Annual Report 2018

amplifon

Annual Report 2018

Indice

Amplifon at a glance

Letter to shareholders	4
Highlights 2018	6
Key events	10
History	12
Our Corporate Culture	14
Strategy	15
An innovative customer experience	18
Market scenario	20
Global presence	24
GAES	26
Business model	28
Strengths	29
Distribution network	32
Sustainability	36
Corporate bodies	42
Report for investors	44

Report on Operations as at December 31st, 2018 51

Changes in the Accounting Policy 53
Comments on the Financial Results 54
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 as at 31 December 2018 97
Risk Management 98
Treasury Shares 109
Research and Development 110
Transactions between Group Companies and with related parties 110
Contigent Liabilities 110
Outlook 111
Yearly Report on Corporate Governance and Ownership Structure as at December 31st, 2018 111
Non-Financial Disclosure as at December 31st, 2018 111
Comments on the Financial Results of Amplifon S.p.A. 112

Consolidated Financial Statements as at December 31st, 2018 125

Consolidated Statement of the Financial Position 128
Consolidated Income Statement 130
Statement of Comprehensive Income 131
Statement of Changes in Consolidated Net Equity 132
Consolidated Cash Flow Statement 134
Supplementary Information to Cash Flow Statement 136
Explanatory Notes 137
Annexes 238
Declaration in respect of the Consolidated Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98 243
Independent Auditor's Report at 31 December 2018 244

Translation from the original text in Italian

Letter to shareholders

2018, a truly outstanding year

Dear Shareholders,
2018 was truly outstanding year for our Company. The acquisition of GAES, the largest in our history, has made our Group even stronger and enabled us to reach an even more important dimension. Amplifon today is present in 29 countries with around 16,000 people and is the largest player in the retail hearing care market with around 11% global market share.

The acquisition of GAES, announced in July and closed in December, perfectly fits Amplifon's growth strategy, allowing us to consolidate our global leadership and become the undisputed market leader in Spain, as well as strengthen our market position in Portugal while entering the Latin American region, further diversifying our geographic footprint.

GAES represents a unique opportunity for our Company thanks to unique assets, which are also the hardest to build: in fact, thanks to its almost 70 years of experience in the hearing care market and similarly to Amplifon, GAES leverages on both its highly valued and recognized brand and its extensive distribution network and follows a deep customer centric strategy. We firmly believe this transaction represents a unique opportunity also to all employees and customers, given that both Amplifon and GAES have a long history of unrivaled quality of the service and utmost attention to customers. Finally, the consolidation of GAES activities will create extraordinary opportunities to further develop our Group, generating synergies and creating significant value to our shareholders.

Our internal growth continued also this year, even with the acquisition of GAES. In fact, we posted record financial results also in 2018, confirming the reliability of the Company, the validity of our strategy and our strong execution capability. As far as the results are concerned, we reached record revenues[1] and EBITDA[1], of respectively 1,372.7 and 241.3 million euros, up 8.4% and 11.0% compared to the previous year. Net profit[1] reached 113.4 million euros, rising 19.3% compared to the year before. Such results allow Amplifon to propose a dividend distribution of 0.14 euro for each ordinary share to shareholders, an increase of 27.3% compared to 2017.

We are very satisfied also with the high quality of these results. In fact, the strong revenues growth, significantly above the market, was characterized by a strong organic growth and the continuous focus on acquisitions. A further increase in profitability was also possible thanks to revenues growth, the scale reached in key countries and the improved operational efficiency. Additionally, there was also a strong reduction in financial charges and an improvement of the tax rate, thus bringing net profit[1] to a record of 113.4 million euros.

But it was not all. 2018 was an exceptional year also due to the several and important new initiatives carried out

[1] Recurring data without the application of IFRS 15 for the sake of effective comparison with 2017 figures.

in line with the Company’s strategy of continuous growth and development. Firstly, we worked on new projects aimed above all at satisfying and anticipating our customers’ needs, offering a distinctive and highly innovative customer experience with the launch of the Amplifon product line and multichannel ecosystem, leveraging unique and unmatched assets such as data, brand and an impeccable and decidedly personalized service. The new Amplifon product line and multichannel ecosystem, launched in Italy in May and to be launched in other core countries in 2019, was highly appreciated by Italian consumers and at year-end accounted for around 90% of revenues coming from the free and paid-up market.

Later, in November, we announced the entry in the attractive Chinese hearing care market through a joint venture with a leading specialty retailer in the Beijing area. This transaction represents an important first step in building a local presence in China, a sizeable opportunity to sustain our medium-long term sustainable growth strategy given the estimated market size and growth potential in the foreseeable future. Lastly, on December 27th, 2018, Amplifon entered the FTSE MIB Index, the primary benchmark index for the Italian equity market, which measures the performance of the 40 most liquid and capitalized Italian equities, representing another significant milestone in the Company's long growth and development path.

We conclude by reminding that as far as the communication to our stakeholders is concerned and with the aim of providing transparent and thorough information, Amplifon presents also this year its third Sustainability Report, in the form of Non-Financial Disclosure in accordance with Italian Legislative Decree No 254/2016, which illustrates the Company’s commitment to socially responsible and sustainable growth.

Value creation continues to be our mission for the future. We are convinced that the results reached in 2018 and, above all, the countless new opportunities arising from the GAES acquisition and the important strategic projects initiated this year represent an excellent basis to face 2019 with optimism and reach our medium-long term objectives.

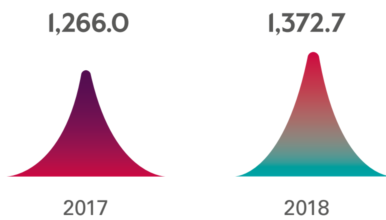
We thank, therefore, all the management team of the Company and all our people for the profound commitment, professionalism, talent and passion they devote to Amplifon every day. Finally, we also thank our shareholders and the other stakeholders that, in different ways, support us to do always better.

Susan Carol Holland	**Enrico Vita**
Chairperson	*Chief Executive Officer*

2018 Highlights

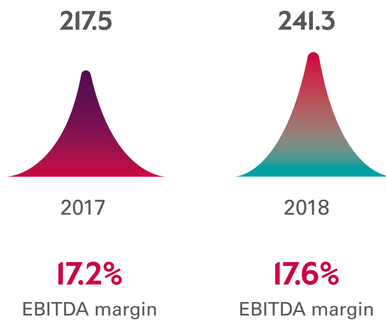
Record sales and profitability

Revenues[1] +8.4%
(million euros)

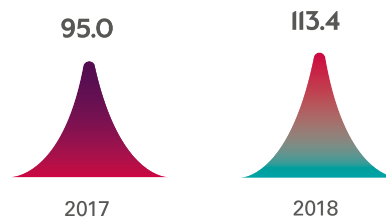


Revenues by region

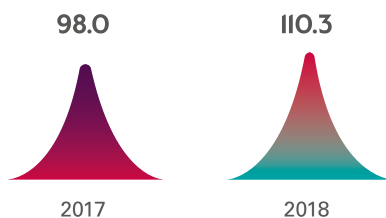
EBITDA[1] +11.0%
(million euros)



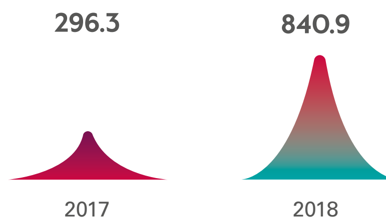
Net profit[1] +19.3%
(million euros)



Free cash flow
(million euros)

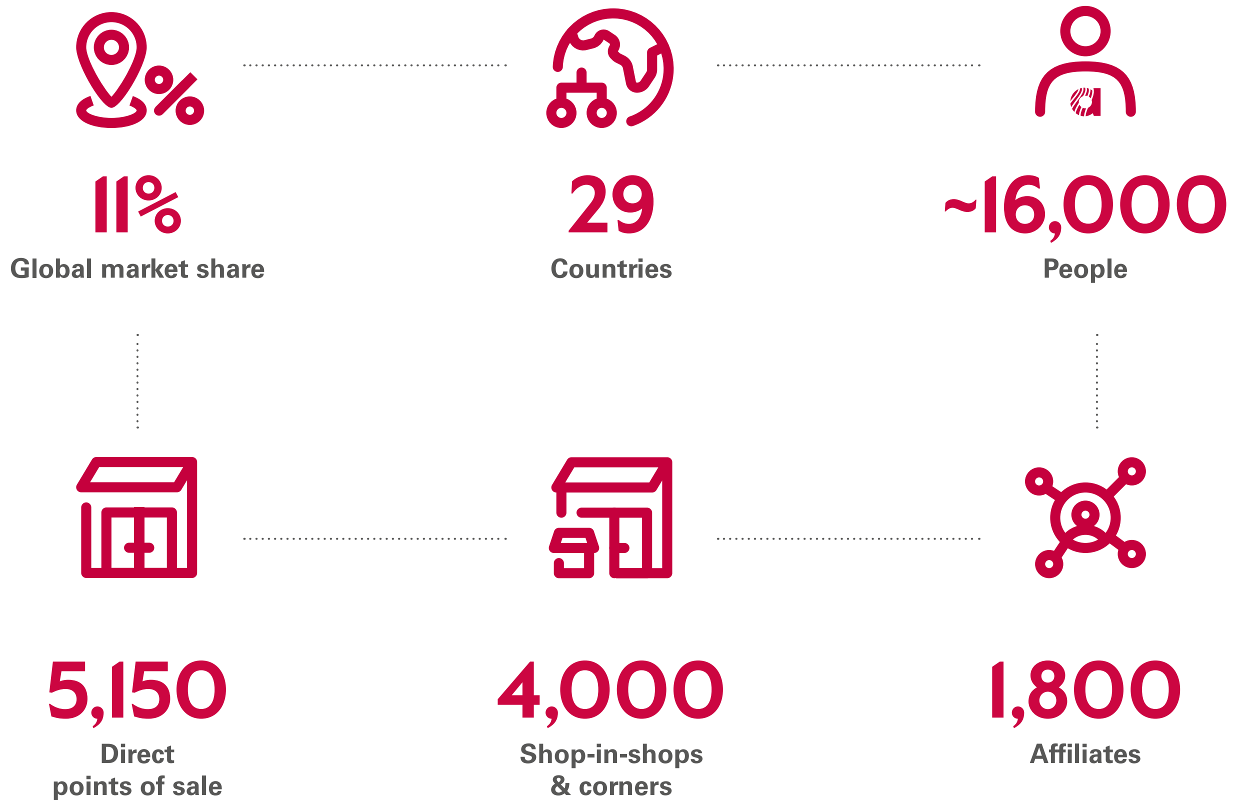


Net debt
(million euros)

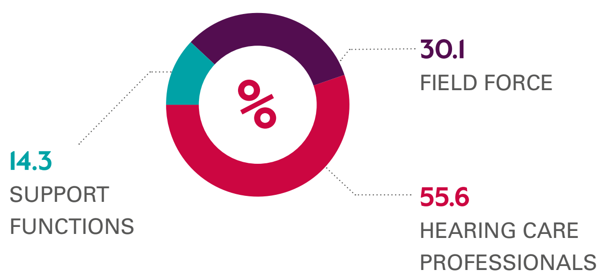


[1]Recurring data without the application of IFRS 15 for the sake of effective comparison with 2017 figures.

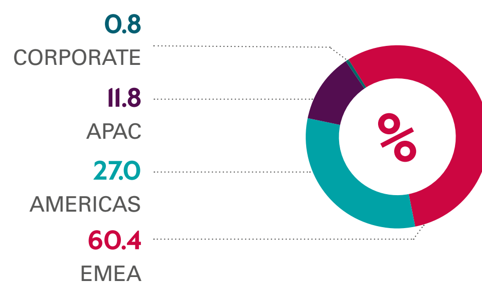
Global leader in hearing solutions and services



People
by role*



by region*



*On payroll and not on payroll

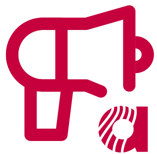
We are always beside our customers with a highly innovative and personalized service, because each person's hearing experience is as unique as their fingerprints.

For us innovation represents a unique and distinctive lever to further consolidate our global leadership, strengthening our brand identity, significantly differentiating our service, offering a complete value proposition and engaging the best talent.

We would not be able to reach this aim without our people, in which we invest continuously and provide with cutting-edge work and development tools.

Key events

Investment, innovation and expansion



January 2018

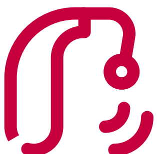
Launch of the “New Generation” communication campaign

Amplifon launches in 7 Countries in the EMEA region the 'New Generation' multichannel advertising campaign. Brought to life as a result of Amplifon’s will to offer a different perspective of today’s seniors (55+), the campaign challenges the stereotypes related to elderly people and hearing solutions, shedding light on a new generation that is abreast with the times, that does not renounce to an active lifestyle and is optimistic about the future.

March 26th, 2018

Capital Markets Day

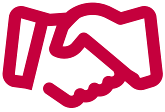
Amplifon shares its main strategic guidelines and financial objectives for the three-year period 2018-2020 with the financial community. Over the next three years, Amplifon aims to further strengthen its global leadership with a differentiated growth strategy focused on core worldwide markets, positioning the Company at the forefront of innovation through a customer-centric business model to offer a distinctive and highly innovative customer experience, and making continuous investments to support the effective execution of the strategy.



May 2018

Launch of the Amplifon product line and ecosystem in Italy

In Spring 2018, Amplifon launches in Italy the Amplifon product line, composed of four product families to address its customers’ specific needs. Together with its product line, the Company launches a multichannel ecosystem, of which the Amplifon APP is the first touchpoint. The ecosystem redefines the Amplifon experience through the whole customer journey (thus, not only in the stores), offering differentiated, added-value services with the aim of further increasing customer satisfaction.



July 24th, 2018

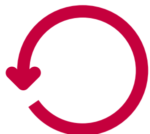
Signing of the agreement to acquire GAES

Amplifon announces the largest acquisition in the Company's history: GAES, the undisputed leader in the Spanish market. With this transaction Amplifon consolidates its global leadership reaching a market share of 11% in the retail hearing care worldwide. With a highly value-added and recognized brand, and a network made of 600 points of sale, 500 of which in Spain alone, GAES represents a unique fit for the Company. The combination is expected to generate significant synergies, thanks to an unmatched brand portfolio, the sharing of best practices and significant economies of scale.

November 2018

Entry into the Chinese market

Amplifon enters the attractive and fast-growing Chinese retail hearing care market through a joint venture with a leading specialty retailer in the Beijing area. Amplifon holds a 51% stake in the joint venture, while the local partner, Beijing Cohesion Hearing Science & Technology Co. Ltd., holds the remaining 49% interest. The joint venture entity operates 30 points of sale mainly located in the Beijing area. This transaction represents an important first step in building a local presence in China.



December 18th, 2018

Amplifon completes the acquisition of GAES

Amplifon announces the completion, after the receipt of the unconditional clearance from the Spanish and Portuguese antitrust authorities, of the acquisition of GAES for a total purchase price of around 530 million euros. The completion of GAES acquisition marks the launch of an even stronger Group with extraordinary potential.

December 27th, 2018

Amplifon enters the FTSE MIB

On December 27th, Amplifon enters the FTSE MIB Index, the primary benchmark index for the Italian equity market, which measures the performance of the 40 most liquid and capitalized Italian equities, capturing approximately 80% of the domestic market capitalization.

December 31st, 2018

Continuous network expansion

In 2018, Amplifon added, including GAES' network, 981 shops and shop-in-shops to its distribution network, which now totals 10,948 points of sale. Acquisitions, for 753 shops and 130 shop-in-shops, were carried out mainly in Germany, France and Canada, besides Spain with the GAES acquisition.

History

Listening to the future, all along

1950

Foundation

Algernon Charles Holland founds Amplifon in Milan to provide hearing solutions for people experiencing hearing loss after the World War II.

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

Internationalization

In the early 90's, Amplifon begins its expansion in Europe and in 1999, with the acquisition of the market leader Miracle-Ear, the Company enters the North American market, strengthening its international leadership.

2010

A new global dimension

With the acquisition of National Hearing Care (NHC), Amplifon expands its activities to Australia, New Zealand and India. In 2014, the Company is present in 22 countries.

2015

Non-stop growth

Amplifon keeps on growing with renewed energy both organically and through acquisitions and exceeds the key threshold of one billion euros in sales, thanks to the effectiveness of its strategy, careful planning as well as strong execution capabilities.

2001

Listing on the Stock Exchange

On June 27th, 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.

2000's

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.

2018

Strong innovation and continuous expansion

The Company pursues a strong technological innovation program in the customer experience with the launch of the Amplifon product line and proprietary multichannel ecosystem, leveraging on its data, brand as well as an impeccable and decidedly personalized service. Amplifon further consolidates its global leadership position with the acquisition of GAES, the largest privately-owned specialty hearing care retailer worldwide, and enters the Chinese market.

Our Corporate Culture

We empower people to rediscover all the emotions of sound

Mission

We transform the way hearing healthcare is perceived and delivered 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.

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.

Strategy

We aim to further strengthen our global leadership through three pillars, positioning the Company at the forefront of technological innovation.

Strengthen leadership in core markets

We pursue a differentiated growth strategy with the aim to further consolidate our leadership position in all core mature countries worldwide. Among the emerging markets, China represents a sizeable opportunity for our medium-term growth path.

Innovative and distinctive customer experience

Our strategy is tailored around the customer, to whom we offer a distinctive and highly innovative customer experience by means of the Amplifon product line and multichannel ecosystem, leveraging on unique and unmatched assets such as data, brand as well as an impeccable and decidedly personalized service.

Effective execution capability

To foster an effective execution of our strategy, we continue to invest in top talent, the sharing of best practices and the extension of our global integrated IT infrastructure.

Customer knowledge

We hold a unique knowledge of our customers' needs thanks to the data collected on trends and behaviors of over 10 million people worldwide among consumers and prospects.

10 million customers and prospects worldwide

An innovative customer experience

Our aim is to open new frontiers in the hearing care retail market by means of a customer-centric strategy, leveraging our key assets: our brands, the profound relationship with our customers, our data and an engaging technological innovation program.

The two pillars of our innovation program are the new Amplifon product line and the Amplifon multichannel ecosystem. These two elements combined make the Amplifon Product Experience, which was successfully launched in Italy in May 2018 and will be launched in other core countries during 2019.

Amplifon Product Experience

The Amplifon Product Experience represents a unique and distinctive lever to further strengthen our brand identity, significantly differentiate our service from the competition and offer a complete value proposition to our customers, made of product, service and experience.

