05</b>	<b>210,333</b>	<b>7.995</b>
<b>Options rights restored in period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
(Rights converted in the period)	103,833	12.619 (*)	106,500	8.398 (*)
(Rights cancelled in the period)	-	-	-	-
<b>Option rights at 31 December</b>	<b>-</b>	<b>-</b>	<b>103,833</b>	<b>9.05</b>

(\*) Average weighted market price at the exercises.

### C) Stock grant 15 March 2012

Stock grant 15 March 2012				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	<b>248,793</b>	<b>9.05</b>	<b>1,540,375</b>	<b>7.995</b>
(Rights converted in the period)	214,293	11.07 (*)	1,247,707	8.836 (*)
(Rights cancelled in the period)	-	-	43,875	-
<b>Option rights at 31 December</b>	<b>34,500</b>	<b>12.84</b>	<b>248,793</b>	<b>9.05</b>

(\*) Average weighted market price at the exercises.

## D) Stock grant 2 May 2013

Stock grant 2 May 2013				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	<b>1,296,750</b>	<b>9.05</b>	<b>1,438,000</b>	<b>7.995</b>
(Rights converted in the period)	899,375	12.439 (*)	30,000	7.919 (*)
(Rights cancelled in the period)	23,375	-	111,250	-
<b>Option rights at 31 December</b>	<b>374,000</b>	<b>12.84</b>	<b>1,296,750</b>	<b>9.05</b>

(\*) Average weighted market price at the exercises.

## General characteristics of the New Performance Stock Grant Plan 2014-2021

On 28 April 2014 the Board of Directors – as resolved by the Shareholders' Meeting held on 16 April 2014 and based on the recommendations of the Remuneration & Appointment Committee – approved the regulations of the New Performance Stock Grant Plan 2014-2021 with the following general characteristics:

- the plan provides for the grant of rights, each of which gives the right to a Company share to be granted at the end of the vesting period (3,5 years) to beneficiaries falling within one of the following clusters:
  - (1) Executives & Senior Managers;
  - (2) International Key Managers and Group & Country Talents;
  - (3) High Performing Audiologists & Sales Managers.
- the vesting of the rights and, therefore, the grant of the related shares is subject to the following main condition that as of the date of grant of the shares the beneficiary is an employee of one of the companies of the Group and no notice period subsequent to resignation and/or withdrawal is under way. Furthermore for the Cluster 1 and Cluster 2 the plan foresee further conditions to attribute the financial instruments:
  - Cluster 1: achievement of Group 3Y business targets;
  - Cluster 2: level of the Individual Performance of the Beneficiary are not lower, in all the Reference Periods, to Fully Meets Expectations.
- the exercise of the vested rights should be performed within the deadline of the exercise period (2.5 years from the date of vesting of the rights) and is subject to a minimum threshold value of the Amplifon Spa share defined by the Board of Directors.

For each cycle of assignment, the Board of Directors is empowered to identify the beneficiaries and to set the number of rights to be granted to each beneficiary.

The Board of Directors may at any time make changes to the Regulations as may be necessary and/or appropriate in connection with, in particular, the case of changes to the applicable law.

On 21 April 2015, following the proposal of the Board of Directors of 3 March 2015 and heard the opinion of the Remuneration and Appointment Committee, the Shareholders' Meeting discussed and approved the modifications to the stock plan for the period 2014-2021 (the "New Plan of Performance Stock Grant").

In particular, the modification approved by the Shareholders' Meeting concerns the extension of the plan also to collaborators not related to the Company by employment contracts and the subsequent variation in the identification of the beneficiaries who are currently defined as employees and collaborators of a Group entity, belonging to the following categories:

- Cluster 1: Executives & Senior Managers;
- Cluster 2: International Key Managers; Group & Country Talents;
- Cluster 3: High Performing Audiologists & Sales Managers.

This extension will allow to include also the agents currently working in Italy, Spain and Belgium with the aim to adequately sustain, also in terms of retention, the different business models through which the Amplifon Group operates.

On 29 April 2015 the Board of Directors of the Company, approved the modification to the operative Regulation of the plan, in line with the changes approved by the Shareholders' Meeting.

On 18 April 2016, following the proposal of the Board of Directors and heard the opinion of the Remuneration and Appointment Committee, the Shareholders' Meeting discussed and approved the modifications to the share plan for the period 2014-2021. The purpose of the modification is to align the Plan to a new provision introduced in France as the result of Law n. 2015-990 dated August 6th, 2015 (the "Macron Law").

The amendment allows the beneficiaries and the Company to take advantage of a more favorable fiscal and social contribution regime.

The provisions that, in line with the Macron Law, have been amended, regard in particular:

- (a) the elimination of an exercise period of 2.5 years;
- (b) the introduction of specific "closed periods" during which the employees cannot sell the shares obtained in relation to the incentive plan.

All the key characteristics of the Plan, among which the number of available rights, the timing and conditions for the rights' maturation remain unchanged.

The amendment affects only French beneficiaries and does not have any retroactive effects on previous awards to French beneficiaries.

Below are reported the details of the cycles of assignment of the New Performance Stock Grant plan 2014-2021 currently in place, including new assignments that have taken place in the year 2017.

### A) Stock grant 28 April 2014

Stock grant 28 April 2014				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	<b>2,022,000</b>	<b>9.05</b>	<b>2,125,500</b>	<b>7.995</b>
Rights - Upside	305,500	-	-	-
(Rights converted in the period)	1,552,787	12.42 (*)	-	-
(Rights cancelled in the period)	32,833	-	103,500	-
<b>Option rights at 31 December</b>	<b>741,880</b>	<b>12.84</b>	<b>2,022,000</b>	<b>9.05</b>

(\*) Average weighted market price at the exercises.

### B) Stock grant 29 April 2015

Stock grant 29 April 2015				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	<b>2,219,520</b>	<b>9.05</b>	<b>2,399,500</b>	<b>7.995</b>
Rights granted in the period	-	-	-	-
(Rights converted in the period)	7,500	12.00 (*)	-	-
(Rights cancelled in the period)	196,967	-	180,000	-
<b>Option rights at 31 December</b>	<b>2,015,033</b>	<b>12.84</b>	<b>2,219,500</b>	<b>9.05</b>

(\*) Average weighted market price at the exercises.

### C) Stock grant 22 October 2015

Stock grant 22 October 2015				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	<b>190,500</b>	<b>9.05</b>	<b>191,500</b>	<b>7.995</b>
Rights granted in the period	-	-	-	-
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	-	-	1,000	-
<b>Option rights at 31 December</b>	<b>190,500</b>	<b>12.84</b>	<b>190,500</b>	<b>9.05</b>

## D) Stock grant 27 April 2016

Stock grant 27 April 2016 – General rules				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	1,896,000	9.05	-	-
Rights granted in the period	-	-	2,021,500	8.055
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	235,166	-	125,500	-
<b>Option rights at 31 December</b>	<b>1,660,834</b>	<b>12.84</b>	<b>1,896,000</b>	<b>9.05</b>

Stock grant 27 April 2016 – French rules				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	65,000	9.05	-	-
Rights granted in the period	-	-	65,000	8.055
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	-	-	-	-
<b>Option rights at 31 December</b>	<b>65,000</b>	<b>12.84</b>	<b>65,000</b>	<b>9.05</b>

## E) Stock grant 26 October 2016

Stock grant 26 October 2016 – General rules				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	289,500	9.05	-	-
Rights granted in the period	-	-	289,500	9.7
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	31,500	-	-	-
<b>Option rights at 31 December</b>	<b>258,000</b>	<b>12.84</b>	<b>289,500</b>	<b>9.05</b>

Stock grant 26 October 2016 – French rules				
	FY 2017		FY 2016	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
<b>Option rights at 1 January</b>	40,000	9.05	-	-
Rights granted in the period	-	-	40,000	9.7
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	-	-	-	-
<b>Option rights at 31 December</b>	<b>40,000</b>	<b>12.84</b>	<b>40,000</b>	<b>9.05</b>

## F) Stock grant 27 April 2017

The assumptions adopted in the calculation of the fair value are the following:

	Assignment – General Rule	Assignment – French Rule
Model used	Binomial (Cox-Ross-Rubinstein method)	
Price at grant date	11.85 €	
Threshold	6 €	
Exercise Price	0.00	
Volatility	23.98% (6 years)	21.60% (3 years)
Risk free interest rate	0.303%	0.0%
Maturity (in years)	3.5	
Vesting Date	3 months after the date of approval from the Board of the project of Consolidated Financial Statement as of 31.12.19 (i.e. June 2020)	
Expected Dividend Yield	0.77%	

### Stock grant 27 April 2017 – General rules

	FY 2017	
	N. rights granted	Market Price (€)
Option rights at 1 January	-	-
Rights granted in the period	1,829,950	11.85
(Rights converted in the period)	-	-
(Rights cancelled in the period)	51,900	-
<b>Option rights at 31 December</b>	<b>1,778,050</b>	<b>12.84</b>

### Stock grant 27 April 2017 – French rules

	FY 2017	
	N. rights granted	Market Price (€)
Option rights at 1 January	-	-
Rights granted in the period	85,000	11.85
(Rights converted in the period)	-	-
(Rights cancelled in the period)	8,000	-
<b>Option rights at 31 December</b>	<b>77,000</b>	<b>12.84</b>

## G) Stock grant 25 October 2017

The assumptions adopted in the calculation of the fair value are the following:

	Assignment – General Rule	Assignment – French Rule
Model used	Binomial (Cox-Ross-Rubinstein method)	
Price at grant date	12.59 €	
Threshold	8 €	
Exercise Price	0.00	
Volatility	23.04% (6 years)	21.41% (3 years)
Risk free interest rate	0.410%	0.0%
Maturity (in years)	3.5	
Vesting Date	3 months after the date of approval from the Board of the project of Consolidated Financial Statement as of 31.12.19 (i.e. June 2020)	
Expected Dividend Yield	0.77%	

### Stock grant 25 October 2017 – General rules

	FY 2017		
	N. rights granted	Market Price (€)	
<b>Option rights at 1 January</b>	-	-	-
Rights granted in the period	119,000	12.37	
(Rights converted in the period)	-	-	
(Rights cancelled in the period)	-	-	
<b>Option rights at 31 December</b>	<b>119,000</b>	<b>12.84</b>	

### Stock grant 25 October 2017 – French rules

	FY 2017		
	N. rights granted	Market Price (€)	
<b>Option rights at 1 January</b>	-	-	
Rights granted in the period	3,000	12.37	
(Rights converted in the period)	-	-	
(Rights cancelled in the period)	-	-	
<b>Option rights at 31 December</b>	<b>3,000</b>	<b>12.84</b>	

## Residual life of awarded stock grants

Rights assigned up to 31/12/2017							
Plans	Assignment date	Vesting			Total	Exercise	
		< 1 year	1-5 years	5-10 years		N. of rights	Average expiring date
Performance Stock Grant 2011 - 2020	15/03/2012					34,500	1 year
	02/05/2013					374,000	2 years
Nuovo Performance Stock Grant 2014 - 2021	28/04/2014					741,880	2 years
	29/04/2015	2,015,033			2,015,033		
	22/10/2015	190,500			190,500		
	27/04/2016		1,725,834		1,725,834		
	<i>of which General Rules</i>		1,660,834		1,660,834		
	<i>of which French Rules</i>		65,000		65,000		
	26/10/2016		298,000		298,000		
	<i>of which General Rules</i>		258,000		258,000		
	<i>of which French Rules</i>		40,000		40,000		
	27/04/2017		1,855,050		1,855,050		
	<i>of which General Rules</i>		1,778,050		1,778,050		
	<i>of which French Rules</i>		77,000		77,000		
	25/10/2017			122,000		122,000	
<i>of which General Rules</i>			119,000		119,000		
<i>of which French Rules</i>			3,000		3,000		
<b>Total</b>		<b>2,205,533</b>	<b>4,000,884</b>		<b>6,206,417</b>	<b>1,150,380</b>	

The figurative cost of the stock grants for the period is €16,393 thousand.



## 29. Subsidiaries with relevant non-controlling interests, joint ventures and associated companies

The following table shows the main income statement and balance sheet figures of the subsidiaries with relevant minority interests. The figures are shown before intragroup eliminations.

(€ thousands)	31/12/2017	31/12/2016
Non-current assets	1,070	1,514
Current assets	3,440	3,277
Non-current liabilities	291	745
Current liabilities	3,376	2,880
Revenues	8,357	9,867
Net profit (loss) for the year	(203)	319
Dividends paid to minorities	-	-
Net financial positions	(1,269)	(1,131)
Cash flows	-	116

The following table shows the main income statement and balance sheet highlights of the Dutch joint venture Comfoor BV, accounted for using the equity method. The company is active in the hearing protection sector.

(€ thousands)	31/12/2017	31/12/2016
Non-current assets	1,255	1,219
Current assets	5,675	4,634
Non-current liabilities	208	51
Current liabilities	2,837	2,326
Revenues	8,845	8,146
Amortisation, depreciation and impairment	(359)	(396)
Interest income and charges	(68)	(44)
Net profit (loss)	1,009	853
Net financial positions	2,136	1,150
Cash flows	908	1,068

The reconciliation of the economic-financial figures provided with the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is shown in the following table:

(€ thousands)	31/12/2017	31/12/2016
Net equity of joint-ventures	3,885	3,476
% held	50%	50%
Book value	1,943	1,738

The following table summarizes the key financial figures of the remaining associates accounted for using the equity method.

(€ thousands)	31/12/2017	31/12/2016
Book value	21	21
Non-current assets	57	62
Current assets	134	124
Non-current liabilities	3	10
Current liabilities	222	176
Revenues	355	402
Net profit (loss)	(29)	40

The list of associates accounted for using the equity method, with the percentage of ownership from 20% to 50 %, is reported in Annex 1.

## 30. Earnings per share

### Basic EPS

Basic earnings per share is obtained by dividing the net profit for the year attributable to the ordinary shareholders of the parent company by the weighted average number of shares outstanding in the year, considering purchases and disposals of own shares as cancellations and issues of shares.

Earnings per share is determined as follows.

Earnings per share from operating activities	FY 2017	FY 2016
Net profit (loss) attributable to ordinary shareholders (€ thousand)	100,578	63,620
Average number of shares outstanding in the year	219,095,844	219,322,356
Average earnings per share (€ per share)	0.45906	0.29008

### Diluted EPS

Diluted earnings per share is obtained by dividing the net income for the year attributable to ordinary shareholders of the Parent company by the weighted-average number of shares outstanding during the year adjusted by the diluting effects of potential shares. In the calculation of shares outstanding, purchases and sales of treasury shares are considered as cancellation or issue of shares.

The 'potential ordinary share' categories refer to the possible conversion of Group employees' stock options and stock grants. The computation of the average number of outstanding potential shares is based on the average fair value of shares for the period; stock options and stock grants are excluded from the calculation since they have anti-dilutive effects.

<b>Weighted average diluted number of shares outstanding</b>	<b>FY 2017</b>	<b>FY 2016</b>
Average number of shares outstanding in the year	219,095,844	219,322,356
Weighted average of potential and diluting ordinary shares	5,525,800	5,785,618
Weighted average of shares potentially subject to options in the period	224,621,644	225,107,974

The diluted earnings per share was determined as follows:

<b>Diluted earnings per share</b>	<b>FY 2017</b>	<b>FY 2016</b>
Net profit attributable to ordinary shareholders (€ thousand)	100,578	63,620
Average number of shares outstanding in the period	224,621,644	225,107,974
Average diluted earnings per share (€)	0.44779	0.28262

### 31. Transactions with parent companies and related parties

The Parent company, Amplifon S.p.A. is based in Milan, in Via Ripamonti 133. The Group is directly controlled by Ampliter Srl (already Ampliter N.V.) and indirectly by Amplifin S.p.A., owned by Susan Carol Holland, with 100% of the shares, whilst Anna Maria Formiggini Holland retains usufruct.

Other transactions with related parties, including intercompany transactions, do not qualify as atypical or unusual, and fall within the Group's normal course of business and are conducted at arm's-length as dictated by the nature of the goods and services provided.

The following table details transactions with related parties.

## Parent company and other related parties

(€ thousands)	31/12/2017					FY 2017		
	Trade receivables	Others receivables	Other assets	Financial liabilities	Financial payables	Revenues for sales and services	Operating costs	Interest income and expenses
Amplifin S.p.A.	14						(1,930)	
<b>Total – Parent Company</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,930)</b>	<b>-</b>
Comfoor BV (The Netherlands)	11	253				16	(3,206)	
Comfoor GmbH (Germany)		2					(65)	
Medtechnica Ortophone Shaked Ltd (Israel)	123		5			181		
Ruti Levinson Institute Ltd (Israel)	389					337	(25)	
Afik - Test Diagnosis & Hearing Aids Ltd (Israel)	77		21			371	(8)	
<b>Total – Other related parties</b>	<b>600</b>	<b>255</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>905</b>	<b>(3,304)</b>	<b>-</b>
Bardissi Import (Egypt)		384			47		(1,251)	
Meders (Turkey)		953					(1,699)	
Nevo (Israel)	56						36	
Ortophone (Israel)	2		7				(293)	
Moti Bahar (Israel)							(275)	
Asher Efrati (Israel)							(216)	
Arigcom (Israel)							(78)	
Tera (Israel)			48				(54)	2
Frederico Abrahao (Brazil)				74	449			(54)
<b>Total – Other related parties</b>	<b>58</b>	<b>1,337</b>	<b>55</b>	<b>74</b>	<b>496</b>	<b>-</b>	<b>(3,830)</b>	<b>(52)</b>
<b>Total</b>	<b>672</b>	<b>1,592</b>	<b>81</b>	<b>74</b>	<b>496</b>	<b>905</b>	<b>(9,064)</b>	<b>(52)</b>
<b>Total as per financial statement</b>	<b>132,792</b>	<b>137,401</b>	<b>48,956</b>	<b>123,990</b>	<b>291,381</b>	<b>1,265,994</b>	<b>(1,058,159)</b>	<b>(18,194)</b>
<b>% of financial statement total</b>	<b>0.51%</b>	<b>1.16%</b>	<b>0.17%</b>	<b>0.06%</b>	<b>0.17%</b>	<b>0.07%</b>	<b>0.86%</b>	<b>0.29%</b>

The trade receivables, revenues from sales and services and other income from related parties refer primarily to:

- the recovery of maintenance costs and condominium fees to Amplifin S.p.A.;
- the receivables payable to Amplifin S.p.A. for the partial renovation of one floor at headquarters based on modern and efficient standards for the use of work spaces;
- trade receivables payable by associates (mainly in Israel) which act as resellers and to which the Group supplies hearing aids.

The trade payables and operating costs refer primarily to:

- commercial transactions with Comfoor BV and Comfoor GmbH, joint ventures from which hearing protection devices are purchased and then distributed in Group stores;
- commercial transactions involving the purchase of hearing aids, other products and services in Turkey and Egypt with, respectively, Meders and Bardissi Import (both companies that belong to their minority shareholders). These companies distribute hearing aids in their respective countries and the purchase conditions applied, defined in the Group's framework agreement, are in line with market conditions;
- existing agreements with the parent company Amplifin S.p.A. for:
  - the lease of the property in Milan at Via Ripamonti No. 133, the registered office and corporate headquarters of Amplifon S.p.A. and ancillary services including routine property maintenance, cafeteria, office cleaning, porters and security;
  - the rental of retail store space;
- the recharge of personnel costs to the Israeli subsidiary by the minority shareholders Moti Bahar and Asher Efrati, as well as rents, administrative and commercial services by Ortophone (Israel).

Financial transactions refer primarily to loans granted to Group companies in Egypt and Brazil by their respective minority shareholders and a long-term receivable payable by an affiliate in Israel.

### **Other related parties**

The total remuneration of Group Directors, members of Board of Auditors and Key Managers for the period amounted to €10,823 thousand and is made up as follows:

## Directors, Board of Auditors and Key Managers.

(€ thousands)

First Name and Surname	Office Held	Period in which the office has been held	Term of office ends upon	Non equity variable compensation					FV equity compen.	Termination allowance	Non-competence agreement	Total	
				Fixed compensens.	Committee attendance fees	Bonuses and other incentives	Profit sharing	Fringe benefit.					
<b>Susan Carol Holland</b>	Chairman	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	300	-	-	-	2	302	-	-	-	<b>302</b>
<b>Enrico Vita</b>	CEO	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	400	-	-	-	-	400	-	-	-	<b>2,352</b>
	Managing Director	Permanent		711	-	503	-	31	1,245	707	-	-	
<b>Andrea Casalini</b>	Indep. Director	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	55	30	-	-	-	85	-	-	-	<b>85</b>
<b>Alessandro Cortesi</b>	Indep. Director	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	55	20	-	-	-	75	-	-	-	<b>75</b>
<b>Maurizio Costa</b>	Indep. Director	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	55	30	-	-	-	85	-	-	-	<b>85</b>
<b>Laura Donnini</b>	Indep. Director	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	55	35	-	-	-	90	-	-	-	<b>90</b>
<b>M. Patrizia Grieco</b>	Indep. Director	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	55	20	-	-	-	75	-	-	-	<b>75</b>
<b>Lorenzo Pozza</b>	Indep. Director	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	55	45	-	-	-	100	-	-	-	<b>100</b>
<b>Giovanni Tamburi (1)</b>	Indep. Director	01/01/2017 - 31/12/2017	Approval 2018 financ. stat	55	5	-	-	-	60	-	-	-	<b>60</b>
<b>Raffaella Pagani</b>	Chairman of the Board of Auditors	01/01/2017 - 31/12/2017	Approval 2017 financ. stat	45	-	-	-	-	45	-	-	-	<b>45</b>
<b>Emilio Fano</b>	Standing Auditor	01/01/2017 - 31/12/2017	Approval 2017 financ. stat	30	-	-	-	-	30	-	-	-	<b>30</b>
<b>Maria Stella Brena</b>	Standing Auditor	01/01/2017 - 31/12/2017	Approval 2017 financ. stat	30	-	-	-	-	30	-	-	-	<b>30</b>
<b>Total</b>				<b>1,901</b>	<b>185</b>	<b>503</b>	-	<b>33</b>	<b>2,622</b>	<b>707</b>	-	-	<b>3,329</b>
<b>Others</b>													
<b>(Key managers)</b>													
<b>A. Bonacina (2)</b>													
<b>G. Caruso</b>													
<b>A. Facchini (3)</b>													
<b>C. Finotti</b>													
<b>G. Galli (4)</b>													
<b>M. Gerli</b>	Permanent			2,937	-	1,750	-	459	5,146	1,758	510	80	<b>7,494</b>
<b>U. Giorcelli (5)</b>													
<b>M. Lundeberg (6)</b>													
<b>F. Morichini (7)</b>													
<b>I. Pazzi</b>													
<b>G. Pizzini</b>													
<b>H. Ruch (8)</b>													
<b>C. Stevens (9)</b>													
<b>Total</b>				<b>4,838</b>	<b>185</b>	<b>2,253</b>	-	<b>492</b>	<b>7,768</b>	<b>2,465</b>	<b>510</b>	<b>80</b>	<b>10,823</b>

(1) No longer qualifies as independent as of 22 December

(2) Promoted to the role on 1 February 2017

(3) Employment ended on 30 June 2017

(4) Employment started on 1 March 2017

(5) Employment ended on 28 February 2017

(6) Employment started on 1 May 2017

(7) Employment started on 1 October 2017

(8) Employment ended on 30 June 2017

(9) Promoted to the role on 1 January 2017

Below are detailed stock options and stock grants awarded to the members of Board of Directors, General Managers and Key Managers.

### Stock grants

Name and surname	Office held	Plan (and approval date)	Financial instruments granted in previous years and not vested during the period		Financial instruments granted in the period												
			Num. of financial instruments	Vesting period	Num. of financial instruments	FV at grant date	Vesting period	Grant date	Market price on grant date								
Enrico Vita	CEO and Managing Director	New Performance Stock Grant 28/04/2014	120,000	June 2018	120,000	11.39	June 2020	27/04/17	11.85								
		New Performance Stock Grant 29/04/2015															
		New Performance Stock Grant 27/04/2016															
		New Performance Stock Grant 27/04/2017															
<b>Total</b>			<b>240,000</b>		<b>120,000</b>												
Other key managers: A. Bonacina G. Caruso A. Facchini C. Finotti G. Galli M. Gerli U. Giorcelli M. Lundeborg F. Morichini I. Pazzi G. Pizzini H. Ruch C. Stevens		Performance Stock Grant 02/05/2013	370,000	June 2018	340,000	11.39	June 2020	27/04/17	11.85								
		New Performance Stock Grant 28/04/2014															
		New Performance Stock Grant 29/04/2015															
		New Performance Stock Grant 22/10/2015															
		New Performance Stock Grant 27/04/2016															
		New Performance Stock Grant 27/04/2017															
		New Performance Stock Grant 27/04/2017															
		New Performance Stock Grant 25/10/2017															
		<b>Total other key managers</b>										<b>740,000</b>		<b>310,000</b>			
		<b>Grand Total</b>										<b>980,000</b>		<b>430,000</b>			

(\*) Weighted average of the market price of the underlying shares at the exercise date.