Amplifon Product Line

The new Amplifon product line consists of four product families designed, together with an impeccable service, to address the needs of our customers.

ampli-easy

Hearing aids with the essential functionalities for the customer.

ampli-mini

Small and handy, designed to be nearly invisible.

ampli-energy

Rechargeable devices always ready for use, everywhere.

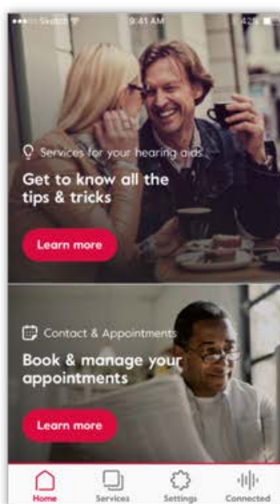
ampli-connect

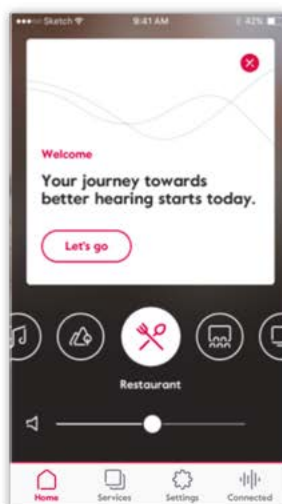
Devices that allow connection to smartphone, TV and stereo.

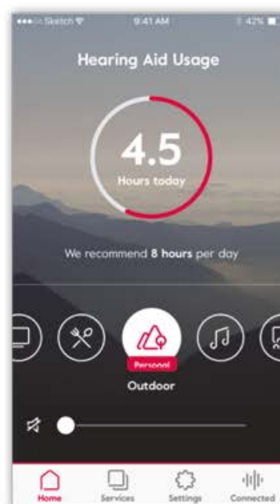
Amplifon multichannel ecosystem

The Amplifon multichannel ecosystem, of which the Amplifon APP represents the first touchpoint, redefines the Amplifon experience through the entire customer journey (thus not only in the store), offering fast access to differentiated and value-added services to further increase customer satisfaction. The innovative Amplifon APP allows access to new services such as ‘find the nearest store’, ‘book an appointment’ or ‘find my hearing aid’, besides being a remote control to the hearing aids.

The Amplifon ‘Companion’ is a proprietary functionality that gives continuous advice to the customer on how to make the best use of the hearing solution based on usage data and a proprietary artificial intelligence algorithm. Further important functionalities are presently being developed and in plan for the coming years.





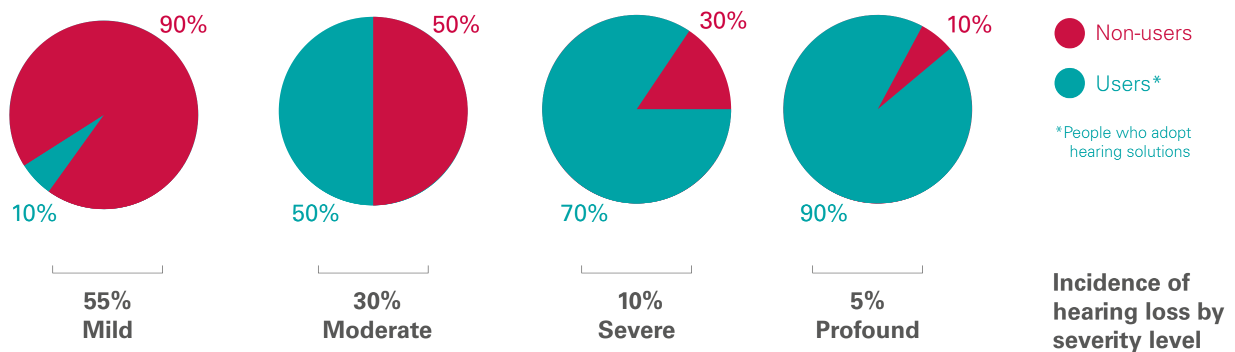


Market scenario

The global retail hearing care market has an estimated value of around €14.2 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 460 million people have a disabling hearing loss. Due to the increasing life expectancy of global population, this number is expected to double by 2050. Untreated hearing loss represents an annual global cost of 750 billion dollars.

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



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

Key retail trends

Secular trends

Demographics

People are growing older due to longer life expectancy and are increasingly exposed to noise pollution.

Penetration

The increase in penetration is due to the increasing awareness of the consequences of untreated hearing loss, the higher expectations of wellbeing in older age and the technological development that make hearing aids more appealing.

Emerging trends

Consumer behavior

Active ageing is a mega trend: consumers have a much longer life expectancy compared to previous generations, are very dynamic and desire to continue to live life to the fullest.

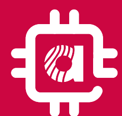
Digital

The usage of digital devices is increasing very rapidly among seniors, offering retail players new touchpoints with the target population and the opportunity to offer value-added services.

Value chain

Customer experience

The new Amplifon product line and our distinctive multichannel ecosystem, leveraging big data and artificial intelligence algorithms, allow us to provide and even more personalized customer experience in multiple touchpoints.



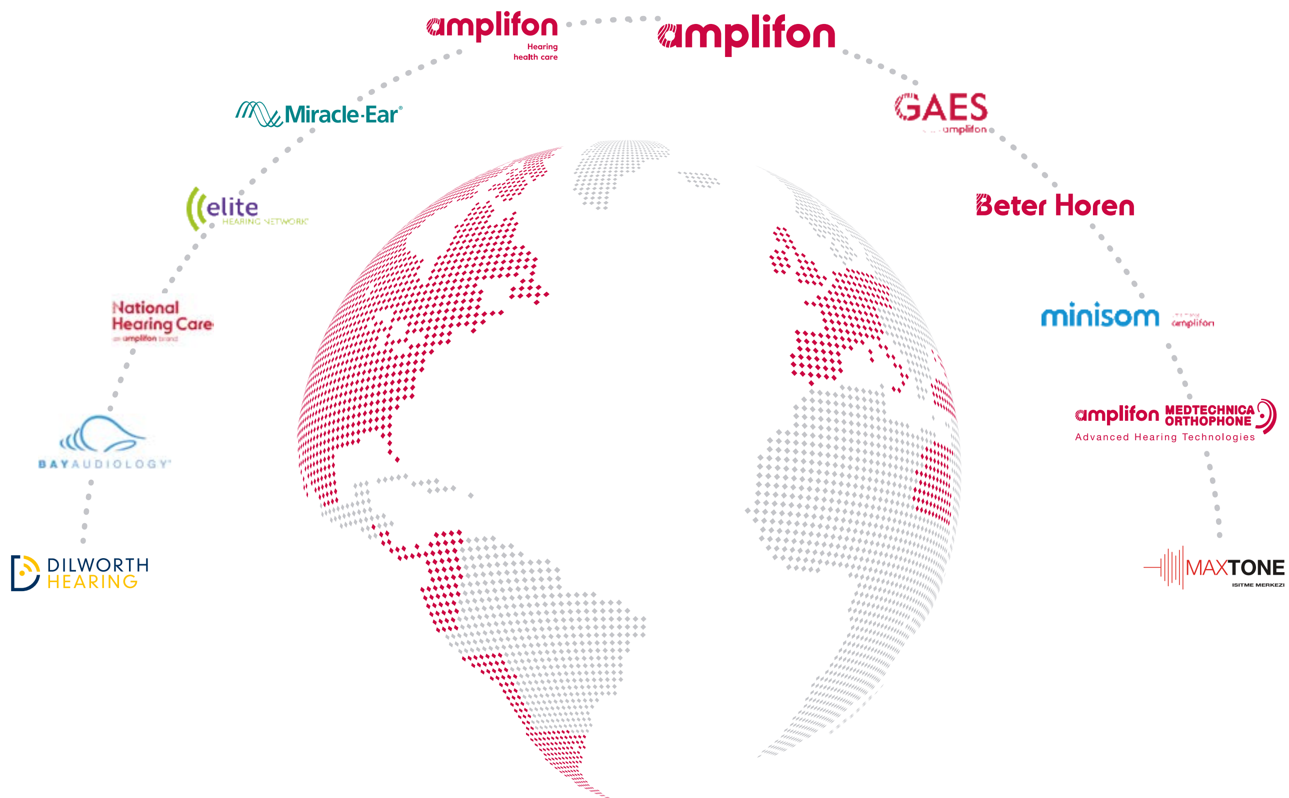
Big data and artificial intelligence algorithms

Global presence

Amplifon is the global leader in terms of volumes, sales, 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.



GAES

A milestone in Amplifon history

On July 24th, 2018, we announced the largest acquisition in the history of our Company: GAES, the major privately-owned specialty hearing care retailer worldwide, with a leadership position in Spain. With this acquisition, Amplifon consolidates its global leadership position, increasing its global market share to over 11% of the retail hearing care market.

GAES

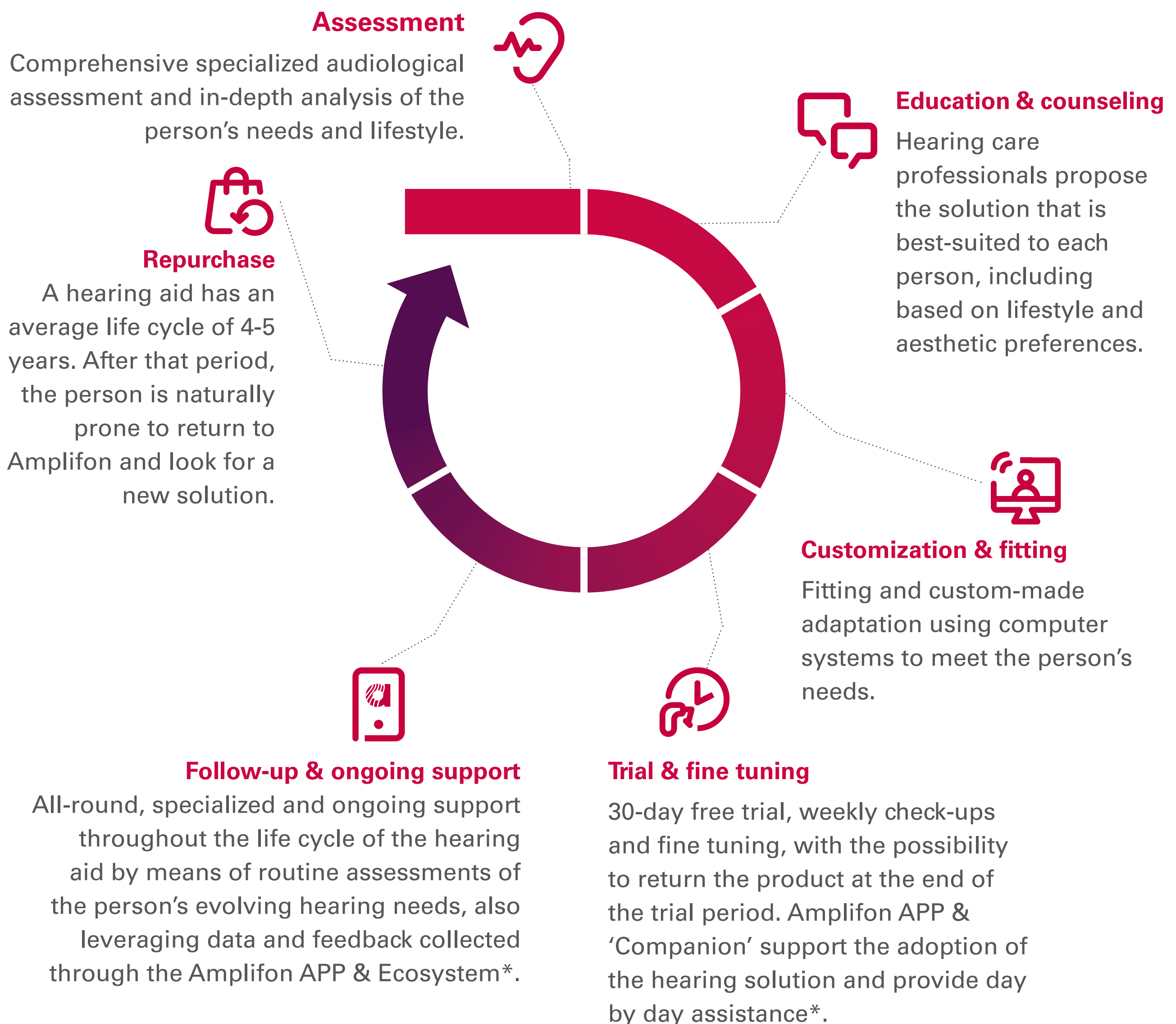
The GAES Group, founded in 1949 in Barcelona, is the leader in hearing care solutions in Spain and is also present in Portugal, Andorra and six other Latin American countries (Argentina, Chile, Ecuador, Panama, Colombia and Mexico). GAES, similarly to Amplifon, leverages on both its highly valued and recognized brand and its extensive distribution network, the largest in Spain with around 500 points of sales and other 100 points of sales in other markets, and follows a deep customer centric strategy.

GAES in Amplifon strategy

GAES perfectly fits our growth strategy intended at consolidating our position in core countries such as Spain. This transaction also offers unique development opportunities allowing significant value creation for our shareholders, customers as well as the employees of both companies. Significant synergies and value creation potential are expected to be delivered thanks to an unmatched brand portfolio, the sharing of best practices and significant economies of scale.

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.



*Multichannel ecosystem available from May 2018 in Italy only. Launch in other core countries during 2019.

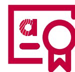
Strengths

Making use of our unique global position and over 65-year-long experience, we continually innovate our value proposition to be always closer to the lifestyles and fast-evolving needs of our customers.

Innovation

We are pioneers in adopting innovative technologies to develop highly added-value services and products. The Amplifon multichannel ecosystem, supported by an advanced IT platform that allows an intense data mining activity, enables us to differentiate the customer journey and the Amplifon experience in all touchpoints, be they physical or virtual.

Expertise



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

Brands

The strong pervasiveness of our 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 multichannel approach.

Employer of choice

We are the employer of choice in the hearing care industry thanks to both our distinctive, winning Corporate Culture, and the constant investment in talent, continuous professional development and recognition of our people in all organization levels.

Global dimension

Our unique global distribution network, made of different types of points of sale and interconnected thanks to our global database, 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. Its prestige comes from the collaboration with renowned, national and international, experts whose innovative contribution is of paramount importance for the continuous practical and theoretical update of the medical community.

Customer devotion

Amplifon's 5,150 shops and 4,000 shop-in-shops are genuine meeting places where customers and our hearing care professionals build profound relationships, in a path of constant dialogue and understanding that leads to the selection of the best personalized solution with the support of Amplifon 360, our innovative in-store protocol.

Amplifon's 5,150 shops and 4,000 shop-in-shops are genuine meeting places

Distribution network

Direct points of sale

3,650 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.

4,000 Shop-in-shops & corners

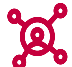
Located in third party premises (e.g. pharmacies, opticians), this widespread network of outlets may be the first point of contact with customers who are then directed to a store, when necessary.

Indirect points of sale

1,500 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.

1,800 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
EMEA					
Italy	Amplifon	617	3,167	-	-
France	Amplifon	558	125	-	-
Germany	Amplifon	500	-	-	-
The Netherlands	Beter Horen	169	50	-	-
Spain	Amplifon / GAES	607	131	39	-
UK & Ireland	Amplifon	130	115	-	-
Switzerland	Amplifon	93	-	-	-
Belgium & Luxembourg	Amplifon	90	54	10	-
Hungary	Amplifon	77	-	-	-
Portugal	MiniSom	89	54	-	-
Poland	Amplifon	58	-	-	-
Egypt	Amplifon	25	-	-	-
Israel	Medtechnica Orthophone	23	-	-	50
Turkey	Maxtone	24	-	-	-
AMERICAS					
USA	Miracle-Ear	50	-	1,440	-
	Elite Hearing Network	-	-	-	1,763
Canada	Miracle-Ear	62	-	-	-
Latam	GAES	72	-	15	-
APAC					
Australia	National Hearing Care	189	114	-	-
New Zeland	Bay Audiology/Dilworth	103	31	-	-
India	Amplifon	75	150	-	-
China	Beijing Cohesion Hearing Science & Technology	29	-	-	-
Total		**3,640**	**3,991**	**1,504**	**1,813**

People empowerment

Our 16,000 people in 29 Countries have at their disposal groundbreaking working environment and digital tools so that they feel motivated, perform at their best potential and, thus, go the extra-mile to satisfy our customers.

Groundbreaking working environment and digital tools

Sustainability

In 2018, we have defined our Group Sustainability Policy which sets the priorities and areas of commitment towards our stakeholders in terms of sustainability.

Our four areas of commitment

Product & Service Stewardship

People Empowerment

Community Impact

Ethical Behavior

Product & Service Stewardship

Aware of the pivotal role we play in the hearing care arena, we are committed to providing customers with the highest quality solutions by assuring their effectiveness, personalization and safety, and delivering an outstanding experience addressing each customer's needs.

2018 key initiatives

- Amplifon Product Experience: Launch of Amplifon Product Experience in Italy, composed of the new Amplifon product line and multichannel ecosystem.
- Customer Satisfaction: Net Promoter Score higher than 65 in over 85,000 completed surveys.
- The best in Italy: Champions of Service in Italy in the hearing centers category for the fourth year in a row.
- Digital communication: Launch of new consumer websites even more engaging and user-friendly.

People Empowerment

We believe that our people, regardless their role within the organization, represent the most relevant asset for providing highly value-added hearing solutions and services. As a result, we strive to attract, train and retain the best talents as well as to guarantee a diverse, inclusive and innovative working environment.

Key resources

Hearing care professionals & client advisors

Over 9,000 hearing care professionals and 4,900 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

44.4% 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.

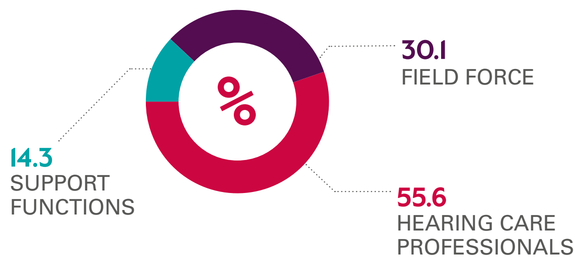
Support functions

The 2,300 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.