Financial instruments cancelled or expired during the period	Financial instruments vested during the period		Financial instruments exercised during the period		Financial instruments at the end of period	Fair Value FY 2017 (Euro/000)
	Vested financial instruments not exercised	Vested financial instruments exercised	Num. of financial instruments	Num. of financial instruments		
		138,000			138,000	71
					120,000	184
					120,000	226
					120,000	227
		<b>138,000</b>			<b>498,000</b>	<b>707</b>
		235,000	180,000	12.5 (*)	55,000	100
		503,700	200,857	12.5 (*)	302,843	258
110,000					260,000	398
					30,000	58
130,000					210,000	395
					280,000	530
					30,000	19
<b>240,000</b>		<b>738,700</b>	<b>380,857</b>		<b>1,167,843</b>	<b>1,758</b>
<b>240,000</b>		<b>876,700</b>	<b>380,857</b>		<b>1,665,843</b>	<b>2,465</b>



## 32. Guarantees provided, commitments and contingent liabilities

### Guarantees provided to third parties

At 31 December 2017 the item included the following:

(€ thousands)	31/12/2017	31/12/2016
Guarantees provided to third parties	100,363	97,432
<b>Total</b>	<b>100,363</b>	<b>97,432</b>

With regard to the guarantees relating to financial liabilities recognized in the financial statements, only the amount of the guarantee in excess of the liability recognized in the financial statements is shown, in addition to the interest not yet paid (where present).

Guarantees provided include:

- the guarantee issued to the subscribers of the 2013-2025 private placements issued by Amplifon USA of €31,003 thousand;
- the guarantee issued by Amplifon USA and National Hearing Centres Pty to the investors in the Eurobond 2013-2018 issued by Amplifon S.p.A in 2013, amounting to €6,703 thousand;
- pledges made to third parties relative to rental security deposits amounting to €3,777 thousand;
- surety bonds issued by Amplifon S.p.A. to the Revenue Office for VAT credits amounting to €52,869 thousand;
- miscellaneous guarantees, totaling €6,011 thousand, which include comfort letters issued on behalf of subsidiaries to third parties.

### Obligations

Obligations with regard to future fees amounted at 31 December 2017 to €298,148 thousand, of which €244,415 thousand relates to the lease of stores, €40,614 thousand relates to the rent of offices, €10,322 thousand relates to operating leasing of cars and €2,797 thousand relates to other operating leases. The average lease term is equal to 4.81 years.

### Contingent liabilities and uncertainties

Currently the Group is not exposed to any other particular risks or uncertainties.

## 33. Transactions arising from untypical/unusual operations

Pursuant to Consob Communication of 28 July 2006, it should be noted that during 2017 the Group carried out no atypical and/or unusual transactions, as defined by the Communication.

## 34. Financial risks

With a view to structured management of treasury activities and financial risks, in 2012 the Group finalized and adopted a Treasury Policy which contains guidelines for the management of:

- currency risk;
- interest rate risk;
- credit risk;
- price risk;
- liquidity risk.

### Currency risk

This includes the following types:

- foreign exchange transaction risk, that is the risk of changes in the value of a financial asset or liability, of a forecasted transaction or a firm commitment, changes due to exchange rate fluctuations;
- foreign exchange translation risk that is the risk that the translation of the assets, liabilities, revenues and costs relating to net investment in a foreign operation into the reporting currency gives rise to an exchange gain or loss.

The Amplifon Group's foreign exchange transaction risk is largely limited as each country is substantially autonomous in the operation of its business, incurring costs in the same currency as it realizes revenue, with the exception of Israel, where purchases are made in Euros and US dollars and Canada where a minority portion of purchase costs are incurred in US dollars. The size, however, of the subsidiary with respect to the Group and the fact that the products purchased subject to currency risk represent only a small part of total costs, ensures that any significant currency volatility will not have a material impact on the subsidiary or the Group.

Foreign exchange transaction risk, therefore, derives primarily from intragroup transactions (medium-long term and short-term loans, charge backs for intercompany service agreements) which result in currency risk for the companies operating in currencies other than that of the intragroup transaction. Additionally, investments in financial instruments denominated in a currency different from the investor's local currency can result in foreign exchange transaction risk. Foreign exchange translation risk arises from investments in the United States, Canada, United Kingdom, Switzerland, Hungary, Turkey, Poland, Israel, Australia, New Zealand, India, Egypt and Brazil.

The Group's strategy aims to minimize the impact of currency volatility on the income statement and calls for significant positions in foreign currency to be hedged against foreign exchange risk through specific derivative instruments. These include: (i) bonds issued in US dollars by Amplifon S.p.A. and subscribed by Amplifon USA Inc, (ii) intercompany loans in currency other than the Euro between Amplifon S.p.A. and the subsidiaries in the United Kingdom.

The intercompany loans between the Australian and New Zealand companies and between the American and Canadian companies are considered equity investments insofar as the loans are non-interest-bearing and not expected to be repaid. The impact of exchange differences is recognized directly in the translation reserve at equity without passing through the income statement.

The risks arising from other intragroup transactions worth less than €1 million (or the equivalent if denominated in another currency) are not hedged as the amounts are not material.

In light of the above, during the year currency fluctuations did not result in significant foreign exchange gains or losses being recognized in the Amplifon Group's consolidated financial statements.

Foreign exchange translation risk, in accordance with the Group Treasury Policy, is not hedged. Overall the impact of foreign exchange translation risk can be seen in the Group's Euro denominated EBITDA which dropped by €629 thousand (-0.04%) percentage points with respect to the Group's total EBITDA.

### **Interest rate risk**

Interest rate risk includes the following situations:

- fair value risk, namely the risk that the value of a fixed rate financial asset or liability changes due to fluctuations in market interest rates;
- cash flow risk, namely the risk that the future cash flows of a floating rate financial asset or liability fluctuate due to changes in market interest rates.

In the Amplifon Group fair value risk arises on the issue of fixed rate bonds (private placement and Eurobond). Cash flow risk derives from floating rate bank loans.

The Group's strategy is to minimize cash flow risk, especially with respect to long-term exposures, through a balanced division between fixed- and floating-rate loans, judging whether to switch floating-rate borrowings to fixed-rate when each loan is taken out, as well as over the life of the loans including in light of current market rates. In any event, at least 50% of the debt must be hedged against interest rate risk. At 31 December 2017, all the medium/long debt (€376 million at the hedging exchange rate) is linked to fixed rate capital market issues which to date have yet to be converted to floating rate debt as currently interest rates are low and the possibility that they will increase is limited and for €150 million (of which €15 million used) to floating rate bank loans that have been converted to a fixed rate through Interests Rate Swaps.

### **Credit risk**

Credit risk is the risk that the issuer of a financial instrument defaults on its obligations resulting in a financial loss for the holder/investor.

In the Amplifon Group credit risk arises from:

- (i) sales made as part of ordinary business operations;
- (ii) the use of financial instruments that require settlement of positions with other counterparties;
- (iii) loans granted to members of the indirect channel and trading partners in the United States and in Spain for investments and business development;
- (iv) residual amounts receivable for the sale of stores owned by the American subsidiary Sonus in the period 2010-2011 which were switched from the direct to the indirect channel.

With regard to the risk under (i) above, the only positions with a high unit value are amounts due from Italian public-sector entities for which the risk of insolvency - while existing - is remote and further mitigated by the fact that they are factored without recourse, on a quarterly basis, with specialized factoring companies. Conversely, the credit risk arising from sales to private individuals based on instalment payment plans is increasing, as is that arising from sales to US indirect channel firms (wholesalers and franchisees). This credit risk, however, is spread out over a number of partners and the amount owed by any single partner does not exceed a few million US dollars. Due to typical business risks, some may not be able to honor their debts. This would result in higher working capital and credit losses. While each subsidiary is responsible for collection of receivables, the Group has set up a centralized system of monthly reporting of trade receivables in

order to monitor the composition and due dates for each country, and shares credit recovery initiatives and policies with local management. With regard to private customers, the majority of which do, however, use cash, payment options such as installment plans or loans (with terms limited to a few months) are offered. These are managed by external finance companies, with the exception of Brazil which is not material for the Group as a whole, which advance the whole amount of the sale to Amplifon. The situation of the indirect channel in the US is closely monitored by local management.

The risk referred to in (ii) above, notwithstanding the inevitable uncertainties linked to sudden and unforeseeable counterparty default, is managed by diversifying among the main national and international investment grade financial institutions and through the use of specific counterparty limits with regard to both liquidity invested and/or deposited and the notional amount of derivative contracts. Counterparty limits are higher if the counterparty has a Standard & Poor's and Moody's short-term rating equal to at least A-1 and P-1, respectively. The Group's CEO and CFO may not carry out transactions with non-investment grade counterparties unless specifically authorized to do so.

With regard to the risk referred to in (iii) above, in the event payments fail to be made on the stores sold, ownership will revert back to Amplifon, while the receivables referred to in (iv) above, are generally personally guaranteed by the beneficiaries and repayments are typically made when the invoices for the purchases of hearing aids are paid.

### Price risk

This arises from the possibility that the value of a financial asset or liability may change due to changes in market prices (other than those caused by currency or interest-rate fluctuations) due to both characteristics specific to the financial asset or liability or the issuer and market factors. This risk is typical of financial assets not listed on an active market, which may not be easy to liquidate at a level close to their fair value.

The Amplifon Group does not have investments in these kinds of instruments and, therefore, this risk currently does not exist.

### Liquidity risk

This risk often arises when an entity is experiencing difficulty finding sufficient funds to meet its obligations and includes the risk that the counterparties that have granted loans or lines of credit may request repayment. This risk, which had become particularly significant due, initially, to the 2008 financial crisis and, more recently, to the sovereign debt crisis affecting the peripheral Euro zone countries and the single currency itself, while smaller, still exists.

In this situation the Group continues to pay the utmost attention to cash flow and debt management, maximizing the positive cash flow from operations, while also carefully monitoring credit lines, even though gross debt is entirely long-term. More in detail, in the last part of 2016 and during 2017 the Group was granted by €195 million in irrevocable five-year credit lines and bank loans for 4-5 years for a total of €150 million which, along with the liquidity recorded at year-end and without taking into account future cash flow, already guarantee full coverage of the first significant portion of debt falling due in July 2018.

We believe therefore, including in light of the positive cash flow that the Group continues to generate, that at least in the short term, liquidity risk is not significant.

## Hedging instruments

Hedging instruments are used by the Group exclusively to mitigate, in line with company strategy, interest rate and currency risk and comprise exclusively financial derivatives. In order to maximize the effectiveness of these hedges the Group's strategy calls for:

- large counterparties with high credit ratings and transactions that fall within the limits determined in the treasury policy in order to minimize counterparty risk;
- the use of instruments that match, to the extent possible, the characteristics of the risk hedged;
- monitoring of the effectiveness of the instruments used in order to check and, possibly, optimize the structure of the instruments used to achieve the purposes of the hedge.

The derivatives used by the Group are generally plain vanilla financial instruments. More in detail, the types of derivatives used include:

- cross currency swaps;
- foreign exchange forwards.

The Group's hedging strategy is reflected in the accounts as described above starting from the time when the following conditions are satisfied:

- the hedging relationship, its purpose and the overall strategy are formally defined and documented; the documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk to be neutralised and the procedures whereby the entity will assess the effectiveness of the hedge;
- the effectiveness of the hedge may be reliably assessed and there is a reasonable expectation, confirmed by ex post evidence, that the hedge will be highly effective for the period in which the hedged risk is present;
- if the hedged risk is that there may be changes in cash flow arising from a future transaction, the latter is highly probable and has exposure to changes in cash flow that could affect profit and loss.

The Group does not have in place any hedges of a net investment.

## 35. Translation of foreign companies' financial statements

The exchange rates used to translate non-Euro zone companies' financial statements are as follows:

	31 December 2017		31 December 2016	
	Average exchange rate	Year-end exchange rate	Average exchange rate	Year-end exchange rate
Australian dollar	1.473	1.535	1.488	1.460
Canadian dollar	1.465	1.504	1.466	1.419
New Zealand dollar	1.590	1.685	1.589	1.516
Singapore dollar	1.559	1.602	1.527	1.523
US dollar	1.13	1.199	1.107	1.054
Hungarian florin	309.193	310.330	311.438	309.830
Swiss franc	1.112	1.170	1.090	1.074
Egyptian lira	20.156	21.331	11.071	19.211
Turkish lira	4.121	4.546	3.343	3.707
New Israeli sheqel	4.062	4.164	4.249	4.048
Brazilian real	3.605	3.973	3.856	3.431
Indian rupee	73.532	76.606	74.372	71.594
British pound	0.877	0.887	0.819	0.856
Polish zloty	4.257	4.177	4.363	4.410

## 36. Segment information

In accordance with IFRS 8 "Operating Segments", the schedules relative to each operating segment are shown below.