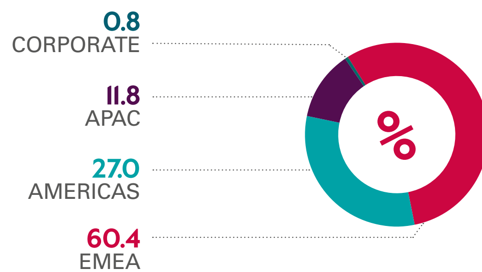
Workforce increase*

- On payroll
- Not on payroll

People by role*



People by region*



* On payroll and not on payroll

2018 training hours

~340,000

Training hours

2018 hearing care professionals' training

~220,000

Training hours

~30

Hours per hearing care professional

2018 key initiatives

- One Amplifon Transformation: Launch of the global backbone processes and systems transformation program.
- Corporate Culture: Launch of Amplifon's Corporate Culture through a global campaign carried out simultaneously in all the countries in which we operate.
- Digital Workplace: Adoption of new agile collaboration and internal communication tools.
- You@Amplifon: Launch of a training program to allow a better understanding of the new professional development model in Amplifon.

Community Impact

Amplifon's products and services allow thousands of people to hear again every year with a high social impact worldwide. We are deeply committed to raising the awareness around hearing health, with the ultimate goal of reducing the severe consequences related to hearing impairment and maximizing the positive impact of early intervention.

2018 key initiatives

- Awareness and prevention campaigns:

- Exploration of disruptive ways to raise awareness on hearing loss at Sonar +D in Barcelona.
- Amplifon Smile advocacy campaign in Italy.
- One Day Without Sound in USA.
- Hearing World and AmpliBus: prevention and free hearing tests with traveling audiologists in Switzerland, Italy and India.

- Social initiatives:

- Amplicœur in France: collaboration with the non-profit organization Les Enfants Sourds du Cambodge that takes care of children suffering from hearing disabilities in Asia.
- Free to Ear Samoa Programme in New Zealand: three-day-long mission to Samoa to carry out free hearing tests, ear suctions, and fitting of donated hearing aids.
- Fundraising for the EarDrop Foundation in the Netherlands.
- HR Volunteers for a Day: participation of HR colleagues from the whole Group to selected voluntary work activities

Miracle-Ear Foundation

2018
key numbers

2,000+
Children and adults supported

4,000+
Hearing solutions donated

480,000+
Hearing protection kits distributed

Support to research: the Centre for Research and Studies Amplifon

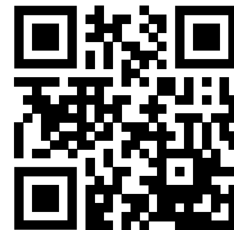
700 courses and congresses since 1971

2018 CRS International Congress in Bruges dedicated to binaural hearing, sleep apnea and vertigo

2018 scholarships: 7,000 euros each to six ENTs

Ethical Behavior

We are strongly committed to running our activities in full accordance with regulatory frameworks and with the highest ethical and moral standards, thus actively working to prevent any type of unethical business practice.



http://corporate.amplifon.com/documents/20182/134754/codice-etico-2017.pdf/dbc48e04-b95d-4804-a778-a2992e9ff863

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 2018 (in accordance with art. 123-bis of TUF)'. The Report is available on the Company's corporate website.

Board of Directors

Role	Name	Executive	Non Executive	Indipendent[1]	R.C.S.C.[2]	R.A.C..[3]
Chairperson	**Susan Carol Holland**		•		•	•
CEO	**Enrico Vita**	•				
Director	**Andrea Casalini**		•	•		•
Director	**Alessandro Cortesi**[4]		•	•	•	
Director	**Maurizio Costa**		•	•		•
Director	**Laura Donnini**		•	•	•	
Director	**Maria Patrizia Grieco**		•	•		•
Director	**Lorenzo Pozza**		•	•	•	
Director	**Giovanni Tamburi**		•			

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

1 Directors that declare they qualify as independent as defined under current law and in the Italian Stock Exchange Corporate Governance Code.

2 R.C.S.C.: Members of the Risk, Control and Sustainability Committee.

3 R.A.C.: Members of the Remuneration and Appointment Committee.

4 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..

Board of Statutory Auditors

Role	Name
Chairperson	**Raffaella Pagani**[5]
Standing auditor	**Maria Stella Brena**
Standing auditor	**Emilio Fano**
Alternate auditor	**Alessandro Grange**[5]
Alternate auditor	**Claudia Mezzabotta**

The Board of Statutory Auditors was appointed by the Shareholders' Meeting held on April 20th, 2018 and will remain in office until the Shareholders' Meeting convene to approve the Financial Statements at December 31st, 2020.

[5] Member of the Supervisory Board expressed by the minority list

Remuneration & Appointment Committee

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

Risk, Control & Sustainability Committee

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

Related Parties Transactions Committee

Role	Name
Chairperson	**Andrea Casalini**
Member	**Laura Donnini**
Member	**Alessandro Cortesi**

Supervisory Board

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

Lead Independent Director

Lorenzo Pozza

Head of Internal Audit

Paolo Tacciaria

Executive responsible for financial reporting

Gabriele Galli

Secretary of the Board of Directors

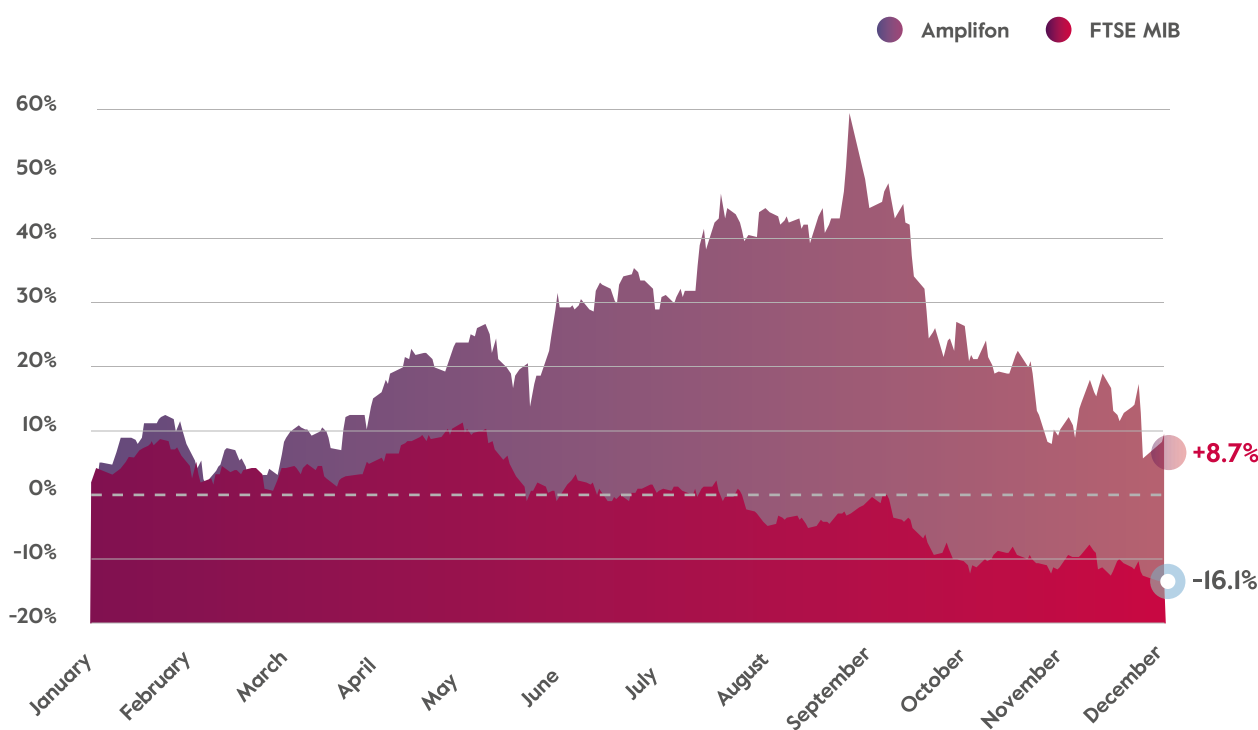
Luigi Colombo

External auditors

PricewaterhouseCoopers S.p.A.

Report for investors

Amplifon in the stock exchange



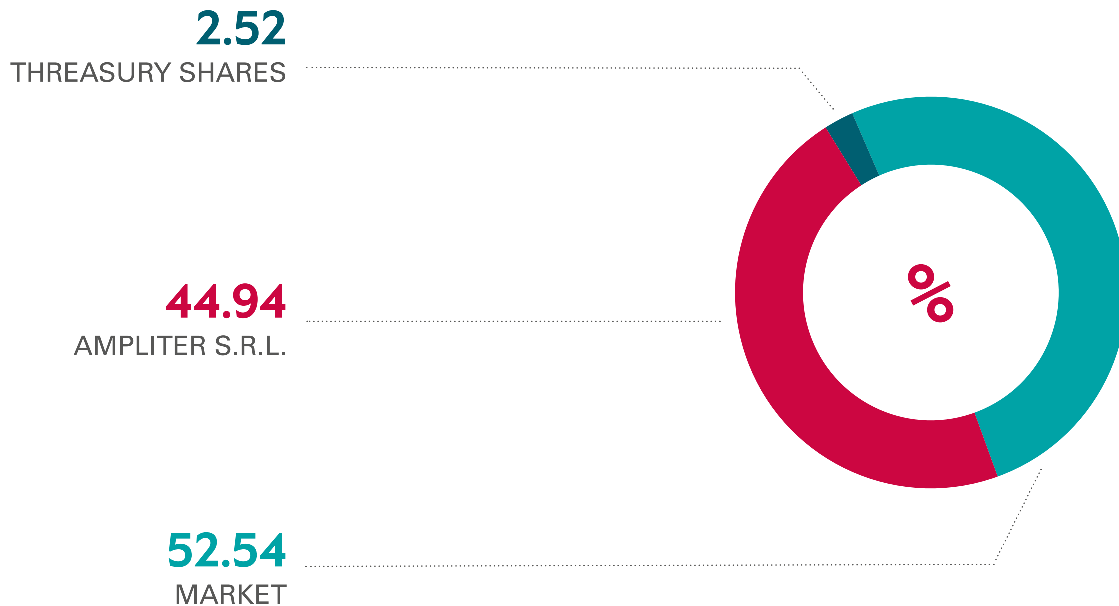
Key share data

Stock exchange	**MTA-STAR**	Nominal value	**€0.02**
Bloomberg ticker	**AMP:IM**	Average price[3]	**€16.064**
Share capital[1]	**€4,527**	Average volumes[3]	**412,734**
N° of shares outstanding[2]	**220,637,875**	Market capitalization1[1]	**€3.180**

[1] At 31.12.2018, in million euros.
[2] Treasury shares excluded.
[3] Last 12 months.

Shareholding

Shareholder structure as of December 31st, 2018*



* The percentage refer to the share capital on December 31st, 2018.

Increased voting rights

The possibility of exercising increased voting rights was adopted by the Extraordinary Shareholders' Meeting held on January 29th, 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 31st, 2018, there were 102,274,274 registered shares (62.24% of the Company's voting capital), of which 101,715,003 shares (61.90 % of the voting capital) owned by the majority shareholder Ampliter S.r.l..

Relations with the financial community

Stock coverage

As of December 31st, 2018, the stock was covered by 15 brokers who actively followed the Company, published specific research and analyses, and issued generally positive recommendations.

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

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 in 2018, there were 70 people connected to each conference call.

Roadshow

In 2018, the Company's management team - Chief Executive Officer and Chief Financial Officer - and Investor Relator organized 10 roadshows in the main global financial markets: London, Boston, New York, Atlanta, Milano, Frankfurt, and Zurich, meeting over 80 institutional investors in one-on-one and group meetings.

Conferences

Throughout the year, the Company's management team - Chief Executive Officer and Chief Financial Officer - and Investor Relator attended numerous international healthcare conferences organized by primary institutions such as Citi, Goldman Sachs and Bank of America Merrill Lynch; as well as conferences for Italian and/or medium-sized companies organized by UniCredit e Kepler Cheuvreux, Exane BNP Paribas, Mediobanca, Banca Akros and the Italian Stock Exchange. Over 190 institutional investors were met during the one-on-one and group meetings were held during these conferences. Additionally, 65 investors were met during company visits organized directly at Company's head office throughout the year, totaling 335 investors met in 2018.

Capital Markets Day

On March 26th, 2018, Amplifon shared its main strategic guidelines and the financial objectives for the three-year period 2018-2020 with the financial community. Around 70 analysts and investors attended the meeting held at Company's headquarter in Milan, while other 40 people took part to the event via audiowebcast.

2019 Financial Calendar

March 5th, 2019

Board of Directors meeting to approve the draft Financial Statements at December 31st, 2018 and proposed allocation of 2018 Net Result

April 17th, 2019

Shareholders General Meeting (Single Call) to approve the Financial Statements at December 31st, 2018 and allocation of 2018 Net Result

May 7th, 2019

Board of Directors meeting to approve the Interim Financial Report at March 31st, 2019

July 30th, 2019

Board of Directors meeting to approve the Interim Management Report at June 30th, 2019

October 30th, 2019

Board of Directors meeting to approve the Interim Financial Report at September 30th, 2019

Our customers inspire our innovation.

Report on Operations as at December 31st, 2018

Report on Operations as at December 31st, 2018

Changes in the Accounting Policy 53

Comments on the Financial Results 54

Consolidated Income Statement 56

Reclassified Consolidated Balance Sheet 61

Condensed Reclassified Consolidated Cash Flow Statement 62

Financial KPIs 63

Income Statement Review 66

Balance Sheet Review 86

Acquisition of Companies and Businesses 96

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 as at 31 December 2018 97

Risk Management 98

Treasury Shares 109

Research and Development 110

Transactions within the Group and with Related Parties 110

Contingent Liabilities 110

Outlook 111

Yearly Report on Corporate Governance and Ownership Structure as at December 31st, 2018 111

Non-Financial Disclosure as at December 31st, 2018 111

Comments on the Financial Results of Amplifon S.p.A. 112

Changes in the Accounting Policy

New Accounting Standards

The Group has adopted IFRS 15 “Revenue from contracts with customers” and IFRS 9 “Financial instruments” effective 1 January 2018 (with the exception of the provisions relating to hedge accounting for which the Group chose to continue applying IAS 39) which resulted in changes to the accounting policies and adjustments to the amounts recognized in the financial statements.

Adoption of IFRS 15 “Revenue from contracts with customers” resulted in the application of specific, new criteria for the allocation of the transaction price to the different performance obligations in the contract with the customer: hearing aid and the relative fitting activities (part of a single, inseparable obligation), after sales services, extended warranties, accessories (batteries, cleaning kits).
The standard was adopted using the modified retrospective approach which does not call for the restatement of comparative figures.
The figures for this reporting period are also shown without applying the standard and the comparison figures refer to the 2018 figures before application of IFRS 15, unless stated otherwise.

IFRS 9 “Financial instruments” which calls for a different model for the classification and valuation of financial assets introducing the concept of expected losses, was also applied retroactively as of 1 January 2018.

The retroactive application of these standards effective 1 January 2018, which is detailed in note 3 of the consolidated annual report, caused a decrease in the opening net equity balance of €61.2 million.

Comments on the Financial Results

The Amplifon Group posted record results in 2018 with revenues rising in all the geographic areas in which the Group operates and continuous improvement in profitability despite an extremely challenging comparison base. These results were achieved thanks to the efficacy of the new marketing campaigns, the greater scale reached in core countries and improved operational efficiency.
More in detail, the year closed with:

- turnover, calculated based on the new accounting standard (IFRS 15), of €1,362,234 thousand. Based on the accounting standards applied in the prior year, turnover would have amounted to €1,372,730 thousand (+8.4% against FY 2017);
- a gross operating margin (EBITDA) of €225,467 thousand, calculated based on the new accounting standard (IFRS 15). Based on the accounting standards applied in the prior year, EBITDA would have reached €232,884 thousand (+9.6% against FY 2017);
- net profit of €100,443 thousand based on the new accounting standards. Excluding the impact of the new standards, recurring net profit would have come to €113,354 thousand, an increase of 19.3% compared to the prior year (reported net profit would have amounted to €106,681 thousand).

Revenues Performance

Revenues from sales and services, determined based on the new IFRS 15, reached the record amount of €1,362,234 thousand in 2018. Based on the same accounting standards applied in the prior year, revenues would have amounted to €1,372,730 thousand, an increase of +8.4% compared to the prior record set in 2017 (€ 1,265,994 thousand).

This significant result was achieved thanks mainly to continuous organic growth which, including the contribution of the newly opened stores, amounted to €89,014 thousand (+7.0%), as well as acquisitions which contributed €45,369 thousand (+3.6%). The foreign exchange differences had a negative impact of €27,647 thousand (-2.2%).

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

- in Europe, the Middle East and Africa revenue rose 12.2% at current exchange rates and by 12.7% at constant exchange rates against the prior year due to strong organic growth (including the contribution of the newly opened stores), as well as the acquisitions made mainly in Germany and France;
- in the Americas revenue rose 2.4% at current exchange rates and by 7.0% at constant exchange rates compared to the previous year thanks also to higher investments in marketing and acquisitions;
- in Asia-Pacific turnover rose 4.6% at constant exchange rates against 2017 (-2.6% at current exchange rates due to the adverse FX translation effect).

Profitability Performance

Once again in 2018 the strong growth in revenues resulted in a significant increase in profitability. Gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to a record €225,467 thousand. Based on the same accounting standards applied in the prior year, EBITDA would have reached €232,884 thousand, an increase of €20,393 thousand compared to the prior year (+9.6%) despite the adverse FX translation effect.
Excluding non-recurring expenses, which amounted to €8,457 thousand in 2018 and €4,992 thousand in 2017, EBITDA would have been €23,858 thousand (+11.0%) higher. The recurring EBITDA margin came to 17.6%, an increase of 0.4 percentage points compared to 2017.

Net Financial Position Changes

The Group's ability to generate solid operating cash flow (recurring cash flow amounted to €194,161 thousand) made it possible to finance the sizeable GAES acquisition completed at the end of the year with a €530 million two-tranche syndicated loan.

Net financial debt amounted to €840,856 thousand at 31 December 2018, an increase of €544,591 thousand against 31 December 2017.

The increase in debt is the direct consequence of the acquisitions made in the period (€620,639 thousand, €530,700 thousand of which attributable to the GAES acquisition referred to above), capital expenditure (€77,971 thousand), the payment of dividends to shareholders (€24,079 thousand) and the purchase of treasury shares (€9,631 thousand).