The Amplifon Group's business (distribution and personalization of hearing solutions) is organized in three specific geographical areas which comprise the Group's operating segments: Europe, Middle East and Africa - EMEA - (Italy, France, The Netherlands, Germany, the United Kingdom, Ireland, Spain, Portugal, Switzerland, Belgium, Luxemburg, Hungary, Egypt, Turkey, Poland and Israel), Americas (USA, Canada and Brazil) and Asia-Pacific (Australia, New Zealand and India).

The Group also operates via centralized Corporate functions (Corporate bodies, general management, business development, procurement, treasury, legal affairs, human resources, IT systems, global marketing and internal audit) which do not qualify as operating segments under IFRS 8.

These areas of responsibility, which coincide with the geographical areas (the Corporate functions are recognized under EMEA), represent the organizational structure used by management to run the Group's operations. The reports periodically analyzed by the Chief Executive Officer and Top Management are divided up accordingly, by geographical area.

Performances are monitored and measured for each operating segment/geographical area, through operating profit including amortization and depreciation (EBIT), along with the portion of the results of equity investments in associated companies valued using the equity method. Financial expenses are not monitored insofar as they are based on corporate decisions regarding the financing of each region (own funds versus borrowings) and, consequently, neither are taxes. Items in the statement of financial position are analyzed by geographical area without being separated from the Corporate functions which remain part of EMEA. All the information relating to the income statement and the statement of financial position is determined using the same criteria and accounting standards used to prepare the consolidated financial statements.

## Income Statement – FY 2017<sup>(\*)</sup>

(€ thousands)	EMEA	AMERICAS	APAC	CORPORATE	ELIM.	CONSOLIDATED
Revenues from sales and services	855,628	228,940	179,002	2,424	-	1,265,994
Operating costs	(712,439)	(186,072)	(127,211)	(32,437)	-	(1,058,159)
Other income and costs	2,256	2,288	(300)	412	-	4,656
<b>Gross operating profit by segment (EBITDA)</b>	<b>145,445</b>	<b>45,156</b>	<b>51,491</b>	<b>(29,601)</b>	-	<b>212,491</b>
<b>Amortisation, depreciation and impairment</b>						
Amortisation	(14,408)	(3,830)	(8,149)	(4,512)	-	(30,899)
Depreciation	(24,767)	(1,209)	(4,345)	(467)	-	(30,788)
Impairment and impairment reversals of non-current assets	(947)	(55)	(125)	-	-	(1,127)
	<b>(40,122)</b>	<b>(5,094)</b>	<b>(12,619)</b>	<b>(4,979)</b>	-	<b>(62,814)</b>
<b>Operating result by segment</b>	<b>105,323</b>	<b>40,062</b>	<b>38,872</b>	<b>(34,580)</b>	-	<b>149,677</b>
<b>Financial income, charges and value adjustments to financial assets</b>						
Group's share of the result of associated companies valued at equity	500	-	-	-	-	500
Other income and charges, impairment and revaluations of financial assets						2
Interest income and charges						(18,194)
Other financial income and charges						(1,090)
Exchange gains and losses						(692)
Gain (loss) on assets measured at fair value						144
						<b>(19,330)</b>
<b>Net profit (loss) before tax</b>						<b>130,347</b>
<b>Current and deferred income tax</b>						
Current income tax						(44,765)
Deferred tax						14,896
						<b>(29,869)</b>
<b>Total net profit (loss)</b>						<b>100,478</b>
Minority interests						(100)
<b>Net profit (loss) attributable to the Group</b>						<b>100,578</b>

(\*) For the purpose of P&L reporting by geographical area please note that the corporate structures are placed in EMEA.

## Income Statement – FY 2016<sup>(\*)</sup>

(€ thousands)	EMEA	AMERICAS	APAC	CORPORATE	ELIM.	CONSOLIDATED
Revenues from sales and services	753,717	214,881	162,947	1,552	-	1,133,097
Operating costs	(625,856)	(175,970)	(113,801)	(26,652)	-	(942,279)
Other income and costs	(1,188)	(160)	(71)	(2,540)	-	(3,959)
<b>Gross operating profit by segment (EBITDA)</b>	<b>126,673</b>	<b>38,751</b>	<b>49,075</b>	<b>(27,640)</b>	-	<b>186,859</b>
<b>Amortisation, depreciation and impairment</b>						
Amortisation	(10,382)	(3,576)	(7,498)	(3,968)	-	(25,424)
Depreciation	(22,005)	(861)	(3,827)	(340)	-	(27,033)
Impairment and impairment reversals of non-current assets	(7,285)	-	(68)	-	-	(7,353)
	<b>(39,672)</b>	<b>(4,437)</b>	<b>(11,393)</b>	<b>(4,308)</b>	-	<b>(59,810)</b>
<b>Operating result by segment</b>	<b>87,001</b>	<b>34,314</b>	<b>37,682</b>	<b>(31,948)</b>	-	<b>127,049</b>
<b>Financial income, charges and value adjustments to financial assets</b>						
Group's share of the result of associated companies valued at equity	419	-	-	-	-	419
Other income and charges, impairment and revaluations of financial assets						13
Interest income and charges						(17,942)
Other financial income and charges						(1,011)
Exchange gains and losses						(2,445)
Gain (loss) on assets measured at fair value						1,288
						<b>(19,678)</b>
<b>Net profit (loss) before tax</b>						<b>107,371</b>
<b>Current and deferred income tax</b>						
Current income tax						(44,257)
Deferred tax						662
						<b>(43,595)</b>
<b>Total net profit (loss)</b>						<b>63,776</b>
Minority interests						156
<b>Net profit (loss) attributable to the Group</b>						<b>63,620</b>

(\*) For the purpose of P&L reporting by geographical area please note that the corporate structures are placed in EMEA.



## Statement of Financial Position as at 31 December 2017<sup>(\*)</sup>

(€ thousands)	EMEA	AMERICAS	APAC	ELIM.	CONSOLIDATED
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill	365,022	78,585	241,028	-	684,635
Intangible fixed assets with finite useful life	130,690	16,459	52,807	-	199,956
Tangible fixed assets	118,641	3,440	20,922	-	143,003
Investments valued at equity	1,976	-	-	-	1,976
Financial assets measured at fair value through profit and loss	35	-	-	-	35
Hedging instruments	-	-	-	-	-
Deferred tax assets	40,831	30	4,439	-	45,300
Other assets	7,449	40,951	556	-	48,956
<b>Total non-current assets</b>					<b>1,123,861</b>
<b>Current assets</b>					
Inventories	34,640	314	2,127	-	37,081
Receivables	135,938	33,551	14,427	(3,540)	180,376
Hedging instruments	-	-	-	-	-
Other financial assets					19
Cash and cash equivalents					124,082
<b>Total current assets</b>					<b>341,558</b>
<b>TOTAL ASSETS</b>					<b>1,465,419</b>
<b>LIABILITIES</b>					
<b>Net Equity</b>					<b>588,418</b>
<b>Non-current liabilities</b>					
Medium/long-term financial liabilities					123,990
Provisions for risks and charges	36,994	27,461	935	-	65,390
Liabilities for employees' benefits	14,768	140	1,809	-	16,717
Hedging instruments	2,362	-	-	-	2,362
Deferred taxes	30,945	15,744	13,355	-	60,044
Payables for business acquisitions	2,355	-	-	-	2,355
Other long-term debt	28,865	100	1,407	-	30,372
<b>Total non-current liabilities</b>					<b>301,230</b>
<b>Current liabilities</b>					
Trade payables	93,277	32,166	15,491	(3,533)	137,401
Payables for business acquisitions	8,629	180	659	-	9,468
Other payables	105,498	8,534	18,547	(7)	132,572
Hedging instruments	43	-	-	-	43
Provisions for risks and charges	4,055	-	-	-	4,055
Liabilities for employees' benefits	767	84	-	-	851
Short-term financial liabilities					291,381
<b>Total current liabilities</b>					<b>575,771</b>
<b>TOTAL LIABILITIES</b>					<b>1,465,419</b>

(\*)The items in the statement of financial position are analyzed by the CEO and Top Management by geographical area without being separated from the Corporate functions which are included in EMEA.

## Statement of Financial Position as at 31 December 2016<sup>(\*)</sup>

(€ thousands)	EMEA	AMERICAS	APAC	ELIM.	CONSOLIDATED
<b>ASSETS</b>					
<b>Non-current assets</b>					
Goodwill	298,310	84,310	252,512	-	635,132
Intangible fixed assets with finite useful life	82,392	17,400	62,114	-	161,906
Tangible fixed assets	98,968	3,884	16,942	-	119,794
Investments valued at equity	1,759	-	-	-	1,759
Financial assets measured at fair value through profit and loss	43	-	-	-	43
Hedging instruments	12,223	-	-	-	12,223
Deferred tax assets	37,287	651	2,806	-	40,744
Other assets	6,326	42,986	371	-	49,683
<b>Total non-current assets</b>					<b>1,021,284</b>
<b>Current assets</b>					
Inventories	29,020	484	1,866	-	31,370
Receivables	121,423	41,225	10,097	(3,305)	169,440
Hedging instruments	35	-	-	-	35
Cash and cash equivalents					183,834
<b>Total current assets</b>					<b>384,679</b>
<b>TOTAL ASSETS</b>					<b>1,405,963</b>
<b>LIABILITIES</b>					
<b>Net Equity</b>					
					<b>557,660</b>
<b>Non-current liabilities</b>					
Medium/long-term financial liabilities					399,166
Provisions for risks and charges	31,745	26,709	887	-	59,341
Liabilities for employees' benefits	14,313	172	2,124	-	16,609
Deferred taxes	20,854	25,817	15,734	-	62,405
Payables for business acquisitions	2,052	35	-	-	2,087
Other long-term debt	25,513	27	587	-	26,127
<b>Total non-current liabilities</b>					<b>565,735</b>
<b>Current liabilities</b>					
Trade payables	82,434	39,399	12,646	(3,298)	131,181
Payables for business acquisitions	11,671	2,814	-	-	14,485
Other payables	97,497	4,969	17,839	(7)	120,298
Hedging instruments	3	-	-	-	3
Provisions for risks and charges	2,346	-	-	-	2,346
Liabilities for employees' benefits	608	131	-	-	739
Short-term financial liabilities					13,516
<b>Total current liabilities</b>					<b>282,568</b>
<b>TOTAL LIABILITIES</b>					<b>1,405,963</b>

(\*) The items in the statement of financial position are analyzed by the CEO and Top Management by geographical area without being separated from the Corporate functions which are included in EMEA.

## 37. Accounting policies

### 37.1. Presentation of financial statements

The consolidated financial statements at 31 December 2017 have been prepared in accordance with the historical cost convention with the exception of derivative financial instruments and certain financial investments measured at fair value, as more fully explained hereafter, as well as on the going concern assumption.

The following table lists the international accounting standards and interpretations approved by the IASB and endorsed to be adopted in Europe and applied for the first time in the financial year under examination.

Description	Endorsement date	Publication	Effective date	Effective date for Amplifon
Amendments to IAS 7 "Disclosure Initiative"	6 Nov '17	9 Nov '17	Financial years beginning on or after 1 Jan '17	1 Jan '17
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"	6 Nov '17	9 Nov '17	Financial years beginning on or after 1 Jan '17	1 Jan '17

The adoption of these principles does not significantly affect the valuation of assets, liabilities, costs and revenues of the Group.

Amendments to IAS 7 "Disclosure Initiative" improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). These modifications will provide disclosures that enable users to evaluate changes in liabilities arising from financing activities.

For what concerned IAS 12 "Income tax", the amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

With respect to the presentation of the financial statements, the following should be noted:

- statement of financial position: the Group distinguishes between current and non-current assets and liabilities;
- income statement: the Group classifies costs by nature, as such classification is deemed to be more representative of the mainly commercial and distribution activities carried out by the Group;
- statement of comprehensive income (loss): this includes the net result of the period and the effects of changes in exchange rates, the cash flow hedge reserve and actuarial gains and losses that are recognised directly in net equity; those items are disclosed on the basis of whether they will potentially be reclassified subsequently to profit or loss;
- statement of changes in net equity: the Group includes all changes in net equity, including those arising from transactions with the shareholders (dividend distributions, increases in share capital);
- cash flow statement: this is prepared using the indirect method for defining cash flows deriving from operating activities.

### 37.2. Use of estimates in preparing the financial statements

Preparation of the financial statements schedules and explanatory notes required the use of estimates and assumptions in respect of the following items:

- provisions for impairment, calculated on the basis of the asset's estimated realisable value;
- provisions for risks and charges, calculated on the basis of a reasonable estimate of the amount of the potential liability, not least in relation to any claim made by the counterparty;
- provisions for obsolescence, in order to adjust the carrying value of inventory to estimated realisable value;
- provisions for employee benefits, recognised on the basis of the actuarial valuations made;
- amortisation and depreciation, recognised on the basis of the estimated remaining useful life and recoverable amount;
- income tax, which is recognised on the basis of the best estimate of the expected tax rate for the full year;
- IRSs and currency swaps (instruments not traded on regulated markets), marked to market at the reporting date based on the yield curve and exchange rate fluctuations and subject to credit/debit valuation adjustments, which are supported by market quotations.

Estimates are periodically reviewed and any adjustments due to changes in the circumstances which determined such estimates or additional information becoming available are recognised in the income statement. The use of reasonable estimates is an essential part of the preparation of the financial statements and does not affect their overall reliability.

The Group tests goodwill for impairment at least once a year. This requires an estimation of the value in use of the cash-generating unit to which the goodwill relates. This calculation requires estimating the future cash flows and the after-tax discount rate reflecting market conditions at the date of the valuation.

### 37.3. Future accounting principles and interpretations

#### International accounting standards and interpretations approved by the IASB and endorsed in Europe

The following table lists the international accounting standards and interpretations approved by the IASB and to be adopted in Europe after 31 December 2017:

Description	Endorsement date	Publication in O.J.E.C.	Effective date	Effective date for Amplifon
IFRS 15 "Revenue from contracts with customers" and related amendment (Effective Date of IFRS 15)	22 Sept '16	29 Oct '16	Financial years beginning on or after 1 Jan '18	1 Jan '18
"Clarifications to IFRS 15 Revenue from Contracts with Customers"	31 Oct '17	9 Nov '17	Financial years beginning on or after 1 Jan '18	1 Jan '18
IFRS 16 "Leases"	31 Oct '17	9 Nov '17	Financial years beginning on or after 1 Jan '19	1 Jan '19
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	3 Nov '17	9 Nov '17	Financial years beginning on or after 1 Jan '18	1 Jan '18
IFRS 9 "Financial instruments"	22 Nov '16	22 Nov '16	Financial years beginning on or after 1 Jan '18	1 Jan '18

IFRS 15 "Revenue from contracts with customers" replaces the existing revenue recognition standards and interpretations (IAS 18, IAS 11, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services). The new standard introduces a five-step model to be used

to analyse and recognise revenue in relation to the timing and the amount.

The standard has introduced more detailed guidelines and illustrative disclosure with respect to the previous revenue recognition principles, and which has therefore determined the necessity to adjust several accounting practices so far accepted and applied.

In particular, this principle, introducing the concept of stand-alone selling price, determines the adoption of new and specific criteria to drive the price allocation for goods and services within the same contract (unbundling), as well as to goods and services not sold separately and for which an observable price is not available in the market.

Furthermore, following the clarification introduced by the principle, the Group is modifying the current accounting methodology for extended warranties, material rights and complimentary products, passing from an accrual of costs to a deferral of revenues.

In addition, costs of obtaining or fulfilling a contract qualify as contract costs, will be capitalized.

The adoption of this Standard will lead to a non-material decrease of the Group's revenues. This reduction is explained by the difference between revenue deferral and reversal in a context of growth, and a consequent non-material decrease on the Group's EBIT, partially compensated by the suspension of the contract costs. The cash flow impact deriving from the adoption of the standard is null.

On the transition date the Group's net equity will decrease for an estimated amount of about €45 million, for the recognition of "contract liabilities" and "contract costs".

The Standard mandatorily foresees a retrospective approach, and it lays out two possible choices: (i) to retrospectively apply the Standard to all comparative periods presented in accordance with IAS 8 (full retrospective approach), or (ii) to retrospectively account the cumulative effect from the date of initial application (modified retrospective approach) applying the new standards only to all new contracts initiated on/after the effective date (1 Jan'18).

Amplifon Group will adopt the modified retrospective approach.

With the publication of the new accounting standard IFRS 16 "Leases", the IASB replaces the accounting rules provided by IAS 17 and the IASB requires that all leases should be recognized in the balance sheet as assets and liabilities are they "financial", whether "operative".

Regarding IFRS 16 Amplifon Group is continuing the analysis to determine the future impacts on the consolidate financial statements and to identify the solution to implement on the information systems. For a first evidence of the magnitude of the expected impacts of the adoption of IFRS 16 refer to note 32 "Guarantees, commitments and contingent liabilities" where the future commitments for operating lease are exposed, and to note 23 "operating costs" rental cost for shops, offices and other property are displayed.

The issue of the definitive version of IFRS 9 "Financial instruments" completed the project to revise the accounting standard relating to financial instruments. The new standard: (i) changes the way in which financial assets are classified and measured; (ii) introduces the concept of expected credit losses as one of the variables to be considered in the measurement and impairment of financial assets (iii) changes the hedge accounting model. The Group does not expect that the adoption of this new standard will result in material impact in the measurement of assets, liabilities, revenues and costs of the Amplifon Group.

"IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" is intended to address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4.

## International accounting standards and interpretations approved by the IASB not yet endorsed in Europe

Below are the International Financial Reporting Standards, interpretations, amendments to existing standards and interpretations, or specific provisions contained in the standards and interpretations approved by the IASB which on 26 February 2018 had not yet been endorsed for adoption in Europe.

Description	Effective date
<i>IFRS 17 "Insurance Contracts" (issued on 18 May 2017)</i>	Financial years beginning on or after 1 Jan '21
<i>IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016)</i>	Financial years beginning on or after 1 Jan '18
<i>IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017)</i>	Financial years beginning on or after 1 Jan '19
<i>Amendments to IFRS 2: "Classification and Measurement of Share-based Payment Transactions" (issued on 20 June 2016)</i>	Financial years beginning on or after 1 Jan '18
<i>"Annual Improvements to IFRS Standards 2014-2016 Cycle" (issued on 8 December 2016)</i>	Financial years beginning on or after 1 Jan '17/18
<i>Amendments to IAS 40: "Transfers of Investment Property" (issued on 8 December 2016)</i>	Financial years beginning on or after 1 Jan '18
<i>Amendments to IFRS 9: "Prepayment Features with Negative Compensation" (issued on 12 October 2017)</i>	Financial years beginning on or after 1 Jan '19
<i>Amendments to IAS 28: "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017)</i>	Financial years beginning on or after 1 Jan '19
<i>"Annual Improvements to IFRS Standards 2015-2017 Cycle" (issued on 12 December 2017)</i>	Financial years beginning on or after 1 Jan '19

About other standards and interpretations detailed below, it is not expected that the adoption will significantly affect the valuation of assets, liabilities, costs and revenues of the Group.

IFRS 17 "Insurance Contracts" establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

IFRIC 23 "Uncertainty over Income Tax Treatments" provides indications on how to reflect in the recognition of the income taxes the uncertainties about the tax treatment of a given phenomenon.

Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" specify the accounting treatments and measurement for share-based payment transactions.

Amendments to IFRS 9 "Financial Instruments" are aimed to allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income.

The International Accounting Standards Board (the Board) has published several amendments to the current standards, and one IFRIC interpretation, to clarify several dispositions, such as:

- Amendments to IAS 40 "Investment property: transfer of investment property", and applies to annual periods beginning on or after 1 January 2018;
- "Annual improvements to IFRS Standards 2014-2016 cycle" address IFRS 1, IFRS 12 and IAS 28;
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" clarify that an entity applies IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied;
- "Annual improvements to IFRS Standards 2015-2017 cycle" contains amendments to IAS 12 "Income Taxes"; IAS 23 "Borrowing Costs"; IFRS 3 "Business Combination" and IFRS 11 "Joint Arrangements". These amendments are effective for annual periods beginning on or after 1 January 2019.

### 37.4. Subsidiaries

The consolidation area includes companies which are controlled by the Group. Control is defined as the power to influence the financial and operating policies of a company. The existence of control over a company is determined on the basis of: (i) voting rights, including potential ones, that the Group is entitled to and by virtue of which the Group may exercise a majority of the votes that can be cast at ordinary Shareholders' meetings; (ii) the content of possible agreements between shareholders or the existence of specific clauses in the entity's by-laws which grant the Group the power to manage the company; (iii) control by the Group of a sufficient number of votes to exercise de facto control at ordinary Shareholders' meetings of the company.

Income statement items are included in the consolidated financial statements starting from the date control is acquired and up to the date such control ceases. All payables and receivables, as well as the revenue and expense items deriving from transactions between companies included in the consolidation are eliminated entirely; capital gains and losses deriving from transfers of assets between consolidated companies are also eliminated, as are the profits and losses arising from transfers of assets between consolidated companies that come to form inventories of the acquiring company, write-downs and reversals of holdings in consolidated companies, and intragroup dividends. Assets, liabilities, costs and revenues of subsidiaries are recorded in full, allocating to minority shareholders their share of net equity and of the net result.

The financial statements of subsidiaries are adjusted in order to make the measurement criteria consistent with those adopted by the Group.

The closing dates of subsidiaries are aligned with that of the Parent company; where this is not the case, the subsidiaries prepare appropriate financial statements for consolidation purposes.

### 37.5. Jointly-controlled companies

A joint control arrangement is an agreement based on which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

There are two types of joint control arrangements: joint operations and joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are referred to as joint operators and each joint operator recognizes the proportionate share of the assets, liabilities, costs and revenue relative to the jointly operated activity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. A joint venturer recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method.

### 37.6. Associated companies

Investments in associates are accounted for using the equity method. A company is considered an associate if the Group participates in decisions relating to the company's operating and financial policies even if the latter is not a subsidiary nor subject to joint control. Under the equity method, on initial recognition, an investment in an associate is recognized at cost in the balance sheet and the



carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The goodwill relating to the associate is included in the carrying amount and is not subject to amortization. The profits generated as a result of transactions carried out by the Group with associates are eliminated to the extent of the Group's interest in the associate. The financial statements of companies accounted for based on the equity method are adjusted to be in line with the Group's accounting policies.

### 37.7. Business combinations

Business combinations are accounted for in the financial statements as follows:

- acquisition cost is determined on the basis of the fair value of assets transferred, liabilities assumed, or the shares transferred to the seller in order to obtain control;
- acquisition costs related to business combinations are recognised in the income statement for the period in which the costs were incurred;
- the fair value of the shares transferred is determined according to the market price at the exchange date;
- where the agreement with the seller provides for a price adjustment linked to the profitability of the business acquired, over a defined timeframe or at a pre-established future date (earn-out), the adjustment is included in the acquisition price as of the acquisition date and is measured at fair value as at the date of acquisition;
- at the acquisition date, the assets and liabilities, including contingent ones, of the acquired company are recognised at their fair value at that date. When determining the value of these assets we also consider the potential tax benefits applicable to the jurisdiction of the acquired company;
- when the values of assets, liabilities and contingent liabilities recorded differ from their corresponding tax base at the acquisition date, deferred tax assets and liabilities are recognised;
- any difference between the acquisition cost of the investment and the corresponding share of the net assets acquired is recorded as goodwill, if positive, conversely it is charged to the income statement, if negative;
- income items are included in the consolidated financial statements starting from the date control is acquired and up to the date control ceases.

### 37.8. Functional currency, presentation currency and translation criteria applied to foreign currency items

The consolidated financial statements of the Amplifon Group are presented in Euros, the functional currency of the parent company, Amplifon S.p.A.

The financial statements of subsidiaries and jointly-controlled companies are prepared in the functional currency of each company. When this currency differs from the reporting currency of the consolidated financial statements, the financial statements are translated using the current exchange rate method: income statement items are translated using the average exchange rates of the year, asset and liability items are translated using year-end rates and net equity items are translated at historical rates. Exchange differences are recorded under "translation difference" in the consolidated net equity; when the company is disposed of, the cumulative differences booked in net equity are taken to the income statement.

Foreign currency transactions are recorded at the exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currency and valued at cost are reported at the exchange rate used upon initial recognition. Non-monetary assets and liabilities denominated in foreign currency and valued at fair value, at recoverable value, or realizable value, are translated using the exchange rate of the date when the value was determined.



Any exchange rate differences arising from the settlement of monetary assets and liabilities or from the translation at exchange rates that are different from those used upon initial recognition, during the year or in previous financial statements, are recognised in the income statement.

### 37.9. Intangible fixed assets

Intangible assets purchased separately and those acquired through business combinations carried out prior to the adoption of the IFRS are initially measured at cost, whilst those acquired through business combinations completed after the date of transition to the IFRS, are initially measured at fair value. Expenditure incurred after the initial acquisition is recorded as an increase in the cost of the intangible asset to the extent that the expenditure can generate future economic benefits.