At 31 December 2018 gross debt amounted to €930,771 thousand, €877,688 thousand of which long-term. The short-term portion amounts to €53,083 thousand which is more than offset by cash and cash equivalents of €89,915 thousand. The latter, along with €135 million in unutilized irrevocable credit lines and €150.3 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 2018				FY 2017				
	Recurring	Non-recurring (*)	Total	% on recurring	Recurring	Non-recurring (*)	Total	% on recurring	Change % on recurring
Revenues from sales and services	1,362,234	-	1,362,234	100.0%	1,265,994	-	1,265,994	100.0%	7.6%
Operating costs	(1,131,060)	(2,193)	(1,133,253)	-83.0%	(1,053,167)	(4,992)	(1,058,159)	-83.2%	-7.4%
Other costs and revenues	2,750	(6,264)	(3,514)	0.2%	4,656	-	4,656	0.4%	-40.9%
Gross operating profit (EBITDA)	**233,924**	**(8,457)**	**225,467**	**17.2%**	**217,483**	**(4,992)**	**212,491**	**17.2%**	**7.6%**
Depreciation and write-downs of non-current assets	(51,150)	-	(51,150)	-3.8%	(44,694)	(214)	(44,908)	-3.5%	-14.4%
Operating result before the amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	**182,774**	**(8,457)**	**174,317**	**13.4%**	**172,789**	**(5,206)**	**167,583**	**13.6%**	**5.8%**
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(21,007)	-	(21,007)	-1.5%	(17,906)	-	(17,906)	-1.4%	-17.3%
Operating profit (EBIT)	**161,767**	**(8,457)**	**153,310**	**11.9%**	**154,883**	**(5,206)**	**149,677**	**12.2%**	**4.4%**
Income, expenses, valuation and adjustments of financial assets	470	-	470	0.0%	502	-	502	0.0%	-6.4%
Net financial expenses	(13,521)	(649)	(14,170)	-1.0%	(19,284)	-	(19,284)	-1.5%	29.9%
Exchange differences and non-hedge accounting instruments	(1,034)	-	(1,034)	-0.1%	(548)	-	(548)	0.0%	-88.7%
Profit (loss) before tax	**147,682**	**(9,106)**	**138,576**	**10.8%**	**135,553**	**(5,206)**	**130,347**	**10.7%**	**8.9%**
Tax	(40,599)	2,433	(38,166)	-2.8%	(40,633)	10,764	(29,869)	-3.2%	0.1%
Net profit (loss)	**107,083**	**(6,673)**	**100,410**	**7.9%**	**94,920**	**5,558**	**100,478**	**7.5%**	**12.8%**
Profit (loss) of minority interests	(33)	-	(33)	0.0%	(100)	-	(100)	0.0%	67.0%
Net profit (loss) attributable to the Group	**107,116**	**(6,673)**	**100,443**	**7.9%**	**95,020**	**5,558**	**100,578**	**7.5%**	**12.7%**

(*) See table at page 60 for details of non-recurring transactions.

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

EBITA is the operating result before amortization 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

The following table shows 2018 performance without the adoption of the accounting principle IFRS 15 in order to have a better comparison with previous year results.

(€ thousands)	FY 2018 (*) w/o IFRS 15				FY 2017				
	Recurring	Non-recurring (**)	Total	% on recurring	Recurring	Non-recurring (**)	Total	% on recurring	Change % on recurring
Revenues from sales and services	1,372,730	-	1,372,730	100.0%	1,265,994	-	1,265,994	100.0%	8.4%
Operating costs	(1,134,139)	(2,193)	(1,136,332)	-82.6%	(1,053,167)	(4,992)	(1,058,159)	-83.2%	-7.7%
Other costs and revenues	2,750	(6,264)	(3,514)	0.2%	4,656	-	4,656	0.4%	-40.9%
Gross operating profit (EBITDA)	**241,341**	**(8,457)**	**232,884**	**17.6%**	**217,483**	**(4,992)**	**212,491**	**17.2%**	**11.0%**
Depreciation and write-downs of non-current assets	(51,150)	-	(51,150)	-3.7%	(44,694)	(214)	(44,908)	-3.5%	-14.4%
Operating result before the amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	**190,191**	**(8,457)**	**181,734**	**13.9%**	**172,789**	**(5,206)**	**167,583**	**13.6%**	**10.1%**
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(21,007)	-	(21,007)	-1.5%	(17,906)	-	(17,906)	-1.4%	-17.3%
Operating profit (EBIT)	**169,184**	**(8,457)**	**160,727**	**12.3%**	**154,883**	**(5,206)**	**149,677**	**12.2%**	**9.2%**
Income, expenses, valuation and adjustments of financial assets	470	-	470	0.0%	502	-	502	0.0%	-6.4%
Net financial expenses	(13,521)	(649)	(14,170)	-1.0%	(19,284)	-	(19,284)	-1.5%	29.9%
Exchange differences and non-hedge accounting instruments	(1,034)	-	(1,034)	-0.1%	(548)	-	(548)	0.0%	-88.7%
Profit (loss) before tax	**155,099**	**(9,106)**	**145,993**	**11.3%**	**135,553**	**(5,206)**	**130,347**	**10.7%**	**14.4%**
Tax	(41,766)	2,433	(39,333)	-3.0%	(40,633)	10,764	(29,869)	-3.2%	-2.8%
Net profit (loss)	**113,333**	**(6,673)**	**106,660**	**8.3%**	**94,920**	**5,558**	**100,478**	**7.5%**	**19.4%**
Profit (loss) of minority interests	(21)	-	(21)	0.0%	(100)	-	(100)	0.0%	79.0%
Net profit (loss) attributable to the Group	**113,354**	**(6,673)**	**106,681**	**8.3%**	**95,020**	**5,558**	**100,578**	**7.5%**	**19.3%**

(*) For the sake of comparison with 2017, unaudited figures are shown.
(**) See table at page 60 for details of non-recurring transactions.

(€ thousands)	Q4 2018				Q4 2017				
	Recurring	Non-recurring (*)	Total	% on recurring	Recurring	Non-recurring (*)	Total	% on recurring	Change % on recurring
Revenues from sales and services	399,463	-	399,463	100.0%	364,220	-	364,220	100.0%	9.7%
Operating costs	(316,209)	(1,931)	(318,140)	-79.2%	(288,692)	(1,080)	(289,772)	-79.3%	-9.5%
Other costs and revenues	106	(522)	(416)	0.0%	1,159	-	1,159	0.3%	-90.9%
Gross operating profit (EBITDA)	**83,360**	**(2,453)**	**80,907**	**20.9%**	**76,687**	**(1,080)**	**75,607**	**21.1%**	**8.7%**
Depreciation and write-downs of non-current assets	(14,880)	-	(14,880)	-3.7%	(12,418)	(214)	(12,632)	-3.4%	-19.8%
Operating result before the amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	**68,480**	**(2,453)**	**66,027**	**17.1%**	**64,269**	**(1,294)**	**62,975**	**17.6%**	**6.6%**
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(5,522)	-	(5,522)	-1.4%	(4,669)	-	(4,669)	-1.3%	-18.3%
Operating profit (EBIT)	**62,958**	**(2,453)**	**60,505**	**15.8%**	**59,600**	**(1,294)**	**58,306**	**16.4%**	**5.6%**
Income, expenses, valuation and adjustments of financial assets	217	-	217	0.1%	256	-	256	0.1%	-15.2%
Net financial expenses	(1,833)	(582)	(2,415)	-0.5%	(5,010)	-	(5,010)	-1.4%	63.4%
Exchange differences and non-hedge accounting instruments	(422)	-	(422)	-0.1%	(222)	-	(222)	-0.1%	-90.1%
Profit (loss) before tax	**60,920**	**(3,035)**	**57,885**	**15.3%**	**54,624**	**(1,294)**	**53,330**	**15.0%**	**11.5%**
Tax	(15,762)	739	(15,023)	-3.8%	(10,602)	9,640	(962)	-2.9%	-48.7%
Net profit (loss)	**45,158**	**(2,296)**	**42,862**	**11.3%**	**44,022**	**8,346**	**52,368**	**12.1%**	**2.6%**
Profit (loss) of minority interests	56	-	56	0.0%	(50)	-	(50)	0.0%	212.0%
Net profit (loss) attributable to the Group	**45,102**	**(2,296)**	**42,806**	**11.3%**	**44,072**	**8,346**	**52,418**	**12.1%**	**2.3%**

(*) See table at page 60 for details of non-recurring transactions.

For the sake of easier comparison with the prior year, the figures for the fourth quarter of 2018 calculated without applying IFRS 15 are shown in the table below.

(€ thousands)	Q4 2018 (*) w/o IFRS 15				Q4 2017				
	Recurring	Non-recurring (**)	Total	% on recurring	Recurring	Non-recurring (**)	Total	% on recurring	Change % on recurring
Revenues from sales and services	405,137	-	405,137	100.0%	364,220	-	364,220	100.0%	11.2%
Operating costs	(318,258)	(1,931)	(320,189)	-78.6%	(288,692)	(1,080)	(289,772)	-79.3%	-10.2%
Other costs and revenues	105	(522)	(417)	0.0%	1,159	-	1,159	0.3%	-90.9%
Gross operating profit (EBITDA)	**86,984**	**(2,453)**	**84,531**	**21.5%**	**76,687**	**(1,080)**	**75,607**	**21.1%**	**13.4%**
Depreciation and write-downs of non-current assets	(14,879)	-	(14,879)	-3.7%	(12,418)	(214)	(12,632)	-3.4%	-19.8%
Operating result before the amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	**72,105**	**(2,453)**	**69,652**	**17.8%**	**64,269**	**(1,294)**	**62,975**	**17.6%**	**12.2%**
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(5,522)	-	(5,522)	-1.4%	(4,669)	-	(4,669)	-1.3%	-18.3%
Operating profit (EBIT)	**66,583**	**(2,453)**	**64,130**	**16.4%**	**59,600**	**(1,294)**	**58,306**	**16.4%**	**11.7%**
Income, expenses, valuation and adjustments of financial assets	217	-	217	0.1%	256	-	256	0.1%	-15.2%
Net financial expenses	(1,833)	(582)	(2,415)	-0.5%	(5,010)	-	(5,010)	-1.4%	63.4%
Exchange differences and non-hedge accounting instruments	(423)	-	(423)	-0.1%	(222)	-	(222)	-0.1%	-90.5%
Profit (loss) before tax	**64,544**	**(3,035)**	**61,509**	**15.9%**	**54,624**	**(1,294)**	**53,330**	**15.0%**	**18.2%**
Tax	(16,395)	739	(15,656)	-4.0%	(10,602)	9,640	(962)	-2.9%	-54.6%
Net profit (loss)	**48,149**	**(2,296)**	**45,853**	**11.9%**	**44,022**	**8,346**	**52,368**	**12.1%**	**9.4%**
Profit (loss) of minority interests	68	-	68	0.0%	(50)	-	(50)	0.0%	238.0%
Net profit (loss) attributable to the Group	**48,080**	**(2,296)**	**45,784**	**11.9%**	**44,072**	**8,346**	**52,418**	**12.1%**	**9.1%**

(*) For the sake of comparison with 2017, unaudited figures are shown.
(**) See table at page 60 for details of non-recurring transactions.

The following table shows the details of the non-recurring transactions included in the previous statements.

(€ thousands)	FY 2018	FY 2017	Q4 2018	Q4 2017
GAES acquisition costs	(8,457)	-	(2,453)	-
Restructuring costs incurred following the acquisition of AudioNova's retail businesses in France and in Portugal	-	(4,992)	-	(1,080)
Impact of the non-recurring items on EBITDA	**(8,457)**	**(4,992)**	**(2,453)**	**(1,080)**
Writedowns of plant, property and equipment following closure of AudioNova stores in Portugal as part of the restructuring process	-	(214)		(214)
Impact of the non-recurring items on EBIT	**(8,457)**	**(5,206)**	**(2,453)**	**(1,294)**
Commitment fees related to the financing of the GAES acquisition	(649)	-	(582)	-
Impact of the non-recurring items on profit before tax	**(9,106)**	**(5,206)**	**(3,035)**	**(1,294)**
Change in deferred tax in the United States due to the tax reform	-	9,604	-	9,604
Impact of the above items on the tax burden for the year	2,433	1,160	739	36
Impact of the non-recurring items on net profit	**(6,673)**	**5,558**	**(2,296)**	**8,346**

Reclassified Consolidated Balance Sheet

The reclassified consolidated balance sheet aggregates the assets and liabilities of the compulsory format included in the annual report based on how the business management operates, usually split into the three main functions: investment, operations and financing.

(€ thousands)	12/31/2018	12/31/2017	Change	12/31/2018 w/o IFRS 15 (*)
Goodwill	1,258,848	684,635	574,213	1,257,750
Non-competition agreements, trademarks, customer lists and lease rights	154,236	143,373	10,863	154,236
Software, licences, other intangible fixed assets, fixed assets in progress and advances	69,596	56,583	13,013	69,596
Tangible assets	188,651	143,003	45,648	188,651
Financial fixed assets (1)	41,546	43,392	(1,846)	41,546
Other non-current financial assets (1)	26,752	7,576	19,176	10,275
Non-current assets	**1,739,629**	**1,078,562**	**661,067**	**1,722,054**
Inventories	61,770	37,081	24,689	61,770
Trade receivables	169,454	132,792	36,662	169,454
Other receivables	79,299	47,584	31,715	64,256
Current assets (A)	**310,523**	**217,457**	**93,066**	**295,480**
Operating assets	**2,050,152**	**1,296,019**	**754,133**	**2,017,534**
Trade payables	(173,649)	(137,401)	(36,248)	(174,620)
Other payables (2)	(244,917)	(133,423)	(111,494)	(166,515)
Provisions for risks and charges (current portion)	(2,768)	(4,055)	1,287	(4,108)
Current liabilities (B)	**(421,334)**	**(274,879)**	**(146,455)**	**(345,243)**
Net working capital (A) - (B)	**(110,811)**	**(57,422)**	**(53,389)**	**(49,763)**
Derivative instruments (3)	(10,876)	(9,866)	(1,010)	(10,876)
Deferred tax assets	74,641	45,300	29,341	47,799
Deferred tax liabilities	(64,885)	(60,044)	(4,841)	(64,773)
Provisions for risks and charges (non-current portion)	(48,043)	(65,390)	17,347	(70,817)
Liabilities for employees' benefits (non-current portion)	(20,290)	(16,717)	(3,573)	(20,290)
Loan fees (4)	3,795	632	3,163	3,795
Other non-current payables	(126,202)	(30,372)	(95,830)	(37,231)
NET INVESTED CAPITAL	**1,436,958**	**884,683**	**552,275**	**1,519,898**
Group net equity	594,919	588,681	6,238	677,859
Minority interests	1,183	(263)	1,446	1,183
Total net equity	**596,102**	**588,418**	**7,684**	**679,042**
Net medium and long-term financial indebtedness (4)	877,688	119,193	758,495	877,688
Net short-term financial indebtedness (4)	(36,832)	177,072	(213,904)	(36,832)
Total net financial indebtedness	**840,856**	**296,265**	**544,591**	**840,856**
OWN FUNDS AND NET FINANCIAL INDEBTEDNESS	**1,436,958**	**884,683**	**552,275**	**1,519,898**

(*) For the sake of comparison with 2017, unaudited figures are shown.

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

(€ thousands)	FY 2018	FY 2017
Operating profit (EBIT)	**153,310**	**149,677**
Amortization, depreciation and write down	72,157	62,814
Provisions, other non-monetary items and gain/losses from disposals	19,743	27,840
Net financial expenses	(13,942)	(18,322)
Taxes paid	(36,590)	(45,866)
Changes in net working capital	(8,212)	(7,499)
Cash flow generated from (absorbed by) operating activities (A)	**186,466**	**168,644**
Cash flow generated from (absorbed by) operating investing activities (B)	(76,146)	(70,665)
Free cash flow (A+B)	**110,320**	**97,979**
Net cash flow generated from (absorbed by) business combinations (C)	(620,639)	(111,516)
(Purchase) sale of other investments and securities (D)	452	23
Cash flow generated from (absorbed by) investing activities (B+C+D)	**(696,333)**	**(182,158)**
Cash flow generated from (absorbed by) operating and investing activities	**(509,867)**	**(13,514)**
Dividends	(24,079)	(15,292)
Fees paid on medium/long-term financing	(3,758)	(775)
Treasury shares	(9,631)	(36,160)
Capital increases, third parties' contributions, dividends paid to third parties by subsidiaries	(22)	144
Hedging instruments and other changes in non-current assets	1,901	(710)
Net cash flow from the period	**(545,456)**	**(66,307)**
Net financial indebtedness at the beginning of the period	**(296,265)**	**(224,421)**
Effect of discontinued operations on financial position	22	-
Effect of the exchange rate fluctuations on the net financial position	843	(5,537)
Change in net financial position	(545,457)	(66,307)
Net financial indebtedness at the end of the period	**(840,856)**	**(296,265)**

The following table shows the impact of the non-recurring transactions on the free cash flow of the year.

(€ thousands)	FY 2018	FY 2017
Free cash flow	**110,320**	**97,979**
Free cash flow generated by non-recurring transactions (see page 95 for details)	(7,695)	(2,000)
Free cash flow generated by recurring transactions	**118,015**	**99,979**

Financial KPIs

	12/31/2018	12/31/2018 w/o IFRS 15 (*)	12/31/2017
Net financial indebtedness (€ thousands)	840,856	840,856	296,265
Net Equity (€ thousands)	596,102	679,042	588,418
Group Net Equity (€ thousands)	594,919	677,859	588,681
Net financial indebtedness/Net Equity	1.41	1.24	0.50
Net financial indebtedness/Group Net Equity	1.41	1.24	0.50
Net financial indebtedness/EBITDA	3.11 (**)	3.11 (**)	1.35
EBITDA/Net financial charges	20.41 (**)	20.41 (**)	12.76
Earnings per share (EPS) (€)	0.45706	0.48545	0.45906
Diluted EPS (€)	0.44801	0.47583	0.44779
Earnings per share – Recurring operations (EPS) (€)	0.48743	0.51581	0.43369
Diluted EPS – Recurring operations (€)	0.47778	0.50560	0.42302
Group Net Equity per share (€)	2.696	3.072	2.686
Dividend per share (DPS) (€) (***)	0.14	0.14	0.11
Pay-out ratio (%) (***)	30.63%	28.84%	23.96%
Dividend yield (%) (***)	1.00%	1.00%	0.86%
Period-end price	14.050	14.050	12.840
Highest price in period (€)	20.700	20.700	13.700
Lowest price in period (€)	12.590	12.590	8.415
Price/earnings ratio (P/E)	30.74	28.94	27.97
Price/earnings ratio (P/E) – Recurring operations	28.82	27.24	29.61
Share price/net equity per share	5.211	4.573	4.781
Market capitalisation (€ millions)	3,180.27	3,180.27	2,906.08
Number of shares outstanding	220,637,875	220,637,875	219,174,784

(*) For the sake of comparison with 2017, unaudited figures are shown.
(**) Indicators based on the definition included in the syndicated loan for GAES acquisition. Indicators based on the definition included on the private placement and in the other bank loans are respectively 3.37 and 18.81.
(***) Values based on the dividend proposed by the Board of Directors at the Shareholders General Meeting convened on April 17th, 2019.