Intangible assets having a finite useful life are amortised systematically over their useful lives and written down for impairment (see section 37.12). Amortisation begins when an asset is available for use and ceases at the time of termination of the useful life or when an asset is classified as held for sale (or included in a disposal group classified as held for sale). Both the useful life and the amortisation criterion are periodically reviewed and, where significant changes have occurred compared to the previously adopted assumptions, the amortisation charge for the current year and subsequent ones is adjusted.

The periods of amortisation are shown in the following table:

Asset type	Years
Software	3- 5
Licences	1-15
Non-competition agreements	5
Customer lists	10-20
Trademarks and concessions	3-15
Other	5-9

### 37.10. Goodwill

Goodwill is recognised in the financial statements following business combinations and is initially recorded at cost, which is the excess of the cost of acquisition over the Group's share in the fair values of the assets, liabilities and contingent liabilities acquired.

Goodwill is classified as an intangible asset. As of the acquisition date, the goodwill acquired in a business combination is allocated to each of the acquirer's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are allocated to those units or groups of units.

Subsequent to initial recognition, goodwill is not amortised but valued at cost less any cumulative impairment losses (see section 37.12).

### 37.II. Tangible assets

Tangible fixed assets are recorded at purchase or production cost, inclusive of accessory costs that are directly attributable to the assets. Operating assets acquired under finance lease agreements whereby all risks and benefits of ownership are substantially transferred to the Group are recognised at the time of signing the agreement (finance lease) at the lower of their fair value and the present value of the minimum payments due under the lease terms. A liability equal to the amount due to the lessor is recorded under financial liabilities.

Leases where the lessor does not substantially transfer all the risks and rewards of ownership associated with the assets are classified as operating leases. The costs incurred for operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

The value upon initial recognition of tangible fixed assets, or their significant elements (except for land), net of their residual value, is depreciated on a straight-line basis over their useful life and is written down for impairments (see section 37.12). Depreciation starts when the asset becomes available for use and ceases at the time of termination of the useful life or when it is classified as held for sale (or included as part of a disposal group classified as held for sale). The useful life and the depreciation rate, as well as the residual value, are periodically reviewed and, where significant changes have occurred compared to the previously adopted assumptions, the depreciation charge for the current year and subsequent ones is adjusted.

Maintenance costs that do not add value to an asset are charged to the income statement in the year in which they are incurred. Maintenance costs that add value to an asset are recorded with the fixed asset item to which they relate and are depreciated on the basis of the future remaining useful life of the asset.

Leasehold improvements, such as to premises, shops and branches held under operating leases, are capitalised and depreciated over the shorter of the term of the lease and the useful life of the tangible asset installed.

The periods of depreciation are shown in the following table:

Asset type	Years
Buildings, constructions and leasehold improvements	5-25
Plant and machinery	5-16
Industrial and commercial equipment	4-10
Motor vehicles	3-9
Computers and office machinery	3-7
Furniture and fittings	3-10
Other tangible fixed assets	4-8

### 37.12. Impairment of intangible fixed assets, tangible fixed assets, investments in associated companies and goodwill

The Group verifies the recoverable value of an asset whenever an impairment indicator exists and, for intangible fixed assets with an indefinite life, other tangible assets and goodwill, the assessment is carried out yearly. The recoverable value is defined as the higher of the asset's fair value less costs to sell and its value in use.

Fair value is the price that would be received to sell an asset or paid to transfer a liability (in an orderly transaction between market participants (at the measurement date)).

Value in use is determined by reference to the present value of the estimated future cash flows that are expected to be generated by the continued use of an asset and its disposal at the end of its useful life, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks associated with the asset. Where the value in use of a specific asset cannot be determined due to the fact that the asset does not generate independent cash flows, value in use is estimated by reference to the cash-generating unit to which the asset belong.

With regard to goodwill, the impairment test is performed for the smallest cash-generating unit that the goodwill relates to and which is used by the Group to evaluate, either directly or indirectly, the return on the investment which includes the goodwill itself.

Impairment losses are recognised in the income statement when the carrying value of an asset is higher than its recoverable value. Except for goodwill, for which impairment losses cannot be reversed, when there is an indication that an impairment loss is no longer justified or may have decreased, the carrying value of the asset is adjusted to its recoverable value. The increased carrying value of an asset due to an impairment reversal does not, however, exceed the carrying value that the asset would have had (net of the write-down or depreciation) if the impairment had not been recognised in previous years. The reversal is immediately recognised in the income statement.

### 37.13. Financial assets and liabilities

#### 37.13.1 Financial assets (excluding derivatives)

Financial assets are initially recognised in the financial statements, at the transaction date, at their fair value. This value is increased by the transaction costs that are directly attributable to the purchase of the asset, excluding ancillary costs related to the purchase of financial assets held for trading that are recognised in the income statement when incurred.

Subsequent to initial recognition, the accounting treatment of financial assets depends on their functional destination:

- financial assets held for trading, acquired for the purpose of generating short-term gains from price fluctuations, are measured at fair value and any gains and losses arising from the changes in fair value are included in the income statement;
- receivables and loans represented by non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are valued at amortised cost using the effective interest rate method and written down for impairment; any impairment losses are measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows based on the original effective interest rate of the financial asset; the amount of

the impairment loss is charged to provision if it originated from revising an estimate, or is charged directly against the asset's carrying value in the event that it is related to a finally determined loss, and is recognised in the income statement. If in a subsequent period the amount of the impairment loss is reduced and such reduction can be objectively traced to an event occurring after the impairment was recognised, the impairment loss may be reversed up to its amortised cost by using provisions if it originated from revising an estimate, or it is charged directly against the asset's carrying value in the event that it is related to a finally determined loss, and is recognised in the income statement. Impairment losses are recognised where there are objective difficulties in recovering receivables, e.g. (i) financial difficulties experienced by the debtor, (ii) non-payment of several instalments under the contract and/or significantly delayed payment of instalments or (iii) the significant age of the receivables;

- shares and other securities which do not fall into the above categories are classified as financial assets measured at fair value through profit or loss. Such classification is in line with the Group strategy which requires the return on such assets to be managed and measured at fair value.

Financial assets are derecognised from the financial statements when the related contractual rights expire, or when Amplifon S.p.A. substantially transfers all the risks and rewards of ownership associated with the financial asset. In the latter case the difference between the sale consideration and the net book value of the asset sold is recognised in the income statement.

### 37.13.2. Financial liabilities

Financial liabilities include financial payables, lease obligations and trade payables.

Financial payables are initially recognised at fair value less any directly attributable transaction costs. Lease obligations are initially recognised at the fair value of the operating assets that are the subject of the agreements or, if lower, at the present value of the minimum payments due. Trade payables are generally recorded at nominal value except in those cases where the fair value of the consideration significantly differs from the nominal value.

Subsequent to initial recognition, the financial liabilities are valued at the amortised cost; the difference between the initial book value and the repayment value is recognised in the income statement using the effective interest rate method.

When a financial liability is hedged against interest rate risk in a fair value hedge, any changes in fair value due to the hedged risk are not included in the calculation of the amortised cost. These changes are amortised starting from the moment fair value hedge accounting is discontinued.

Financial liabilities are derecognised when the underlying obligation is extinguished, cancelled or fulfilled.

In the case of put and call granted to minority shareholders and which guarantee them the settlement in cash in exchange of cash and other financial assets, the Group, in accordance with IAS 32, records a financial liability equal to the best estimate of the exercise price of the option. This liability is subsequently remeasured at each closing date. The accounting policy adopted by the Group provides for the recognition in shareholders' equity of any change in the value of the liability.

### 37.13.3. Derivative financial instruments

The Group enters into derivative financial instruments for the purpose of neutralizing the financial risks it is exposed to and which it decides to hedge in accordance with its adopted strategy (see section 34).

The documentation which formalises the hedging relationship for the purpose of the application of hedge accounting includes the identification of:

- the hedging instrument;
- the hedged item or transaction;
- the nature of the risk;
- the methods that the company intends to adopt to assess the effectiveness of the hedge in offsetting the exposure to changes in the fair value of the hedged item or the cash flows associated with the risk that is hedged against.

On initial recognition these instruments are measured at fair value. On subsequent reporting dates the fair value of derivatives must be re-measured and:

- (i) if these instruments fail to qualify for hedge accounting, any changes in fair value that occur after initial recognition are taken to profit and loss;
- (ii) if these instruments qualify as fair value hedges, from that date any changes in the fair value of the derivative are taken to profit and loss; at the same time, any fair value changes due to the hedged risk are recorded as an adjustment to the book value of the hedged item and the same amount is recorded in the income statement; any ineffectiveness of the hedge is recognised in profit and loss in an item separate from that in which changes in the fair value of the hedging instrument and the hedged item are recognised;
- (iii) if these instruments qualify as cash flow hedges, starting from that date, any changes in the fair value of the derivative are recognised in net equity, but only to the extent of the effective amount of the hedge, with the amount of any hedge ineffectiveness being recognised in the income statement; changes in the fair value of the derivative that are recognised in net equity are subsequently transferred to the income statement in the period in which the transaction that is hedged against affects the income statement; when the hedged item is the purchase of a non financial asset, changes to the fair value of the derivative taken to equity are reclassified and adjusted according to the purchase cost of the asset which is the hedged item (referred to as basis adjustment);
- (iv) if these instruments qualify as hedges of net investment of a foreign operation, starting from that date any changes in the fair value of the derivative are adjusted as part of the “translation difference”, to the extent of the effective amount of the hedge and the ineffective portion is charged to the income statement;
- (v) hedging is carried out by the designated instrument, considered as a whole. In the case of options or forward contracts, however, only part of the derivative instrument is designated as the hedging instrument; the remainder is recognised in the income statement. More specifically, in the case of options, only the changes in fair value due to changes in the intrinsic value are designated as a hedging instrument; conversely, fair value changes of options due to changes in the time value are recognised in the income statement and are not considered in the assessment of the hedge effectiveness. In the case of forward contracts, only changes in fair value due to changes in the spot rate are designated as a hedging instrument; conversely fair value changes due to changes in the forward points are recognised in the income statement and are not considered in the assessment of the hedge effectiveness.

If the hedge becomes ineffective or the Group changes its hedging strategies, hedge accounting is discontinued. In particular, hedge accounting is discontinued prospectively when the hedge becomes ineffective or when there is a change in the hedging strategies.

If, in a fair value hedge, the hedged item is a financial instrument measured using the effective interest rate method, the adjustments made to the book value of the hedged item are amortised starting from the date when fair value hedge accounting is discontinued and the hedged item is no longer adjusted for fair value changes attributable to the hedged risk.

Financial instruments hedging exchange rate risk due to forecasted transactions and firm commitments are represented on the statement of financial position according to the cash-flow hedge accounting model.

Derivatives are recognised as assets if their fair value is positive and as liabilities if their fair value is negative. These balances are shown under assets or liabilities if related to derivatives which do not qualify for hedge accounting criteria, conversely they are classified according to the hedged item.

In particular, if the hedged item is classified as a current asset or liability, the positive or negative fair value of the hedging instrument is included under current assets or liabilities; if the hedged item is classified as a non-current asset or liability, the positive or negative fair value of the hedging instrument is included under non-current assets or liabilities.

#### **37.14. Inventories**

Inventories are valued at the lower of purchase or production cost and their net realizable value (represented by their open market value). Inventories are valued using the weighted average cost method.

#### **37.15. Cash and cash equivalents and financial assets**

The item cash and cash equivalents comprises liquid funds and financial investments with a maturity, at the acquisition date, of less than three months and for which there is an insignificant risk of a change in value. These financial assets are recorded at their nominal value.

#### **37.16. Provisions for risks and charges**

Provisions for risks and charges relate to costs and charges of a specific nature which are certain or probable and whose amount or timing is uncertain at the reporting date.

Provisions are recognised if the following conditions apply: (i) the Group has a present obligation (legal or constructive) that has arisen as a result of a past event; (ii) it is probable that the fulfilment of the obligation will require the use of resources which produce economic benefits; (iii) the amount can be estimated reliably.

The amount recognised as a provision in the financial statements represents the best estimate of the expenditure required by the company to settle the obligation at the reporting date or to transfer it to a third party.

When the time value of money is significant and the due dates of the obligations can be reliably estimated, the provision is discounted to its present value; when the provision is discounted, the increase in provision related to the passage of time is charged to the income statement as a financial charge.

Specifically:

- the agents' leaving indemnity includes the estimate of amounts due to agents, calculated using actuarial methods and having regard to the probability that such amounts will be paid, as well as the expectations as to the time of payment;

- the warranty and repair provision includes the estimate of costs for warranty services to be provided on products sold, calculated on the basis of historical/statistical data and the warranty period;
- the provision for risks arising from legal disputes includes the estimate of charges relating to legal disputes with employees or agents, or associated with the provision of services.

### **37.17. Employees' benefits**

Post-employment benefits are defined on the basis of pension plans, even if not formalised, which due to their characteristics can be classified as either defined-contribution or defined-benefit plans.

Under a defined-contribution plan the company's obligation is limited to the payment of the contributions agreed with the employees and it is determined on the basis of the contributions due at the end of the period, as reduced by any amounts already paid.

Under defined-benefit plans the liability recorded in the books is equal to: (a) the present value of the defined-benefit obligation at the reporting date; (b) plus any actuarial gains (minus any actuarial losses); (c) less any past service costs that have not yet been recorded; (d) less the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

Under defined-benefit plans, the cost charged to the income statement is equal to the algebraic sum of the following elements: (a) current service cost; (b) the financial charges arising from the increase in liability due to the passage of time; (c) the expected return on plan assets; (d) past service cost; (e) the effect of any curtailments or settlements under the plan.

Actuarial gains and losses are recognised in other comprehensive income.

Net financial charges on defined-benefit plans are recognised in profit or loss under financial income and charges.

### **37.18. Stock option e stock grant**

The Group grants certain top executives and other beneficiaries who hold key positions within the Group the right to participate in share capital plans (stock options and stock grants).

Stock options plans are equity settled; the beneficiary has the right to purchase Amplifon S.p.A. shares at a predefined price if certain conditions are met.

Stock grants are equity settled too and the beneficiary receives a free allotment of shares in Amplifon S.p.A. at the end of the vesting period.

For equity settled stock options and stock grants, fair value is recognised in the income statement under personnel expenses over the period from the date they are granted to the vesting date and a corresponding amount is recorded in a net equity reserve. The fair value of the stock options and stock grants is determined at the date they are granted, taking account of the market conditions at that date.

At each reporting date, the Group reviews the assumptions about the number of stock options and stock grants which are expected to be exercised and records the effect of any change in estimate in the income statement adjusting the corresponding net equity reserve. In the event that the stock options are exercised, the amount received from the exercise of the stock options at the strike price is recorded as an increase in share capital and in the share premium account.

In case of free stock allotment (i.e. "stock grant"), the corresponding increase in net equity is recognised at the end of the vesting period.



### 37.19. Revenues, interest income and dividends

Revenues are recognised on the basis of the fair value of the sale consideration agreed, net of discounts, reductions, returns, rebates and tax, if any. Revenues from the sale of products are recognised at the time when the Group transfers to the purchaser the risks and rewards of ownership, that is on transfer of title (which usually coincides with the dispatch or delivery of the products) or with the end of the trial period, if applicable.

Revenues are discounted to their present value and if the discounting effect is significant, the implicit financial element is separated, interest receivable being indicated separately. The financial element is allocated between the amount attributable to the current year and future years, with the latter being accounted for as deferred income.

Revenues from services are recognised when the services are provided, based on the accrual method of accounting and based on the stage of completion of the transaction at the reporting date.

Interest income is recognised on the basis of the effective interest rate.

Dividends are recognised when the shareholders' right to receive payment is established.

### 37.20. Current and deferred income taxes

Current income tax payables and receivables are recorded at the amount that is expected to be paid to/received from the tax authorities at the rates enacted or substantially enacted, and the laws in force at the reporting date.

Deferred tax assets and liabilities are recognised on temporary differences between the value of assets and liabilities in the financial statements and the corresponding tax bases.

Deferred income taxes are not recognised: (i) when they derive from the initial recognition of goodwill or of an asset or liability in a transaction other than a business combination and which, at the time of the transaction, does not affect either the accounting profit or the taxable profit/loss; (ii) when they relate to temporary differences related to investments in subsidiaries and joint ventures, where the reversal of temporary differences may be controlled and it is probable that it will not occur in the foreseeable future.

Deferred tax assets, including those arising from unused tax losses and tax credits, are recorded only to the extent their recovery is highly probable.

Deferred tax assets are not discounted to present value and are calculated using the tax rates that are expected to apply when the taxes are paid or settled in the respective countries where the Group operates.

Deferred tax assets and liabilities are debited or credited directly to net equity if they relate to elements which are recognised directly in net equity. Deferred tax assets and liabilities are recorded respectively under non-current assets and liabilities and are offset only when a legally enforceable right to offset current tax assets against current tax liabilities exists and this will result in a lower tax charge. Moreover, when there is a legally enforceable right of set-off, deferred tax assets and deferred tax liabilities are offset only if at the time of their reversal they will not generate any current tax asset or liability.

When an asset is revalued for tax purposes and the revaluation does not relate to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, deferred tax



assets are recognised in the income statement on the temporary difference arising as a result of the revaluation.

### **37.21. Value added tax**

Revenues, costs and assets are recognised net of value added tax (VAT), except where VAT applied to the purchase of goods or services is non-deductible, in which case it is recognised as part of the purchase cost of the asset or as part of the expense recorded in the income statement.

The net amount of indirect tax on sales which may be recovered from/paid to the Tax Authorities is included in the financial statements under other receivables or payables, depending on whether it is a debit or a credit balance.

### **37.22. Share capital, treasury shares, dividend distribution and other net equity items**

Ordinary shares issued by the parent company Amplifon S.p.A. are classified as part of net equity. Any costs incurred to issue new shares, also following the exercise of stock option plans, are classified as a reduction of net equity.

Purchases and disposals of treasury shares, as well as any gains or losses on purchase/disposal, are recognised in the financial statements as changes in net equity. Dividends distributed to the shareholders are recorded as a reduction in net equity and as a liability of the period when the dividend payment is approved by the Shareholders' Meeting.

### **37.23. Earnings (loss) per share**

Earnings per share is determined by comparing the Group's net profit to the weighted-average number of shares outstanding during the accounting period. For the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming the conversion of all potential shares with a dilutive effect.

## 38. Subsequent events

The main events that took place after the end of the year are described below.

After the close of the year, Amplifon S.p.A. announced the signing of an agreement with the Italian Tax Authority which defines the methods and criteria to be used to calculate the economic contribution of intangible assets - which for Amplifon S.p.A. is represented by its trademark – to the company's income for the purposes of the so-called Patent Box regime, with reference to the fiscal years 2015-2019. The subsidized income, namely the income attributable to the use of the Company's trademark, for the three-year period 2015-2017 amounted to approximately 40% of Amplifon S.p.A.'s operating result, determining an estimated tax benefit for the three-year period of around €6 million. This benefit was recognized in the 2017 Financial Statements as a reduction in the tax recorded in Amplifon S.p.A.'s income statement. The 2018 and 2019 tax benefit will be quantified when the Financial Statements for these respective years will be drawn up.

On 8 February 2018, the Articles of Incorporation were updated following the partial subscription of a capital increase servicing stock option plans which resulted in the issue of 8,333 ordinary shares of Amplifon S.p.A. with a par value of €0.02 per share. The share capital, entirely subscribed and paid-in, amounted to €4,526,771.60 at 8 February 2018.

Implementation of the buyback program approved during the Shareholders' Meeting held on 18 April 2016 continued in January and February 2018 and a total of 331,000 shares were purchased between year-end 2017 and the date of this report at an average price of €13.651. The exercise of performance stock grants continued in the period as a result of which, as at 1 March 2018, Amplifon transferred a total of 139,810 treasury shares to the beneficiaries. The treasury shares held at the date of this report, therefore, now total 7,346,653 or 3.246% of the Company's share capital.

In the first few months of 2017 an additional 30 points of sale were purchased in Germany, United States, Canada, France, Israel, Belgium and Spain.

Milan, 1 March 2018

On behalf of the Board of Directors  
CEO

Enrico Vita



# Annexes

## Consolidation Area

As required by § 38 and 39 of Law 127/91 and § 126 of Consob's resolution 11971 dated 14 May 1999, as amended by resolution 12475 dated 6 April 2000, the following is the list of companies included in the consolidation area of Amplifon S.p.A. at 31 December 2017.

### Parent company:

Company name	Head office	Currency	Share Capital
Amplifon S.p.A.	Milan (Italy)	EUR	4,526,605

### Subsidiaries consolidated using the line-by-line method:

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held at 31/12/2017
Hearing Supplies Srl	Milan (Italy)	I	EUR	85,215	100.0%
Amplifon France SAS	Arcueil (France)	D	EUR	48,550,898	100.0%
SCI Eliot Leslie	Lyon (France)	I	EUR	610	100.0%
Audition Bonin Sarl	Sillé Le Guillaume (France)	I	EUR	3,000	100.0%
AudioPrev Arnage Sarl	Arnage (France)	I	EUR	3,000	100.0%
AudioPrev Les Maillets Sarl	Le Mans (France)	I	EUR	3,000	100.0%
AudioPrev Bonnetable Sarl	Bonnetable (France)	I	EUR	3,000	100.0%
Laboratoires Coscas Audition SAS	Paris (France)	I	EUR	474,000	100.0%
Centre de Surdit� du Rousillon SAS	Perpignan (France)	I	EUR	213,429	100.0%
Audi-C SAS	Courbevoie (France)	I	EUR	32,010	100.0%
Comaudio SAS	Saint-Gaudens (France)	I	EUR	1,000	100.0%
Audio-Conseil SAS	Sedan (France)	I	EUR	8,000	100.0%
Voir et Entendre SAS	Lyon (France)	I	EUR	205,000	100.0%
Besacier Couvrat SAS	Craponne (France)	I	EUR	20,000	100.0%
Laboratoire Provost Audition SAS	Evry (France)	I	EUR	160,000	100.0%
Laboratoire de Corrections Auditives Sylvain Chopinaud SAS	Dunkerque (France)	I	EUR	100,000	100.0%
Amplifon Iberica SA	Barcelona (Spain)	D	EUR	26,578,809	100.0%
Fundaci�n Amplifon Iberica	Madrid (Spain)	I	EUR	30,000	100.0%
Amplifon Portugal SA	Lisboa (Portugal)	I	EUR	5,720,187	100.0%
MiniSom SA	Lisboa (Portugal)	I	EUR	14,237,444	100.0%
Amplifon Magyarország Kft	Budapest (Hungary)	D	HUF	3,500,000	100.0%
Amplibus Magyarország Kft	Buda�rs (Hungary)	I	HUF	3,000,000	100.0%
Amplifon AG	Baar (Switzerland)	D	CHF	1,000,000	100.0%
H�raktustik Weber GmbH	Zofingen (Switzerland)	I	CHF	20,000	100.0%
Amplifon Nederland BV	Doesburg (The Netherlands)	D	EUR	74,212,052	100.0%
Auditech BV	Doesburg (The Netherlands)	I	EUR	22,500	100.0%

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held at 31/12/2017
Electro Medical Instruments BV	Doesburg (The Netherlands)	I	EUR	16,650	100.0%
Beter Horen BV	Doesburg (The Netherlands)	I	EUR	18,000	100.0%
Amplifon Customer Care Service BV	Elst (The Netherlands)	I	EUR	18,000	100.0%
Amplifon Belgium NV	Bruxelles (Belgium)	D	EUR	495,800	100.0%
Witte BVBA	Bruxelles (Belgium)	I	EUR	18,600	100.0%
Amplifon Luxemburg Sarl	Luxemburg (Luxemburg)	I	EUR	50,000	100.0%
Amplifon RE SA	Luxemburg (Luxemburg)	I	EUR	3,700,000	100.0%
Amplifon Deutschland GmbH	Hamburg (Germany)	D	EUR	6,026,000	100.0%
Amplifon München GmbH	München (Germany)	I	EUR	1,245,000	100.0%
Amplifon Bayern GmbH	München (Germany)	I	EUR	30,000	100.0%
Sanomed GmbH	Hamburg (Germany)	I	EUR	25,000	100.0%
Focus Hören AG	Willroth (Germany)	I	EUR	485,555	100.0%
Focus Hören Deutschland GmbH	Willroth (Germany)	I	EUR	25,000	100.0%
Egger Hörgeräte + Gehörschutz GmbH, Kempten	Kempten (Germany)	I	EUR	25,100	100.0%
Egger Hörgeräte + Gehörschutz Oberstdorf GmbH	Oberstdorf (Germany)	I	EUR	25,000	100.0%
Egger Hörgeräte + Gehörschutz GmbH, Amberg	Amberg (Germany)	I	EUR	26,000	100.0%
Amplifon Poland Sp.z o.o.	Lodz (Poland)	D	PLN	3,342,640	100.0%
Amplifon UK Ltd	Manchester (UK)	D	GBP	69,100,000	100.0%
Amplifon Ltd	Manchester (UK)	I	GBP	1,800,000	100.0%
Ultra Finance Ltd	Manchester (UK)	I	GBP	75	100.0%
Amplifon Ireland Ltd	Wexford (Ireland)	I	EUR	1,000	100.0%
Amplifon Cell	Ta' Xbiex (Malta)	D	EUR	1,000,125	100.0%
Makstone İtımte Ürünleri Perakende Satış A.Ş.	Istanbul (Turkey)	D	TRY	300,000	51.0%
Medtechnica Ortophone Ltd (*)	Tel Aviv (Israel)	D	ILS	1,000	60.0%
Amplifon Middle East SAE	Cairo (Egypt)	D	EGP	3,000,000	51.0%
Miracle Ear Inc.	St. Paul – MN (USA)	I	USD	5	100.0%
Elite Hearing, LLC	Minneapolis – MN (USA)	I	USD	1,000	100.0%
Amplifon USA Inc.	Dover – DE (USA)	D	USD	52,500,010	100.0%
Amplifon Hearing Health Care, Inc.	St. Paul – MN (USA)	I	USD	10	100.0%
Ampifon IPA, LLC	New York – NY (USA)	I	USD	1,000	100.0%
Miracle Ear Canada Ltd.	Vancouver (Canada)	I	CAD	37,500,200	100.0%
Boreal Hearing Centre Inc.	Thunder Bay – ON (Canada)	I	CAD	0	100.0%
Sound Authority, Inc.	Orangeville – ON (Canada)	I	CAD	0	100.0%
Amplifon South America Holding LTDA	São Paulo (Brazil)	D	BRL	3,636,348	100.0%
Direito de Ouvir Amplifon Brasil SA	Franca (Brazil)	I	BRL	4,126,463	51.0%