- The **net financial indebtedness/net equity** ratio is defined as net financial indebtedness on total net equity
- The **net financial indebtedness/Group net equity** ratio is defined as the net financial indebtedness on Group's net equity
- The **net financial indebtedness/EBITDA** ratio is defined as net financial indebtedness on EBITDA for the last four quarters (determined with reference only to recurring business based on pro forma figures in case of significant changes to the structure of the Group)
- The **EBITDA/net financial charges ratio** is defined as EBITDA for the last four quarters (determined with reference only to recurring business based on restated figures in case of significant changes of the Group structure) on net financial income and expenses of the same last four quarters

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

Income Statement Review

Consolidated Income Statement by Segment and Geographic Area (*)

(€ thousands)	FY 2018				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	952,337	231,818	174,520	3,559	1,362,234
Operating costs	(776,271)	(185,982)	(130,926)	(40,074)	(1,133,253)
Other costs and revenues	2,559	357	185	(6,615)	(3,514)
Gross operating profit (EBITDA)	**178,625**	**46,193**	**43,779**	**(43,130)**	**225,467**
Depreciation and write-downs of non-current assets	(31,930)	(4,521)	(8,017)	(6,682)	(51,150)
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	**146,695**	**41,672**	**35,762**	**(49,812)**	**174,317**
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(14,466)	(733)	(5,649)	(159)	(21,007)
Operating profit (EBIT)	**132,229**	**40,939**	**30,113**	**(49,971)**	**153,310**
Income, expenses, valuation and adjustments of financial assets					470
Net financial expenses					(14,170)
Exchange differences and non- hedge accounting instruments					(1,034)
Profit (loss) before tax					**138,576**
Tax					(38,166)
Net profit (loss)					**100,410**
Profit (loss) of minority interests					(33)
Net profit (loss) attributable to the Group					**100,443**

(€ thousands)	FY 2018 – Only recurring operations				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	952,337	231,818	174,520	3,559	1,362,234
Gross operating profit (EBITDA)	179,160	46,193	43,779	(35,208)	233,924
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	147,230	41,672	35,762	(41,890)	182,774
Operating profit (EBIT)	132,764	40,939	30,113	(42,049)	161,767
Profit (loss) before tax					147,682
Net profit (loss) attributable to the Group					107,116

(*) As for the reporting of economic data by geographic area, please note that the Corporate structure is included in EMEA.

(€ 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
Gross operating profit (EBITDA)	**145,445**	**45,156**	**51,491**	**(29,601)**	**212,491**
Depreciation and write-downs of non-current assets	(29,272)	(4,440)	(6,577)	(4,619)	(44,908)
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	**116,173**	**40,716**	**44,914**	**(34,220)**	**167,583**
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(10,850)	(654)	(6,042)	(360)	(17,906)
Operating profit (EBIT)	**105,323**	**40,062**	**38,872**	**(34,580)**	**149,677**
Income, expenses, valuation and adjustments of financial assets					502
Net financial expenses					(19,284)
Exchange differences and non- hedge accounting instruments					(548)
Profit (loss) before tax					**130,347**
Tax					(29,869)
Net profit (loss)					**100,478**
Profit (loss) of minority interests					(100)
Net profit (loss) attributable to the Group					**100,578**

(€ 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

(€ thousands)	Q4 2018				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	290,914	63,795	42,935	1,819	399,463
Operating costs	(221,590)	(50,067)	(33,998)	(12,485)	(318,140)
Other costs and revenues	425	189	(101)	(929)	(416)
Gross operating profit (EBITDA)	**69,749**	**13,917**	**8,836**	**(11,595)**	**80,907**
Depreciation and write-downs of non-current assets	(8,761)	(1,181)	(2,135)	(2,803)	(14,880)
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	**60,988**	**12,736**	**6,701**	**(14,398)**	**66,027**
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(3,790)	(229)	(1,440)	(63)	(5,522)
Operating profit (EBIT)	**57,198**	**12,507**	**5,261**	**(14,461)**	**60,505**
Income, expenses, valuation and adjustments of financial assets					217
Net financial expenses					(2,415)
Exchange differences and non- hedge accounting instruments					(422)
Profit (loss) before tax					**57,885**
Tax					(15,023)
Net profit (loss)					**42,862**
Profit (loss) of minority interests					56
Net profit (loss) attributable to the Group					**42,806**

(€ thousands)	Q4 2018 – Only recurring operations				
	EMEA	Americas	Asia Pacific	Corporate	Total
Revenues from sales and services	290,914	63,795	42,935	1,819	399,463
Gross operating profit (EBITDA)	70,284	13,917	8,836	(9,677)	83,360
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	61,523	12,736	6,701	(12,480)	68,480
Operating profit (EBIT)	57,733	12,507	5,261	(12,543)	62,958
Profit (loss) before tax					60,920
Net profit (loss) attributable to the Group					45,102

(€ 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
Gross operating profit (EBITDA)	**59,122**	**11,621**	**13,183**	**(8,319)**	**75,607**
Depreciation and write-downs of non-current assets	(8,253)	(1,295)	(1,639)	(1,445)	(12,632)
Operating result before amortisation and impairment of customer lists, trademarks, non-competition agreements and goodwill arising from business combinations (EBITA)	**50,869**	**10,326**	**11,544**	**(9,764)**	**62,975**
Amortization and impairment of trademarks, customer lists, lease rights and non-competition agreements and goodwill	(2,981)	(192)	(1,462)	(34)	(4,669)
Operating profit (EBIT)	**47,888**	**10,134**	**10,082**	**(9,798)**	**58,306**
Income, expenses, valuation and adjustments of financial assets					256
Net financial expenses					(5,010)
Exchange differences and non- hedge accounting instruments					(222)
Profit (loss) before tax					**53,330**
Tax					(962)
Net profit (loss)					**52,368**
Profit (loss) of minority interests					(50)
Net profit (loss) attributable to the Group					**52,418**

(migliaia di Euro)	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

Revenues from sales and services

(€ thousands)	FY 2018	FY 2018 w/o IFRS 15 (*)	FY 2017	Change	Change %
Revenues from sales and services	1,362,234	1,372,730	1,265,994	106,736	8.4%

(migliaia di Euro)	Q4 2018	Q4 2018 w/o IFRS 15 (*)	Q4 2017	Change	Change %
Revenues from sales and services	399,463	405,137	364,220	40,917	11.2%

(*) for the sake of comparison with 2017, unaudited figures are shown.

For the fourth year in a row, consolidated revenues from sales and services reached a record result in 2018 coming in €1,362,234 thousand (determined based on the new IFRS 15) thanks to very strong organic growth and the robust contribution made by acquisitions. This result is even more significant if we consider the challenging comparison base, above all with respect to the fourth quarter when growth of 10.7% against the same period of 2016 was reported.
If the new accounting standard had not been applied, revenues would have amounted to €1,372,730 thousand, an increase of €106,736 thousand (+8.4%) against the comparison period. This significant result was driven mainly by the positive trend in organic growth which, including the contribution of the newly opened stores, reached €89,014 thousand (+7.0%). Acquisitions, net of the Direito de Ouvir Amplifon Brasil SA disposal, contributed €45,369 thousand (+3.6%), while the foreign exchange differences had a negative effect of €27,647 thousand (-2.2%) with the biggest impact in the Americas and Asia Pacific.

In the fourth quarter alone, consolidated revenues from sales and services determined based on the new IFRS 15 amounted to €399,463 thousand. If the new accounting standard had not been applied, revenues would have amounted to €405,137 thousand, an increase of €40,917 thousand (+11.2%) against the comparison period explained for €27,014 thousand (+7.4%) by organic growth, including the contribution of the newly opened stores, for €13,809 thousand (+3.8%) by acquisitions, while the foreign exchange differences had a marginal impact on the consolidated results.

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

(€ thousands)	FY 2018	%	FY 2018 w/o IFRS 15 (*)	%	FY 2017	%	Change	Change %	Exchange diff.	Change % in local currency
EMEA	952,337	69.9%	960,380	70.0%	855,628	67.6%	104,752	12.2%	(4,166)	12.7%
Americas	231,818	17.0%	234,421	17.1%	228,940	18.1%	5,481	2.4%	(10,640)	7.0%
Asia Pacific	174,520	12.8%	174,370	12.7%	179,002	14.1%	(4,632)	-2.6%	(12,841)	4.6%
Corporate	3,559	0.3%	3,559	0.2%	2,424	0.2%	1,135	46.8%	-	0.0%
Total	**1,362,234**	**100.0%**	**1,372,730**	**100.0%**	**1,265,994**	**100.0%**	**106,736**	**8.4%**	**(27,647)**	**10.6%**

(*) For the sake of comparison with 2017, unaudited figures are shown.

Europe, Middle-East and Africa

Period (€ thousands)	**FY 2018**	**FY 2018 w/o IFRS 15 (*)**	**FY 2017**	**Change**	**Change % in local currency**
I quarter	215,729	216,556	195,178	21,378	11.0%
II quarter	247,232	249,253	223,349	25,904	11.6%
I Half Year	**462,961**	**465,809**	**418,527**	**47,282**	**11.3%**
III quarter	198,462	199,121	176,570	22,551	12.8%
IV quarter	290,914	295,450	260,531	34,919	13.4%
II Half Year	**489,376**	**494,571**	**437,101**	**57,470**	**13.1%**
Total Year	**952,337**	**960,380**	**855,628**	**104,752**	**12.2%**

(*) For the sake of comparison with 2017, unaudited figures are shown.

Revenues from sales and services, determined based on the new IFRS 15, amounted to €952,337 thousand in 2018.
If the new accounting standard had not been applied, revenues would have amounted to €960,380 thousand, an increase of €104,752 thousand (+12.2%) against the comparison period explained for €67,980 thousand (+7.9%) by organic growth, including the contribution of the newly opened stores, and for €40,938 thousand (+4.8%) by acquisitions, while the foreign exchange differences had a negative impact of €4,166 thousand (-0.5%).

A strong performance was recorded in Italy thanks also to the success of the ongoing roll-out of the new Amplifon brand products and the digital ecosystem. Excellent growth continued in France and Germany driven by both strong organic growth and significant M&A activity. An excellent performance was posted in the Iberian Peninsula, supported mainly by double digit organic growth in Spain.

In the fourth quarter alone, consolidated revenues from sales and services determined based on the new IFRS 15 amounted to €290,914 thousand. If the new accounting standard had not been applied, revenues would have amounted to €295,450 thousand, an increase of €34,919 thousand (+13.4%) against the comparison period explained for €24,543 thousand (+9.4%) by organic growth, including the contribution of the newly opened stores, for €10,599 thousand (+4.1%) by acquisitions, while the foreign exchange differences had a negative impact of €223 thousand.

In the EMEA region Amplifon has 3,060 direct stores, 49 franchises and 50 wholesale points of sale. At the end of the prior year there were 2,455 direct stores, 10 franchises and 52 wholesale points of sale. In addition to the stores (direct and indirect), there are 3,696 customer contact points (3,481 at 31 December 2017).
These figures include the points of sale added as a result of the acquisition of GAES which, at year-end, had a total of 455 direct stores, 39 franchises and 97 customer contact points in Spain and Portugal.

Americas

Period (€ thousands)	FY 2018	FY 2018 w/o IFRS 15 (*)	FY 2017	Change	Change % in local currency
I quarter	51,800	51,943	57,738	(5,795)	-10.0%
II quarter	57,539	57,770	58,722	(952)	-1.6%
I Half Year	**109,339**	**109,713**	**116,460**	**(6,747)**	**-5.8%**
III quarter	58,684	59,734	55,133	4,601	8.3%
IV quarter	63,795	64,974	57,347	7,627	13.3%
II Half Year	**122,479**	**124,708**	**112,480**	**12,228**	**10.9%**
Total Year	**231,818**	**234,421**	**228,940**	**5,481**	**2.4%**

(*) For the sake of comparison with 2017, unaudited figures are shown.

Revenues from sales and services, determined based on the new IFRS 15, amounted to €231,818 thousand in 2018.
If the new accounting standard had not been applied, revenues would have amounted to €234,421 thousand, an increase of €5,481 thousand (+2.4%) against the comparison period. The result was impacted significantly by the foreign exchange effect. The contribution of organic growth which, including the contribution of the newly opened stores, amounted to €12,938 thousand (+5.7%) was, in fact, partially offset by exchange differences of €10,640 thousand (-4.6%) linked to the weakening of the US and Canadian dollar against the Euro. Acquisitions, net of the Direito de Ouvir Amplifon Brasil SA disposal, contributed €3,183 thousand (+1.3%).

In a market characterized by structural growth, Americas reported a solid performance in local currency which accelerated gradually during the year. In addition to the contribution of acquisitions, primarily in Canada, a trend of robust organic growth was recorded in the United States driven by Miracle-Ear and Amplifon Hearing Health Care.

In the fourth quarter alone, consolidated revenues from sales and services determined based on the new IFRS 15 amounted to €63,795 thousand. If the new accounting standard had not been applied, revenues would have amounted to €64,974 thousand, an increase of €7,627 thousand (+13.3%) against 2017 driven primarily by organic growth which, including the contribution of the newly opened stores, reached for €4,236 thousand (+7.4%). The foreign exchange differences had a positive impact of €1,429 thousand (+2.5%) in the quarter, while acquisitions contributed €1,962 thousand (+3.4%).

In North America Amplifon has 184 direct stores, 1,455 franchises and 1,763 wholesale outlets. At the end of the previous year there were 65 directly operated stores, 1,411 franchises, and 1,859 wholesale outlets.

These figures include the points of sale added as a result of the acquisition of GAES which, at year-end, had a total of 72 direct stores and 15 franchises in Latin America.

Asia Pacific

Period (€ thousands)	FY 2018	FY 2018 w/o IFRS 15 (*)	FY 2017	Change	Change % in local currency
I quarter	41,295	41,259	42,826	(1,567)	-3.7%
II quarter	44,824	44,784	45,163	(379)	-0.8%
I Half Year	**86,118**	**86,043**	**87,989**	**(1,946)**	**-2.2%**
III quarter	45,467	45,434	46,008	(574)	-1.2%
IV quarter	42,935	42,893	45,005	(2,112)	-4.7%
II Half Year	**88,402**	**88,327**	**91,013**	**(2,686)**	**-3.0%**
Total Year	**174,520**	**174,370**	**179,002**	**(4,632)**	**-2.6%**

(*) For the sake of comparison with 2017, unaudited figures are shown.

Revenues from sales and services, determined based on the new IFRS 15, amounted to €174,520 thousand in 2018.
If the new accounting standard had not been applied, revenues would have amounted to €174,370 thousand, a decrease of €4,632 thousand (-2.6%) against the comparison period attributable to the foreign exchange differences which had a negative impact of €12,841 thousand (-7.2%) that entirely offset the positive impact of organic growth which, including the contribution of the newly opened stores, reached €6,961 thousand (+3.9%). The acquisition made in China during the last quarter contributed €1,248 thousand (+0.7%).

Despite the extremely challenging comparison base and the weak market environment, revenues were up in local currency thanks, above all, to the solid organic growth posted in Australia and New Zealand.

In the fourth quarter alone, consolidated revenues from sales and services determined based on the new IFRS 15, amounted to €42,935 thousand. If the new accounting standard had not been applied, revenues would have amounted to €42,893 thousand, a decrease of €2,112 thousand (-4.7%) against the comparison period attributable to the drop in organic growth, including the contribution of the newly opened stores, of €2,248 thousand (-5.0%) and the foreign exchange differences of €1,112 thousand (-2.5%). This result was partially offset by the positive contribution made by the Chinese acquisition of €1,248 thousand (+2.8%).

At 31 December 2018 the Group had 396 stores in Asia Pacific, including the 29 points of sale in China (336 at 31 December 2017). In addition to the proprietary stores, there are also 295 customer contact points (278 at 31 December 2017).

Gross Operating Profit (EBITDA)

(€ thousands)	FY 2018			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Gross operating profit (EBITDA)	233,924	(8,457)	225,467	217,483	(4,992)	212,491

(migliaia di Euro)	FY 2018 w/o IFRS 15 (*)			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Gross operating profit (EBITDA)	241,341	(8,457)	232,884	217,483	(4,992)	212,491

(€ thousands)	Q4 2018			Q4 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Gross operating profit (EBITDA)	83,360	(2,453)	80,907	76,687	(1,080)	75,607

(€ thousands)	Q4 2018 w/o IFRS 15 (*)			Q4 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Gross operating profit (EBITDA)	86,984	(2,453)	84,531	76,687	(1,080)	75,607

(*) For the sake of comparison with 2017, unaudited figures are shown.

Gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to €225,467 thousand (with an EBITDA margin of 16.6%) in 2018.
If IFRS 15 had not been applied, EBITDA would have amounted to €232,884 thousand, an increase against the comparison period of €20,393 thousand (+9.6%) after the negative foreign exchange differences of €5,801 thousand. The EBITDA margin would have reached 17.0%, an increase of 0.2 p.p. with respect to the comparison period.

In the fourth quarter alone, gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to €80,906 thousand (with an EBITDA margin of 20.3%).
If IFRS 15 had not been applied, EBITDA would have amounted to €84,531 thousand, an increase against the comparison period of €8,924 thousand (+11.8%) after the positive foreign exchange differences of €157 thousand. The EBITDA margin would have reached 20.9%, an increase of 0.1 p.p. with respect to the comparison period.

The result posted in the period reflects the non-recurring costs of €8,457 thousand (€2,453 thousand in the fourth quarter) incurred relating to the GAES acquisition, while non-recurring costs of €4,992 thousand (€1,080 thousand in the fourth quarter) relating to the integration of the AudioNova businesses acquired in France and in Portugal were reported in the 2017 comparison period.

Recurring EBITDA, excluding the impact of IFRS 15 application, rose €23,858 thousand (+11.0%) in FY 2018 and €10,297 thousand (+13.4%) in the fourth quarter alone with a margin, respectively, of 17.6% (+0.4 p.p. against 2017 comparison period) and of 21.5% (+0.4 p.p. against the fourth quarter of the prior year).

The following table shows a breakdown of EBITDA by segment.

(€ thousands)	FY 2018	EBITDA Margin	FY 2017	EBITDA Margin	Change	Change %
EMEA	178,625	18.8%	145,445	17.0%	33,180	22.8%
Americas	46,193	19.9%	45,156	19.7%	1,037	2.3%
Asia Pacific	43,779	25.1%	51,491	28.8%	(7,712)	-15.0%
Corporate (**)	(43,130)	-3.2%	(29,601)	-2.3%	(13,529)	-45.7%
Total	**225,467**	**16.6%**	**212,491**	**16.8%**	**12,976**	**6.1%**

(€ thousands)	FY 2018 w/o IFRS 15 (*)	EBITDA Margin	FY 2017	EBITDA Margin	Change	Change %
EMEA	185,394	19.3%	145,445	17.0%	39,949	27.5%
Americas	47,025	20.1%	45,156	19.7%	1,869	4.1%
Asia Pacific	43,595	25.0%	51,491	28.8%	(7,896)	-15.3%
Corporate (**)	(43,130)	-3.1%	(29,601)	-2.3%	(13,529)	-45.7%
Total	**232,884**	**17.0%**	**212,491**	**16.8%**	**20,393**	**9.6%**

(€ thousands)	Q4 2018	EBITDA Margin	Q4 2017	EBITDA Margin	Change	Change %
EMEA	69,749	24.0%	59,122	22.7%	10,627	18.0%
Americas	13,917	21.8%	11,621	20.3%	2,296	19.8%
Asia Pacific	8,836	20.6%	13,183	29.3%	(4,347)	-33.0%
Corporate (**)	(11,596)	-2.9%	(8,319)	-2.3%	(3,277)	-39.4%
Total	**80,906**	**20.3%**	**75,607**	**20.8%**	**5,299**	**7.0%**

(€ thousands)	Q4 2018 w/o IFRS 15 (*)	EBITDA Margin	Q4 2017	EBITDA Margin	Change	Change %
EMEA	73,492	24.9%	59,122	22.7%	14,370	24.3%
Americas	13,850	21.3%	11,621	20.3%	2,229	19.2%
Asia Pacific	8,785	20.5%	13,183	29.3%	(4,398)	-33.4%
Corporate (**)	(11,596)	-2.9%	(8,319)	-2.3%	(3,277)	-39.4%
Total	**84,531**	**20.9%**	**75,607**	**20.8%**	**8,924**	**11.8%**

(*) For the sake of comparison with 2017, unaudited figures are shown.
(**) The impact of the centralized costs is calculated as a percentage of the Group's total sales.

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

(€ thousands)	FY 2018	EBITDA Margin	FY 2017	EBITDA Margin	Change	Change %
EMEA	179,160	18.8%	150,437	17.6%	28,723	19.1%
Americas	46,193	19.9%	45,156	19.7%	1,037	2.3%
Asia Pacific	43,779	25.1%	51,491	28.8%	(7,712)	-15.0%
Corporate (**)	(35,208)	-2.6%	(29,601)	-2.3%	(5,607)	-18.9%
Total	**233,924**	**17.2%**	**217,483**	**17.2%**	**16,441**	**7.6%**

(€ thousands)	FY 2018 w/o IFRS 15 (*)	EBITDA Margin	FY 2017	EBITDA Margin	Change	Change %
EMEA	185,929	19.4%	150,437	17.6%	35,492	23.6%
Americas	47,025	20.1%	45,156	19.7%	1,869	4.1%
Asia Pacific	43,595	25.0%	51,491	28.8%	(7,896)	-15.3%
Corporate (**)	(35,208)	-2.6%	(29,601)	-2.3%	(5,607)	-18.9%
Total	**241,341**	**17.6%**	**217,483**	**17.2%**	**23,858**	**11.0%**

(€ thousands)	Q4 2018	EBITDA Margin	Q4 2017	EBITDA Margin	Change	Change %
EMEA	70,285	24.2%	60,202	23.1%	10,083	16.7%
Americas	13,917	21.8%	11,621	20.3%	2,296	19.8%
Asia Pacific	8,836	20.6%	13,183	29.3%	(4,347)	-33.0%
Corporate (**)	(9,678)	-2.4%	(8,319)	-2.3%	(1,359)	-16.3%
Total	**83,360**	**20.9%**	**76,687**	**21.1%**	**6,673**	**8.7%**

(€ thousands)	Q4 2018 w/o IFRS 15 (*)	EBITDA Margin	Q4 2017	EBITDA Margin	Change	Change %
EMEA	74,027	25.1%	60,202	23.1%	13,825	23.0%
Americas	13,850	21.3%	11,621	20.3%	2,229	19.2%
Asia Pacific	8,785	20.5%	13,183	29.3%	(4,398)	-33.4%
Corporate (**)	(9,678)	-2.4%	(8,319)	-2.3%	(1,359)	-16.3%
Total	**86,984**	**21.5%**	**76,687**	**21.1%**	**10,297**	**13.4%**

(*) For the sake of comparison with 2017, unaudited figures are shown.
(**) 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), determined in accordance with the new IFRS 15, amounted to €178,625 thousand (with an EBITDA margin of 18.8%) in 2018.
If IFRS 15 had not been applied, EBITDA would have amounted to €185,394 thousand, an increase against the comparison period of €39,949 thousand (+27.5%) after the negative foreign exchange differences of €455 thousand. The EBITDA margin would have reached 19.3%, an increase of 2.3 p.p. with respect to the comparison period.

In the fourth quarter alone, gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to €69,749 thousand (with an EBITDA margin of 24.0%).
If IFRS 15 had not been applied, EBITDA would have amounted to €73,492 thousand, an increase against the comparison period of €14,370 thousand (+24.3%). The foreign exchange differences were immaterial. The EBITDA margin would have reached 24.9%, an increase of 2.2 p.p. with respect to the comparison period.

The result posted in the period reflects non-recurring expenses of €535 thousand incurred in the fourth quarter explained by the GAES acquisition, while in the same period 2017 non-recurring costs of €4,992 thousand (€1,080 thousand in the fourth quarter) relating to the integration of the AudioNova businesses acquired in France and in Portugal were recorded.

Net of these items, excluding the impact of IFRS 15 application, the increase in EBITDA would have reached €35,492 thousand (+23.6%) for FY 2018 and €13,825 thousand (+23.0%) for the fourth quarter alone with a margin, respectively, of 19.4% (+1.8 p.p. against the comparison period) and of 25.1% (+2.0 p.p. against the comparison period).

The significant improvement in EBITDA was achieved thanks to the strong increase in revenues and greater operational efficiency, notwithstanding the strong investments in marketing, and the greater scale reached primarily in Germany and France.

Americas

Gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to €46,193 thousand (with an EBITDA margin of 19.9%).
If IFRS 15 had not been applied, EBITDA would have amounted to €47,025 thousand, an increase against the comparison period of €1,869 thousand (+4.1%) after the negative foreign exchange differences of €2,137 thousand. The EBITDA margin would have reached 20.1%, showing an increase of 0.4 p.p. against the comparison period during which significant improvement in profitability had already been posted thanks to greater efficiency (increase of +1.7 p.p. in 2017 compared to 2016).

In the fourth quarter alone, gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to €13,917 thousand (with an EBITDA margin of 21.8%).
If IFRS 15 had not been applied, EBITDA would have amounted to €13,850 thousand, an increase against the comparison period of €2,229 thousand (+19.2%) after the positive foreign exchange differences of €269 thousand. The EBITDA margin would have reached 21.3%, an increase of 1.0 p.p. with respect to the comparison period.

Asia Pacific

Gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to €43,779 thousand (with an EBITDA margin of 25.1%).
If IFRS 15 had not been applied, EBITDA would have amounted to €43,595 thousand, a decrease against the comparison period of €7,896 thousand (-15.3%) after the negative foreign exchange differences of €3,215 thousand. The EBITDA margin would have reached 25.0%, a decrease of 3.8 p.p. with respect to the comparison period. This result reflects the impact of a market environment which weakened, particularly in the second half of the year, and the significant investments made in marketing in order to support the launch of National Hearing Care's new brand identity.

In the fourth quarter alone, gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to €8,836 thousand (with an EBITDA margin of 20.6%).
If IFRS 15 had not been applied, EBITDA would have amounted to €8,785 thousand, a decrease against the comparison period of €4,398 thousand (-33.4%) after the negative foreign exchange differences of €106 thousand. The EBITDA margin would have reached 20.5%, a decrease of 8.8 p.p. with respect to 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 €43,130 thousand in 2018 (3.1% of the revenues generated by the Group's sales and services), an increase of €13,529 thousand with respect to the same period of the prior year.

In the fourth quarter alone, centralized corporate costs amounted to €11,596 thousand (2.9% of the revenues generated by Group's sales and services), an increase of €3,277 thousand with respect to the comparison period.

The result posted in the period was impacted by the non-recurring costs of €7,922 thousand (€ 1,918 thousand in the last quarter) incurred relating to the GAES acquisition. Net of this item, the increase in the centralized corporate costs amounted to €5,607 thousand in FY 2018 and to €1,359 thousand in the fourth quarter alone reaching 2.6% and 2.4% of the revenues generated by the Group's sales and services respectively.

Operating Profit (EBIT)

(€ thousands)	FY 2018			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	161,767	(8,457)	153,310	154,883	(5,206)	149,677

(€ thousands)	FY 2018 w/o IFRS 15 (*)			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	169,184	(8,457)	160,727	154,883	(5,206)	149,677

(€ thousands)	Q4 2018			Q4 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	62,958	(2,453)	60,505	59,600	(1,294)	58,306

(€ thousands)	Q4 2018 w/o IFRS 15 (*)			Q4 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	66,583	(2,453)	64,130	59,600	(1,294)	58,306

(*) For the sake of comparison with 2017, unaudited figures are shown.

Operating profit (EBIT), determined based on the new IFRS 15, came to €153,310 thousand (with an EBIT margin of 11.3%).
If IFRS 15 had not been applied, EBIT would have reached €160,727 thousand, an increase against the comparison period of €11,050 thousand (+7.4%) after the negative foreign exchange differences of €4,389 thousand. The EBIT margin would have come to 11.7%, showing a slight decrease of 0.1 p.p. against the comparison period.

In the fourth quarter alone operating profit (EBIT), determined based on the new IFRS 15, amounted to €60,505 thousand (with an EBIT margin of 15.1%).
If IFRS 15 had not been applied, EBIT would have reached €64,130 thousand, an increase against the comparison period of €5,824 thousand (+10.0%) boosted by the positive foreign exchange differences of €247 thousand. The EBIT margin would have come to 15.8%, a drop of 0.2 p.p. against the comparison period.

EBIT in 2018 was impacted by the same non-recurring costs commented on in the section relating to EBITDA, while the comparison period was also affected by €214 thousand in write-downs of assets relating to the AudioNova stores closed as part of the restructuring process.
Net of these items, and excluding the impact of IFRS 15 application, the increase in EBIT would have reached €14,301 thousand (+9.2%) for the entire year and €6,983 thousand (+11.7%) for the fourth quarter alone with a margin of 12.3% (+0.1 p.p. against the comparison period) and 16.4% (unchanged with respect to the comparison period), respectively.

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)	FY 2018	EBIT Margin	FY 2017	EBIT Margin	Change	Change %
EMEA	132,229	13.9%	105,323	12.3%	26,906	25.5%
Americas	40,939	17.7%	40,062	17.5%	877	2.2%
Asia Pacific	30,113	17.3%	38,872	21.7%	(8,759)	-22.5%
Corporate (**)	(49,971)	-3.7%	(34,580)	-2.7%	(15,391)	-44.5%
Total	**153,310**	**11.3%**	**149,677**	**11.8%**	**3,633**	**2.4%**

(€ thousands)	FY 2018 w/o IFRS 15 (*)	EBIT Margin	FY 2017	EBIT Margin	Change	Change %
EMEA	138,998	14.5%	105,323	12.3%	33,675	32.0%
Americas	41,770	17.8%	40,062	17.5%	1,708	4.3%
Asia Pacific	29,929	17.2%	38,872	21.7%	(8,943)	-23.0%
Corporate (**)	(49,971)	-3.6%	(34,580)	-2.7%	(15,390)	-44.5%
Total	**160,727**	**11.7%**	**149,677**	**11.8%**	**11,050**	**7.4%**

(€ thousands)	Q4 2018	EBIT Margin	Q4 2017	EBIT Margin	Change	Change %
EMEA	57,198	19.7%	47,888	18.4%	9,310	19.4%
Americas	12,507	19.6%	10,134	17.7%	2,373	23.4%
Asia Pacific	5,261	12.3%	10,082	22.4%	(4,821)	-47.8%
Corporate (**)	(14,461)	-3.6%	(9,798)	-2.7%	(4,663)	-47.6%
Total	**60,505**	**15.1%**	**58,306**	**16.0%**	**2,199**	**3.8%**

(€ thousands)	Q4 2018 w/o IFRS 15 (*)	EBIT Margin	Q4 2017	EBIT Margin	Change	Change %
EMEA	60,941	20.6%	47,888	18.4%	13,053	27.3%
Americas	12,440	19.1%	10,134	17.7%	2,306	22.8%
Asia Pacific	5,210	12.1%	10,082	22.4%	(4,872)	-48.3%
Corporate (**)	(14,461)	-3.6%	(9,798)	-2.7%	(4,663)	-47.6%
Total	**64,130**	**15.8%**	**58,306**	**16.0%**	**5,824**	**10.0%**

(*) For the sake of comparison with 2017, unaudited figures are shown.
(**) The impact of the centralized costs is calculated as a percentage of the Group's total sales.

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

(€ thousands)	FY 2018	EBIT Margin	FY 2017	EBIT Margin	Change	Change %
EMEA	132,764	13.9%	110,529	12.9%	22,235	20.1%
Americas	40,939	17.7%	40,062	17.5%	877	2.2%
Asia Pacific	30,113	17.3%	38,872	21.7%	(8,759)	-22.5%
Corporate (**)	(42,049)	-3.1%	(34,580)	-2.7%	(7,469)	-21.6%
Total	**161,767**	**11.9%**	**154,883**	**12.2%**	**6,884**	**4.4%**

(€ thousands)	FY 2018 w/o IFRS 15 (*)	EBIT Margin	FY 2017	EBIT Margin	Change	Change %
EMEA	139,533	14.5%	110,529	12.9%	29,004	26.2%
Americas	41,770	17.8%	40,062	17.5%	1,708	4.3%
Asia Pacific	29,930	17.2%	38,872	21.7%	(8,942)	-23.0%
Corporate (**)	(42,049)	-3.1%	(34,580)	-2.7%	(7,469)	-21.6%
Total	**169,184**	**12.3%**	**154,883**	**12.2%**	**14,301**	**9.2%**

(€ thousands)	Q4 2018	EBIT Margin	Q4 2017	EBIT Margin	Change	Change %
EMEA	57,733	19.8%	49,182	18.9%	8,551	17.4%
Americas	12,507	19.6%	10,134	17.7%	2,373	23.4%
Asia Pacific	5,261	12.3%	10,082	22.4%	(4,821)	-47.8%
Corporate (**)	(12,543)	-3.1%	(9,798)	-2.7%	(2,745)	-28.0%
Total	**62,958**	**15.8%**	**59,600**	**16.4%**	**3,358**	**5.6%**

(€ thousands)	Q4 2018 w/o IFRS 15 (*)	EBIT Margin	Q4 2017	EBIT Margin	Change	Change %
EMEA	61,476	20.8%	49,182	18.9%	12,294	25.0%
Americas	12,440	19.1%	10,134	17.7%	2,306	22.8%
Asia Pacific	5,210	12.1%	10,082	22.4%	(4,872)	-48.3%
Corporate (**)	(12,543)	-3.1%	(9,798)	-2.7%	(2,745)	-28.0%
Total	**66,583**	**16.4%**	**59,600**	**16.4%**	**6,983**	**11.7%**

(*) For the sake of comparison with 2017, unaudited figures are shown.
(**) 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), determined based on the new IFRS 15, came to €132,229 thousand (with an EBIT margin of 13,9%) in 2018.

If IFRS 15 had not been applied, EBIT would have reached €138,998 thousand, an increase against the comparison period of €33,675 thousand (+32.0%) after the negative foreign exchange differences of €287 thousand. The EBIT margin would have come to 14.5%, an increase of 2.2 p.p. with respect to the comparison period.

In the fourth quarter alone operating profit (EBIT), determined based on the new IFRS 15, amounted to €57,198 thousand (with an EBIT margin of 19.7%).
If IFRS 15 had not been applied, EBIT would have reached €60,941 thousand, an increase against the comparison period of €13,053 thousand (+27.3%) including the marginal impact of foreign exchange differences. The EBIT margin would have come to 20.6%, an increase of 2.2 p.p. with respect to the comparison period.

EBIT in 2018 was impacted by the same non-recurring costs commented on in the section relating to EBITDA, while the comparison period was also affected by €214 thousand in write-downs of assets relating to the AudioNova stores closed as part of the restructuring process.

Net of these items, and excluding the impact of IFRS 15 application, the increase in EBIT would have reached €29,004 thousand (+26.2%) for the entire year and €12,294 thousand (+25.0%) for the fourth quarter alone with a margin of 14.5% (+1.6 p.p. against the comparison period) and 20.8% (+1.9 p.p. against the comparison period), respectively.

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), determined based on the new IFRS 15, came to €40,939 thousand (with an EBIT margin of 17.7%) in 2018.
If IFRS 15 had not been applied, EBIT would have reached €41,770 thousand, an increase with respect to the comparison period of €1,708 thousand (+4.3%) after the negative foreign exchange differences of €1,894 thousand. The EBIT margin would have come to 17.8%, an increase of 0.3 p.p. against the comparison period.

In the fourth quarter alone operating profit (EBIT), determined based on the new IFRS 15, amounted to €12,507 thousand (with an EBIT margin of 19.6%).
If IFRS 15 had not been applied, EBIT would have reached €12,440 thousand, an increase against the comparison period of €2,306 thousand (+22.8%), including the positive foreign exchange differences of €239 thousand. The EBIT margin would have come to 19.1%, an increase of 1.4 p.p. with respect to the comparison period.

Asia Pacific

Operating profit (EBIT), determined based on the new IFRS 15, came to €30,113 thousand (with an EBIT margin of 17.3%) in 2018.
If IFRS 15 had not been applied, EBIT would have reached €29,929 thousand, a decrease with respect to the comparison period of €8,943 thousand (-23.0%) after the negative foreign exchange differences of €2,214 thousand. The EBIT margin would have come to 17.2%, a decrease of 4.5 p.p. against the comparison period.