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held at 31/12/2017
Amplifon Australia Holding Pty Ltd	Sydney (Australia)	D	AUD	392,000,000	100.0%
National Hearing Centres Pty Ltd	Sydney (Australia)	I	AUD	100	100.0%
National Hearing Centres Unit Trust	Sydney (Australia)	I	AUD	0	100.0%
Amplifon Asia Pacific Pte Limited	Singapore (Singapore)	I	SGD	1,000,000	100.0%
Amplifon NZ Ltd	Takapuna (New Zealand)	I	NZD	130,411,317	100.0%
Bay Audiology Ltd	Takapuna (New Zealand)	I	NZD	0	100.0%
Dilworth Hearing Ltd	Auckland (New Zealand)	I	NZD	0	100.0%
Amplifon India Pvt Ltd	Gurgaon (India)	I	INR	1,050,000,000	100.0%
NHanCe Hearing Care LLP (on liquidation) (**)	Gurgaon (India)	I	INR	1,000,000	0.0%

(\*) Medtechnica Ortophone Ltd and its subsidiaries despite being owned by Amplifon at 60%, is consolidated 100 % as its subsidiaries without exposure of non-controlling interest due to the put-call option exercisable from 2018 and related to the purchase of the remaining 40%.

(\*\*) Consolidated company because the Amplifon Group has de facto control.

### Companies valued using the equity method:

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held at 31/12/2017
B2C SAS (on liquidation)	Ajaccio (France)	I	EUR	16,165	21.0%
Comfoor BV	Doesburg (The Netherlands)	I	EUR	18,000	50.0%
Comfoor GmbH	Emmerich am Rhein (Germany)	I	EUR	25,000	50.0%
Medtechnica Ortophone Shaked Ltd	Tel Aviv (Israel)	I	ILS	1,001	30.0%
Ruti Levinson Institute Ltd	Ramat HaSharon (Israel)	I	ILS	105	12.0%
Afik - Test Diagnosis & Hearing Aids Ltd	Jerusalem (Israel)	I	ILS	100	12.0%
Lakeside Specialist Centre Ltd	Mairangi Bay (New Zealand)	I	NZD	0	50.0%

# Annex II

## Information pursuant to § 149-duodecies of Consob Issuers' Regulations

The following table, prepared pursuant to § 149-duodecies Consob Issuers' Regulations, shows the fees for both audit and non-audit services provided by the auditing company and entities that are part of its network in relation to the 2017 financial year.

	Subject that provided the service	Recipient	2017 fees (€)
Independent auditing services	PricewaterhouseCoopers	Parent company - Amplifon S.p.A.	268,900
Certification services	PricewaterhouseCoopers	Parent company - Amplifon S.p.A.	74,250
<i>Total – Parent Company</i>			343,150
Independent auditing services	PricewaterhouseCoopers	Subsidiaries	1,140,079
Services other than auditing (*)	PricewaterhouseCoopers	Parent company - Amplifon S.p.A. and its subsidiaries	289,627
<b>Total</b>			<b>1,772,856</b>

(\*) Other services mainly include tax assistance the American subsidiaries, Swiss and Indian.

# Declaration in respect of the Consolidated Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98

We, the undersigned, Enrico Vita, Chief Executive Officer and Gabriele Galli, Executive Responsible for Corporate Accounting Information for Amplifon S.p.A., taking into account the provisions of § 154-bis, paragraphs 3 and 4 of Law 58/98, certify:

- the adequacy, by reference to the characteristics of the business and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2017.

We also certify that the consolidated financial statements at 31 December 2017:

- have been prepared in accordance with the international accounting standards recognized in the European Union under the EC regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the underlying accounting entries and records;
- provides a true and fair view of the performance and financial position of the issuer and of all of the companies included in the consolidation.

The report on operations includes a reliable operating and financial review of the Company and all of the companies included in the consolidation as well as a description of the main risks and uncertainties to which they are exposed.

1 March 2018

**CEO**

Enrico Vita



**Executive Responsible for Corporate Accounting Information**

Gabriele Galli





## **Independent auditor's report**

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the shareholders of AMPLIFON SpA

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### **Report on the Audit of the Consolidated Financial Statements**

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#### **Opinion**

We have audited the consolidated financial statements of AMPLIFON Group (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2017, the consolidated income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of this report. We are independent of AMPLIFON SpA (the "Company") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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#### **PricewaterhouseCoopers SpA**

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<b>Key Audit Matters</b>	<b>Auditing procedures performed in response to key audit matters</b>
<p><b>Assessment of the recoverability of the carrying amount of the line item ‘Goodwill’ in the consolidated financial statements</b></p> <p><i>Note 2 to the consolidated financial statements “Acquisitions and Goodwill”</i>  <i>Paragraph 37.10 of Accounting Policies of the consolidated financial statements “Goodwill”</i></p> <p>During the reporting period, and in previous years, the Group carried out significant acquisitions that resulted in the posting of goodwill for a total of Euro 684,635 thousand as of 31 December 2017.</p> <p>Our audit strategy focused on the measurement of this balance because of:</p> <ul style="list-style-type: none"> <li>• The materiality of the balance relative to the Group’s equity,</li> <li>• The sensitivity of the business to external factors (such as changes in welfare policy and local regulations in the various countries) and internal factors (such as the market’s response to advertising campaigns), and</li> <li>• The aspects of accounting estimate intrinsic to the process of assessment by management of the recoverability of goodwill (impairment testing) to be performed at least once a year.</li> </ul> <p>In detail, management must exercise its professional judgement and use its ability to make accounting estimates in the following areas:</p> <ul style="list-style-type: none"> <li>• Preparation of business plans supporting the calculation of estimated future cash flows from each cash-generating unit (“CGU”), based on appropriate and reasonable assumptions;</li> <li>• Definition of a discount rate suitable to reflect the sector risk for each CGU and market assessments of the time value of money (weighted average cost of capital);</li> <li>• Use of growth rates that are consistent with the business and with medium-term macroeconomic trends;</li> </ul>	<p>In performing our auditing procedures we reconciled the amount of goodwill allocated to each CGU to the amounts resulting from the consolidated reporting system.</p> <p>We then obtained the business plan and related impairment test for each CGU.</p> <p>With reference to the three-year business plans:</p> <ul style="list-style-type: none"> <li>• We verified the existence of a procedure, approved by the board of directors, for the preparation and approval of the plans and that the procedure was consistent with that applied in previous years. We then checked that the business plans used were actually those approved by the board. With reference to the CGU UK and Ireland we noted that the approved business plan was developed over a time horizon of 5 years (consistently with the previous year), which was considered more appropriate in the circumstances to represent the development of the business, and was also approved by the board of the UK holding company.</li> <li>• We then held meetings with management of the parent company to understand the assumptions underlying the calculation of the prospective figures. In detail, to verify the reliability and accuracy of management’s estimates, we verified the actual results for the year 2017 against the previous year’s forecasts.</li> <li>• Finally, we verified the reasonableness of future growth rates against past results and against the medium-term strategic assumptions.</li> </ul> <p>With reference to the models used for the impairment tests, also with the support of the experts belonging to the PwC network, we then verified the reasonableness of the assumptions made and recalculated the discount and growth</p>



<ul style="list-style-type: none"> <li>Preparation of a sensitivity analysis designed to value the impact of changes to the variables used on the valuations performed.</li> </ul> <p>The elements listed above are used in the impairment test at the level of each CGU, to determine its value in use to be compared with the net capital employed, in order to verify whether the goodwill allocated to that CGU is recoverable or an impairment loss needs to be posted.</p> <p>Based on the impairment tests performed by management no impairment losses emerged with regard to the goodwill allocated to the CGUs, with the only exception of Brazil. Aligning the value of goodwill reported in the consolidated financial statements to the recoverable amount resulting from the impairment test involved the write-off of the entire CGU Brazil for an amount of Euro 55 thousand.</p>	<p>rates used.</p> <p>In detail:</p> <ul style="list-style-type: none"> <li>We verified that the values in the business plans had been accurately reported in the calculation model used for the impairment test;</li> <li>We recalculated the discount rate for each CGU independently, based on sector comparables and market assessments of the time value of money;</li> <li>We verified that the growth rate used to determine the terminal value was in line with the estimated growth rates for the sector and with the macroeconomic trends expected for the relevant scenarios;</li> <li>We verified the mathematical accuracy of the individual impairment tests;</li> <li>We performed sensitivity analyses to measure the variances and impacts on the valuations of changes to the key assumptions (growth and discount rates);</li> <li>We verified the accuracy of calculation of the net capital employed attributed to each CGU.</li> </ul> <p>Finally, we verified the accuracy and completeness of disclosures in the notes to the consolidated financial statements as of 31 December 2017.</p>
<p><b>Risk of fraud in revenue recognition</b></p> <p><i>Note 22 to the consolidated financial statements "Revenues from sales and services"</i>  <i>Paragraph 37.19 of Accounting Policies of the consolidated financial statements "Revenues, interest income and dividends"</i></p> <p>The consolidated income statement as of 31 December 2017 includes "Revenues from sales and services" equal to Euro 265,994 thousand mainly attributable to sales of products.</p> <p>Our audit strategy focused on assessing this line item with particular reference to those countries where, due to the specific features of the local business model, the transfer of the risk and rewards of ownership to the customer does not coincide with the delivery of the product or the time the services is rendered.</p>	<p><b>Auditing procedures performed</b></p> <p>We performed specific analyses for understanding, valuing and validating the relevant controls implemented by the Group on the financial statements area 'Revenues from sales and services'.</p> <p>We performed the understanding of the accounting policies applied to revenues and the methods adopted by management to ensure, specifically, the correct application of the accrual basis of accounting.</p> <p>In general, we carried out sample testing to validate the cut-off of revenues for the reporting period. In detail, in the countries where this was applicable, we placed special emphasis on the assumptions used to determine the portion of revenues, if any, to be deferred because it was</p>



<p>In detail, we focused our attention on the correct application of the accrual basis of accounting to the recognition of transactions occurring in the period.</p>	<p>attributable to the following year.</p> <p>We carried out sample testing to validate the existence, accuracy and completeness of transactions occurring in the reporting period, obtaining supporting evidence.</p> <p>We performed external confirmation procedures in order to obtain documentary evidence supporting the trade receivables booked arising from services rendered.</p> <p>Finally, we verified the accuracy and completeness of disclosures in the notes to the consolidated financial statements as of 31 December 2017.</p>
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***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group’s ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the parent company AMPLIFON SpA or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group’s financial reporting process.

***Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.



As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.



#### ***Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014***

On 21 April 2010 the shareholders of AMPLIFON SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2010 to 31 December 2018.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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#### ***Report on Compliance with other Laws and Regulations***

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#### ***Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98***

Management of AMPLIFON SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the AMPLIFON Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the AMPLIFON Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the AMPLIFON Group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.



***Statement in accordance with article 4 of Consob's Regulation implementing  
Legislative Decree No. 254 of 30 December 2016***

Management of ABC SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 15 March 2018

PricewaterhouseCoopers SpA

*Signed by*

Massimo Rota  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*