In the fourth quarter alone operating profit (EBIT), determined based on the new IFRS 15, amounted to €5,261 thousand (with an EBIT margin of 12.3%).
If IFRS 15 had not been applied, EBIT would have reached €5,210 thousand, a decrease with respect to the comparison period of €4,872 thousand (-48.3%) including the marginal impact of foreign exchange differences. The EBIT margin would have come to 12.1%, a decrease of 10.3 p.p. against the comparison period.

Corporate

The net costs of centralized Corporate functions at the EBIT level amounted to €49,971 thousand (3.6% of the revenues generated by the Group's sales and services), an increase of €15,391 thousand with respect to the comparison period.

These net costs amounted to €14,461 thousand (3.6% of the revenues generated by the Group's sales and services) in the fourth quarter alone, an increase of €4,663 thousand with respect to the comparison period.

The result posted in the period was impacted by the non-recurring costs of €7,922 thousand (€ 1,918 thousand in the fourth quarter) incurred relating to the GAES acquisition. Net of this item, the increase in the centralized corporate costs amounted to €7,469 thousand in FY 2018 and to €2,745 thousand in the fourth quarter alone reaching 3.1% of the revenues generated by the Group's sales and services in both 2018 and the fourth quarter alone.

Profit Before Tax

(€ thousands)	FY 2018			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	147,682	(9,106)	138,576	135,553	(5,206)	130,347

(€ thousands)	FY 2018 w/o IFRS 15 (*)			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	155,099	(9,106)	145,993	135,553	(5,206)	130,347

(€ thousands)	Q4 2018			Q4 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	60,920	(3,035)	57,885	54,624	(1,294)	53,330

(€ thousands)	Q4 2018 w/o IFRS 15 (*)			Q4 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	64,544	(3,035)	61,509	54,624	(1,294)	53,330

(*) For the sake of comparison with 2017, unaudited figures are shown.

Profit before tax, determined based on the new accounting standards, amounted to €138,576 thousand (with a gross profit margin of 10.2%) in 2018. Based on the accounting standards applied in the prior year, profit before tax would have come to €145,993 thousand (with a gross profit margin of 10.6% excluding IFRS 15 application), an increase of €15,646 thousand (+12.0%), compared to the profit before tax posted in the comparison period. This increase is higher than the increase in EBIT described above due to a decrease in financial expenses beginning in the third quarter following the repayment of the Eurobond on July 16th, 2018 financed using new long-term credit lines granted at rates which, together with the debt used on December 18th, 2018 to finance the GAES Group acquisition, have much better terms and conditions than the Eurobond.

In the fourth quarter alone, profit before tax, determined based on the new accounting standards, amounted to €57,885 thousand (with a gross profit margin of 14.5%). Based on the accounting standards applied in the prior year, profit before tax would have come to €61,509 thousand (with a gross profit margin of 15.2% excluding IFRS 15 application), an increase of €8,179 thousand (+15.3%), compared to the recurring profit before tax posted in the comparison period.

The year under examination was impacted by non-recurring expenses of €9,106 thousand relating to the acquisition of the GAES Group, while the comparison period was impacted by non-recurring expenses of €5,206 thousand relating to the integration of the AudioNova businesses purchased in France and Portugal.

Net of these one-offs and applying the same accounting standards, the increase in profit before tax reaches €19,546 thousand (+14.4%) in FY 2018 and €9,920 thousand (+18.2%) in the fourth quarter alone.

Net profit attributable to the Group

(€ thousands)	FY 2018			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Net profit attributable to the Group	107,116	(6,673)	100,443	95,020	5,558	100,578

(€ thousands)	FY 2018 w/o IFRS 15 (*)			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Net profit attributable to the Group	113,354	(6,673)	106,681	95,020	5,558	100,578

(€ thousands)	Q4 2018			Q4 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Net profit attributable to the Group	45,102	(2,296)	42,806	44,072	8,346	52,418

(€ thousands)	Q4 2018 w/o IFRS 15 (*)			Q4 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Net profit attributable to the Group	48,080	(2,296)	45,784	44,072	8,346	52,418

(*) For the sake of comparison with 2017, unaudited figures are shown.

The Group's net profit, determined based on the new accounting standards in effect as of January 1st, came to €100,443 thousand (with a profit margin of 7.4%) in 2018. Based on the accounting standards applied in the prior year, the Group's net profit would have amounted to €106,681 thousand (with a profit margin of 7.9% excluding IFRS 15 application), an increase of €6,103 thousand against the comparison period. Recurring net profit would have shown an increase of €18,334 thousand (+19.3%) compared to the Group's recurring net profit posted in the comparison period.

The Group's tax rate came to 27.5%. Based on the accounting standards applied in the prior year, the tax rate would have come to 26.9% compared to 22.9% in the prior year. The figure posted in the comparison period benefitted from (i) a one-off tax gain of €9,604 thousand relating to deferred taxation in the United States as a result of tax reform which lowered the tax rate from 35% to 21% and (ii) the

tax benefit of €2,709 thousand recognized for the period 2015-2016 as a result of the incentives applied pursuant to the Patent Box regime, without which the tax rate would have been 32.4%.

In the fourth quarter alone, the Group's net profit, determined based on the new accounting standards in effect as of January 1st, came to €42,806 thousand. Based on the accounting standards applied in the prior year, the Group's net profit would have amounted to €45,784 thousand, a decrease of €6,634 thousand explained by the effect of non-recurring transactions, including the above-mentioned tax gain posted in the United States. Recurring net profit amounted to €4,008 thousand in the fourth quarter (+9.1%).

Balance Sheet Review

Consolidated Balance Sheet by Geographic Area (*)

(€ thousands)	12/31/2018				
	EMEA	Americas	Asia Pacific	Elimination	Total
Goodwill	888,696	124,207	245,945	-	1,258,848
Non-competition agreements, trademarks, customer lists and lease rights	106,448	6,761	41,027	-	154,236
Software, licences, other intangible fixed assets, fixed assets in progress and advances	45,903	14,654	9,039	-	69,596
Tangible assets	155,470	9,366	23,815	-	188,651
Financial fixed assets	4,170	37,376	-	-	41,546
Other non-current financial assets	25,606	298	848	-	26,752
Non-current assets	**1,226,293**	**192,662**	**320,674**	**-**	**1,739,629**
Inventories	53,343	5,084	3,343	-	61,770
Trade receivables	124,424	33,247	13,412	(1,629)	169,454
Other receivables	64,007	11,218	4,081	(7)	79,299
Current assets (A)	**241,774**	**49,549**	**20,836**	**(1,636)**	**310,523**
Operating assets	**1,468,067**	**242,211**	**341,510**	**(1,636)**	**2,050,152**
Trade payables	(123,539)	(39,728)	(12,011)	1,629	(173,649)
Other payables	(212,445)	(14,332)	(18,147)	7	(244,917)
Provisions for risks and charges (current portion)	(2,673)	(95)	-	-	(2,768)
Current liabilities (B)	**(338,657)**	**(54,155)**	**(30,158)**	**1,636**	**(421,334)**
Net working capital (A) - (B)	**(96,883)**	**(4,606)**	**(9,322)**	**-**	**(110,811)**
Derivative instruments	(10,876)	-	-	-	(10,876)
Deferred tax assets	68,862	1,494	4,285	-	74,641
Deferred tax liabilities	(36,741)	(16,226)	(11,918)	-	(64,885)
Provisions for risks and charges (non-current portion)	(20,286)	(27,240)	(517)	--	(48,043)
Liabilities for employees' benefits (non-current portion)	(18,368)	(177)	(1,745)	-	(20,290)
Loan fees	3,795	-	-	-	3,795
Other non-current payables	(116,749)	(6,872)	(2,581)	-	(126,202)
NET INVESTED CAPITAL	**999,047**	**139,035**	**298,876**	**-**	**1,436,958**
Group net equity					594,919
Minority interests					1,183
Total net equity					**596,102**
Net medium and long-term financial indebtedness					877,688
Net short-term financial indebtedness					(36,832)
Total net financial indebtedness					**840,856**
OWN FUNDS AND NET FINANCIAL INDEBTEDNESS					**1,436,958**

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

(€ thousands)	12/31/2017				
	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
Non-current assets	**623,814**	**139,435**	**315,313**	**-**	**1,078,562**
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
Current assets (A)	**170,578**	**33,865**	**16,554**	**(3,540)**	**217,457**
Operating assets	**794,392**	**173,300**	**331,867**	**(3,540)**	**1,296,019**
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)
Current liabilities (B)	**(203,597)**	**(40,784)**	**(34,038)**	**3,540**	**(274,879)**
Net working capital (A) - (B)	**(33,019)**	**(6,919)**	**(17,484)**	**-**	**(57,422)**
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)
NET INVESTED CAPITAL	**510,819**	**89,102**	**284,762**	**-**	**884,683**
Group net equity					588,681
Minority interests					(263)
Total net equity					**588,418**
Net medium and long-term financial indebtedness					119,193
Net short-term financial indebtedness					177,072
Total net financial indebtedness					**296,265**
OWN FUNDS AND NET FINANCIAL INDEBTEDNESS					**884,683**

Investments

In 2018 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 €29.6 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.

Non-current assets

Non-current assets amounted to €1,739,629 thousand at 31 December 2018 versus €1,078,562 thousand at 31 December 2017, an increase of €661,067 thousand and not restated based on the new accounting standards applied beginning in 2018.

The changes in the period are explained (i) for €655,590 thousand by acquisitions; (ii) for €77,971 thousand by capital expenditure; (iii) for €17,152 thousand by the increase in other long-term assets following application of IFRS 15 as of January 1st, 2018; (iv) for €72,228 thousand by depreciation, amortization and impairment; (v) for €17,418 thousand by other net decreases relating primarily to negative exchange differences.

The following table shows a breakdown of non-current assets by geographic area:

(€ thousands)		12/31/2018	12/31/2017	Change
	Goodwill	888,696	365,022	523,674
	Non-competition agreements, trademarks, customer lists and lease rights	106,448	93,289	13,159
	Software, licences, other intangible fixed assets, fixed assets in progress and advances	45,903	37,401	8,502
EMEA	Tangible assets	155,470	118,641	36,829
	Financial fixed assets	4,170	2,490	1,680
	Other non-current financial assets	25,606	6,971	18,635
	Non-current assets	**1,226,293**	**623,814**	**602,479**
	Goodwill	124,207	78,585	45,622
	Non-competition agreements, trademarks, customer lists and lease rights	6,761	4,271	2,490
	Software, licences, other intangible fixed assets, fixed assets in progress and advances	14,654	12,188	2,466
Americas	Tangible assets	9,366	3,440	5,926
	Financial fixed assets	37,376	40,902	(3,526)
	Other non-current financial assets	298	49	249
	Non-current assets	**192,662**	**139,435**	**53,227**
	Goodwill	245,945	241,028	4,917
	Non-competition agreements, trademarks, customer lists and lease rights	41,027	45,813	(4,786)
	Software, licences, other intangible fixed assets, fixed assets in progress and advances	9,039	6,994	2,045
Asia Pacific	Tangible assets	23,815	20,922	2,893
	Financial fixed assets	-	-	-
	Other non-current financial assets	848	556	292
	Non-current assets	**320,674**	**315,313**	**5,361**

Europe, Middle-East and Africa

Non-current assets amounted to €1,226,293 thousand at 31 December 2018, an increase of €602,479 thousand against the €623,814 thousand recorded at 31 December 2017 and not redetermined based on the accounting standards applied beginning in 2018. The increase is explained:

- for €584,247 thousand, by acquisitions made in the period, primarily GAES S.A.;
- for €36,029 thousand, by investments in plant, property and equipment, relating primarily to the opening of new and renewal of existing stores;
- for €19,506 thousand, by investments in intangible assets, relating primarily to further implementation of digital marketing and store systems;
- for €53,308 thousand, by amortization, depreciation and impairment;
- for €17,000 thousand, by changes in other non-current assets as a result of the application of IFRS 15 as of 1 January 2018;
- for €995 thousand, by other net decreases.

Americas

Non-current assets amounted to €192,662 thousand at 31 December 2018, an increase of €53,227 thousand against the €139,435 thousand recorded at 31 December 2017 and not redetermined based on the accounting standards applied beginning in 2018. The increase is explained:

- for €50,702 thousand by acquisitions made in the period, primarily GAES Chile, GAES Argentina and other acquisitions made in Canada;
- for €2,315 thousand, by investments in plant, property and equipment;
- for €6,044 thousand, by investments in intangible assets relating primarily to the implementation of front-office systems and the website, relocation of proprietary stores and joint investment plans entered into with the franchisees for the renewal and relocation of stores;
- for €5,254 thousand, by amortization and depreciation;
- for €95 thousand, by changes in other non-current assets as a result of the application of IFRS 15 as of January 1st, 2018;
- for €675 thousand, by other net decreases stemming primarily from exchange losses.

Asia Pacific

Non-current assets amounted to €320,674 thousand at 31 December 2018, an increase of €5,361 thousand against the €315,313 thousand recorded at 31 December 2017 and not redetermined based on the accounting standards applied beginning in 2018.

The change is explained:

- for €9,784 thousand, by investments in plant, property and equipment, relating primarily to the opening, restructuring and relocation of a few stores, as well as the rebranding carried out at the same stores;
- for €4,293 thousand, by investments in intangible assets, relating primarily to the implementation of a new front-office system;
- for €20,641 thousand, by acquisitions made in the period, primarily in China;
- for €13,666 thousand, by amortization and depreciation;
- for €57 thousand, by changes in other non-current assets as a result of the application of IFRS 15;
- for €15,748 thousand, by other net decreases, relating primarily to exchange losses.

Net invested capital

Net invested capital came to €1,436,958 thousand at 31 December 2018, an increase of €552,275 thousand against the €884,683 thousand recorded at 31 December 2017 and not redetermined based on the accounting standards applied beginning in 2018.

This increase is attributable to the change in non-current assets described above partially offset by the decrease in contract liabilities following application of the new IFRS 15 and the decrease in working capital.

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

(€ thousands)	12/31/2018	12/31/2017	Change
EMEA	999,047	510,819	488,228
Americas	139,035	89,102	49,933
Asia Pacific	298,876	284,762	14,114
Total	**1,436,958**	**884,683**	**552,275**

Europe, Middle-East and Africa

Net invested capital came to €999,047 thousand at 31 December 2018, an increase of €488,228 thousand against the €510,819 thousand recorded at 31 December 2017 and not redetermined based on the accounting standards applied beginning in 2018.
The increase is attributable to the change in non-current assets described above partially offset by the decrease in contract obligations following application of the new IFRS 15 and the decrease in working capital.

Factoring without recourse in the period involved trade receivables with a face value of €69,562 thousand (€52,339 thousand in the same period of the prior year) and VAT credits with a face value of €24,266 thousand (€22,839 thousand in the same period of the prior year).

Americas

Net invested capital came to €139,035 thousand at 31 December 2018, an increase of €49,933 thousand against the €89,102 thousand recorded at 31 December 2017 and not redetermined based on the accounting standards applied beginning in 2018.
The increase is largely attributable to the change in non-current assets described above, partially offset by the contract obligations recognized following application of IFRS 15. Working capital was higher in the year.

Asia Pacific

Net invested capital came to €139,035 thousand at 31 December 2018, a decrease of €14,114 thousand against the €284,762 thousand recorded at 31 December 2017 and not redetermined based on the accounting standards applied beginning in 2018.
The decrease in non-current assets described above, attributable primarily to foreign exchange losses, was largely offset by an increase in working capital.

Net Financial Position

(€ thousands)	12/31/2018	12/31/2017	Change	12/31/2018 w/o IFRS 15 (*)
Net medium and long-term financial indebtedness	877,688	119,193	758,495	877,688
Net short-term financial indebtedness	53,083	301,154	(248,071)	53,083
Cash and cash equivalents	(89,915)	(124,082)	34,167	(89,915)
Net financial indebtedness	**840,856**	**296,265**	**544,591**	**840,856**
Group net equity	594,919	588,681	6,238	677,859
Minority interests	1,183	(263)	1,446	1,183
Net Equity	**596,102**	**588,418**	**7,684**	**679,042**
Financial indebtedness/Group net equity	**1.41**	**0.50**		**1.24**
Financial indebtedness/net equity	**1.41**	**0.50**		**1.24**
Financial indebtedness/EBITDA	**3.11 (**)**	**1.35**		**3.11 (**)**

(*) For the sake of comparison with 2017, unaudited figures are shown.
(**) Indicators based on the definition included in the syndicated loan for GAES acquisition.

Net financial indebtedness amounted to €840,856 thousand at 31 December 2018, an increase of €544,591 thousand with respect to 31 December 2017.

The increase in debt is the direct consequence of the acquisitions made in the period (€620,639 thousand, €530,700 thousand of which attributable to the GAES acquisition made at the end of the year), the payment of dividends to shareholders (€24,079 thousand) and the purchase of treasury shares (€9,631 thousand).
Ordinary operations confirmed the excellent level of cash flow generation with free cash flow reaching a positive €110,320 thousand (versus €97,979 thousand in the prior year) after absorbing capital expenditure of €77,971 thousand (€72,171 thousand in 2017).

The GAES Group acquisition was financed with a syndicated bank loan comprised of two tranches:
- a 5-year amortizing loan of €265 million;
- a €265 million 18-month bullet loan with an option to extend it to 5 years which may be exercised at Amplifon's discretion before the expiration date, in order to ensure both the certainty of long-term financing and the flexibility to refinance through debt capital market issues or other forms of financing.

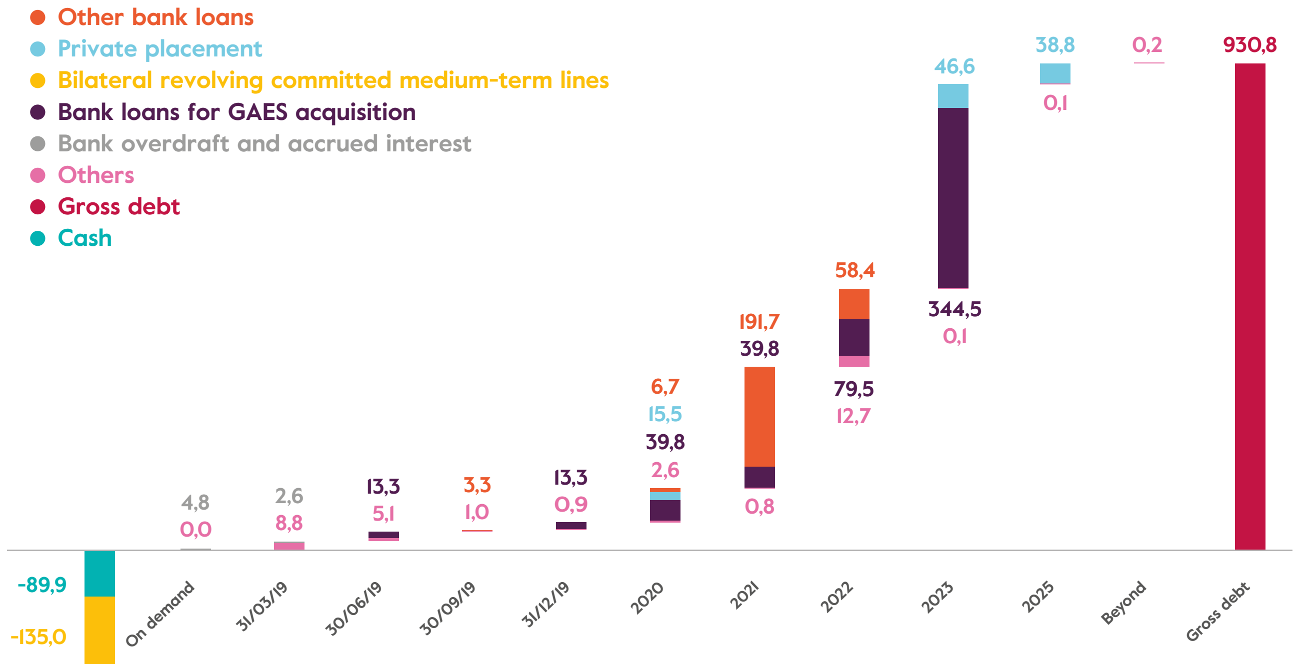
At 31 December 2018 the Group's total financial indebtedness amounted to €840,856 thousand net of cash and cash equivalents totaling €89,915 thousand.

Long-term debt amounts to €877,688 thousand, €16,136 thousand of which reflects the long term portion of deferred payments for acquisitions. The increase of around €758 million compared to 31 December 2017 is attributable to the debt used to finance the GAES Group acquisition and the refinancing of the Eurobond which was repaid on 16 July 2018 using loans and medium-long term credit lines granted through 2021-2022. The terms and conditions of both the credit lines and the bank loans were significantly better than those in place for the Eurobond.

Short-term debt shows a decrease of € 248,071 thousand. Therefore, as at December 31st, 2018 it amounts to €53,083 thousand and pertains primarily to the short-term portion of long-term loans (€30,074 thousand), the utilization of credit lines mainly by a few foreign subsidiaries (€3,771 thousand), interest payable on bank loans and the private placement (€2,557 thousand), and the best estimate of the deferred payments for acquisitions (€12,643 thousand).

The chart below shows that the first significant maturity is in 2021 and that the cash and cash equivalents of €89.9 million, the unutilized portions of irrevocable credit lines which amount to €135 million, as well as the €150.3 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 12.31.2018
(€ millions)



Interest payable on financial indebtedness amounted to €13,744 thousand at 31 December 2018, versus €18,766 thousand at 31 December 2017. The decrease in interest payable is explained by the repayment of EUR 275 million Eurobond on 16 July 2018: the medium-long term bank debt used to refinance the latter, as well as the debt used to finance the GAES Group acquisition, was granted at rates that are significantly better than those of the Eurobond.

Interest receivable on bank deposits came to €499 thousand at 31 December 2018, versus €572 thousand at 31 December 2017.

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

Cash Flow Statement

The reclassified cash flow statement shows the change in net financial position between the beginning and the end of the reported period.

Pursuant to IAS 7 the notes of the financial statements include also a cash flow statement based on cash holdings, showing the change between the opening and the closing cash position of the reported period.

(€ thousands)	FY 2018	FY 2017
OPERATING ACTIVITIES		
Net profit (loss) attributable to the Group	100,443	100,578
Minority interests	(33)	(100)
Amortization, depreciation and write-downs:		
- Intangible fixed assets	*37,052*	*30,899*
- Tangible fixed assets	*35,105*	*31,860*
- Goodwill	*-*	*55*
Total amortization, depreciation and write-downs	72,157	62,814
Provisions, other non-monetary items and gain/losses from disposals	19,743	27,841
Group's share of the result of associated companies	(547)	(500)
Financial income and charges	15,281	19,829
Current and deferred income taxes	38,166	29,869
Change in assets and liabilities:		
- Utilization of provisions	*(8,778)*	*(13,283)*
- (Increase) decrease in inventories	*(6,026)*	*(2,462)*
- Decrease (increase) in trade receivables	*(23,301)*	*(9,062)*
- Increase (decrease) in trade payables	*13,782*	*8,398*
- Changes in other receivables and other payables	*16,111*	*8,910*
Total change in assets and liabilities	(8,212)	(7,499)
Dividends received	380	302
Net interest charges	(14,322)	(18,624)
Taxes paid	(36,590)	(45,866)
Cash flow generated from (absorbed) by operating activities	**186,466**	**168,644**
INVESTING ACTIVITIES:		
Purchase of intangible fixed assets	(29,843)	(21,304)
Purchase of tangible fixed assets	(48,128)	(50,867)
Consideration from sale of tangible fixed assets and businesses	1,825	1,506
Cash flow generated from (absorbed) by investing activities	**(76,146)**	**(70,665)**
Cash flow generated from operating and investing activities (Free cash flow)	**110,320**	**97,979**
Business combinations (*)	(620,639)	(111,516)
(Purchase) sale of other investments and securities	452	23
Net cash flow generated from acquisitions	**(620,187)**	**(111,493)**
Cash flow generated from (absorbed) by investing activities	**(696,333)**	**(182,158)**

(€ thousands)	FY 2018	FY 2017
FINANCING ACTIVITIES:		
Fees paid on medium/long-term financing	(3,758)	(775)
Other non-current assets	1,901	(710)
Distributed dividends	(24,079)	(15,292)
Treasury shares	(9,631)	(36,160)
Capital increases (reduction), third parties' contributions in subsidiaries and dividends paid to third parties by the subsidiaries	(22)	144
Cash flow generated from (absorbed) by financing activities	**(35,589)**	**(52,793)**
Changes in net financial indebtedness	**(545,456)**	**(66,307)**
Net financial indebtedness at the beginning of the period	(296,265)	(224,421)
Effect of discontinued operaions on net financial indebtedness	22	-
Effect of exchange rate fluctuations on net financial indebtedness	843	(5,537)
Changes in net indebtedness	(545,456)	(66,307)
Net financial indebtedness at the end of the period	**(840,856)**	**(296,265)**

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

The change in net financial debt of €545,456 thousand is attributable to:

(i) Investing activities:
- capital expenditure on property, plant and equipment and intangible assets of €77,971 thousand relating primarily to the opening, renewal, repositioning and rebranding of stores, CRM systems, digital marketing, as well as the development of the Amplifon Product Line;
- acquisitions amounting to €620,639 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 €2,277 thousand.

(ii) Operating activities:
- interest payable on financial indebtedness and other net financial expenses of €14,322 thousand;
- payment of taxes amounting to €36,590 thousand;
- cash flow generated by operations of €237,378 thousand.

(iii) Financing activities:
- payment of €24,079 thousand in dividends to shareholders;
- payment of €3,758 thousand in commitment fees on long term credit lines granted in the year, relating primarily to financing for the GAES acquisition;
- net proceeds from capital increases following the exercise of stock options of €106 thousand;
- payment of €128 thousand in dividends to minorities by subsidiaries;
- purchase of treasury shares amounting to €9,631 thousand;
- decrease in other non-current assets of €1,901 thousand linked primarily to the repayment of loans granted to the indirect channel in the United States.

(iv) Exchange gains of €843 thousand.

(v) Effect of discontinued operations of €22 thousand.

The non-recurring transactions described above had a negative impact on cash flow of €7,695 thousand in 2018, attributable to the costs incurred for the GAES, versus a negative €2,000 thousand in the prior year, as shown below:

(€ thousands)	FY 2018	FY 2017
GAES acquisition costs	(6,045)	-
Restructuring costs incurred following the acquisition of AudioNova's retail businesses in France and in Portugal	(1,001)	(2,000)
Commitment fees related to the financing of the GAES acquisition	(649)	-
Cash flow generated (absorbed) by operating activities	***(7,695)***	***(2,000)***
Cash flow generated from (absorbed) by investing activities	-	-
Free Cash Flow	**(7,695)**	**(2,000)**
Cash flow generated from acquisitions	-	-
Total cash flow generated by non-recurring transactions	**(7,695)**	**(2,000)**

Acquisition of Companies and Businesses

With the acquisition of 100% of the GAES Group at the end of December 2018, the Amplifon Group completed a key step in its external growth path.
GAES is the largest privately-owned specialty hearing care retailer worldwide with a network of 581 direct and indirect stores and leader in Spain (471 direct and indirect stores), a core and highly attractive market. The company is also present in Portugal and in different Latin American countries (Chile, Argentina, Ecuador, Colombia, Panama and Mexico). The integration of GAES will allow Amplifon to further consolidate its global leadership, become leader in Spain, as well as generate significant synergies over the next few years. The transaction amounted to €530.7 million, including the net debt consolidated.
This consolidated annual report only includes the GAES Group in the statement of financial position. GAES reported pro-forma sales of €206 million in 2018.

In November Amplifon entered the Chinese market following the purchase of 51% of Beijing Cohesion Hearing Science & Technology Co. Ltd, a company based in the Beijing area where it operates through 29 points of sale. The Chinese retail hearing care market represents a sizeable opportunity for Amplifon in the medium-long term given the estimated size of the market and expected growth, the current low penetration, the highly fragmented market structure and, moreover, the presence of a large consumer segment driven by quality of service, which represents the addressable market for Amplifon. The transaction amounted to €19.5 million, including the net debt consolidated.

Throughout 2018 the Group also pursued external growth with great intensity and made a series of acquisitions (230 points of sale) with a view to increasing regional coverage.

A total of 840 points of sale were purchased for a total cash-out of €620,639 thousand, including the debt consolidated and the best estimate of the earn-out linked to sales and profitability targets payable over the next few years.

More in detail:
- 72 points of sale and customer lists relating to two stores were acquired in France;
- 68 points of sale were acquired in Germany;
- 8 points of sale, along with 8 points of sale that were previously part of the indirect channel, were acquired in Belgium;
- 3 points of sale and customer lists relating to two stores were acquired in Spain;
- 2 points of sale were acquired in Israel;
- 1 point of sale was acquired in Turkey;
- 15 points of sale and customer lists relating to 12 stores were acquired in the United States, along with 39 points of sale that were previously part of the indirect channel;
- 14 points of sale were acquired in Canada;
- 29 points of sale were acquired in China;
- Purchase of the GAES Group resulted in the following acquisitions:
  - 471 points of sale in Spain;
  - 23 points of sale in Portugal;
  - 30 points of sale in Chile;
  - 20 points of sale in Argentina;
  - 16 points of sale in Ecuador;
  - 6 points of sale in Colombia;
  - 13 points of sale in Mexico;
  - 2 points of sale in Panama.

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 as at 31 December 2018

(€ thousands)	Net equity	Net result
Net equity and year-end result as reported in the Parent company's financial statements	**469,331**	**79,261**
Elimination of carrying amount of consolidated investments:		
difference between carrying amount and the pro-quota value of net equity	(649,195)	
pro-quota results reported by the subsidiaries	110,740	110,740
pro-quota results reported by investments valued at equity	1,941	547
difference from consolidation	665,464	
Elimination of the effects of intercompany transactions:		
elimination of impairment net of reversals of investments and intercompany receivables		10,075
intercompany dividends		(98,203)
intercompany profits included in the year-end value of inventories net of fiscal effect	(1,803)	(105)
intercompany profits included related to internal sales of goods and investments		(1,905)
exchange differences and other changes	(376)	
Net equity and year-end result as stated in the consolidated financial statements	**596,102**	**100,410**
Minority equity and result for the year	1,183	(33)
Group net equity and result for the year	**594,919**	**100,443**

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 and take advantage of opportunities.

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 recommendations found in 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 during the annual risk review.

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 uses 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

Competition and the Market

The Amplifon Group operates in sector which has witnessed the arrival of new players in individual markets, like optical chains, retail distributors (including pharmaceutical companies) and on-line retailers positioned in the mid- to low- end of the market. This competitive context, which already exists in the United Kingdom, the Netherlands and the United States, is also becoming a reality in Australia and New Zealand where a British chain is entering the market, as well as in Germany where an important local optical change is adding hearing aids to its product portfolio. 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 retail 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 and development 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 also 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 completely or in part, a risk. In the marketing plans, therefore, particular attention is paid to understanding all the signals pointing to these types of trends and influencing them 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 such as, for example, the GAES Group acquisition completed at the end of 2018.

These activities call for significant financial resources and the Group, pays the utmost attention to both treasury management, as well as to the negotiation of new loans (the €530 million investment in GAES was financed entirely using new medium-long term loans), continuous maintenance of existing credit lines and management of relationships with both banks and capital market investors, in order to easily finance new investments and growth, as well as repayments, while also maintaining adequate available cash including thanks to operating cash flow.

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, while assessments are currently underway in Australia and Italy.
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 with increasingly 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) in the medium term 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 that the media, social networks and different regulatory authorities are paying to 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 (including by joining the most important trade 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 sector "heard".

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 its own product line, as well as 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 auto-fitting or self-fitting solutions work for minor hearing loss. More than 70% of the Group's customers, however, have average or significant hearing loss so these technological developments should not have a significant impact on Amplifon.

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, particularly large ones like the GAES Group acquisition made at the end of 2018. In order to avoid additional costs and inefficiencies it is crucial to assess and proactively manage all the risks arising from these transactions, as well as those arising from a slow and prolonged integration of acquired businesses. In the case of the GAES Group acquisition the Group immediately organized a specific task force, coordinated directly by the CEO, with resources dedicated to the rapid integration of GAES in the Group processes relative to all the divisions (information technology, sales, marketing, human resources, finance and control, legal affairs, logistics, etc).

The rapid implementation of the strategic choices is guaranteed thanks to an organization based on macro-geographic areas and a leadership team that works with the CEO comprised of, in addition to the Vice Presidents of the three macro geographic areas (EMEA, America, Asia Pacific), the heads of the different corporate divisions (strategic business development, human resources, marketing, administration and finance, purchasing).

With a view to ensuring even greater coordination and effective implementation of its strategies, the Group continues to invest sizeable financial resources in the strengthening of corporate structures and in the development of unique and global solutions for the key processes:

- In order to differentiate its offering and to ensure the best customer service, the Group has developed its own line of products which, after being launched on the Italian market will gradually be rolled out in other countries and, at the same time, 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 appropriate HR management, are key.
- The focus of marketing is increasingly on digital marketing which will become key to continuous customer engagement, on the effectiveness and efficacy of the campaigns and the media-mix, and the development and implementation of a single CRM solution, as well as websites with new, innovative functions (such as making appointments and a personal area for customers). This will require significant investments and a series of tools and activities will be used to carefully measure their profitability.
- Furthermore, after having implemented in all the main countries numerous projects relating to the adequacy and compliance of accounting procedures pursuant to Law 262/2005, Business Performance Management in the stores with a view to more effective monitoring and international comparison, 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 areas, the Group launched a program focused on the implementation of a new ERP Cloud system which will support the Group's processes relating, particularly to Finance, Human Resources and Procurement.

Human resources

For Amplifon the quality of its customer service in a strong growth business environment is one of its strengths: the quality of its people, particularly those in contact with customers, as well those who have managerial and strategic positions, is very important. Human resources management presents certain issues and areas of risk. Specifically:

- limited availability of hearing aid specialists in a particular market, 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 in few 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 possible lack of an adequate pipeline of internal resources capable of assuming managerial and strategic roles could slow down the integration of acquisitions and, in general, hinder the Group's ability to grow.

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, implemented the Internal Organizational Model adopted pursuant to Legislative Decree 231/2001 in Italy and defined a Group anti-corruption policy;
- 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 trade associations 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, with particular focus also on the new business segments in need of new expertise (for example, Digital);
- increased internal training and developed centralized coordination of the training carried out in individual countries;
- standardized the system used to map talent and the internal succession processes on both a global and local level, as well as by function;
- 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 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 exception of Israel, where purchases are made in Euros and US dollars, Canada where a small part of the purchase costs are incurred in US dollars, and Central and South America where the subsidiaries of the GAES Group (acquired at the end of 2018) use euros to pay GAES SA in Barcelona. 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, as result of the GAES Group acquisition year-end 2018, in Chile, Argentina, Ecuador, Colombia, Panama and Mexico.

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 loans between the Australian and New Zealand companies, between the American and Canadian companies, as well as the loan granted by GAES SA to its Mexican and Colombian subsidiaries, 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 was about €5.8 million lower than 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).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 2018, the Group's medium/long term debt is explained for €790 million by floating rate bank loans (€530 million of which relates to the loan taken out for the GAES Group acquisition), €465 million of which had been swapped to fixed rate debt at the date of this report, and for €100 million (at the hedging rate) by 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.

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 amount 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 commercial 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 which advance the whole amount of the sale to Amplifon, while 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 invested and/or deposited liquidities 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 Euro zone countries and the single currency itself, while smaller, still exists.

In this situation, including because of the sizeable financial commitment assumed with the GAES Group acquisition, 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 and the refinancing of debt reaching maturity.
The available credit lines amounted to €285 million (of which €135 irrevocable) at the end of the year, while debt is medium-long term with the first significant maturity, which cannot be extended, in 2021.

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 adequacy 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 current 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 any hedges of net investments in place.

Treasury Shares

During the year Implementation continued of the buyback program approved during the Shareholders' Meetings held on 20 April 2017 and on 20 April 2018 when shareholders (following withdrawal of the ongoing program expiring October 2018) 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 2018.

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 2018 683,000 shares were purchased under this program at an average price of €14.102.

A total of 2,122,718 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 2018 the treasury shares held amounted to 5,715,745 or 2.525% of the Company's share capital.

Information details related to treasury shares are provided in the following table:

	N. of shares	Average purchase price (Euro) FV of transferred rights (Euro)	Total amount (€ thousand)
Held at 12/31/2017	**7,155,463**	**8.415**	**60,217**
Purchases	683,000	14.102	9,631
Transfers due to exercise of Performance Stock grants	(2,122,718)	8.911	(18,915)
Total at 12/31/2018	**5,715,745**	**8.911**	**50,933**

Research and Development

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

Transactions within the Group and with Related Parties

Pursuant to and in accordance with the Consob Regulation n. 17221 issued on March 12th, 2010 and after the favorable opinion of the Independent Directors' Committee, on July 26th, 2018 Amplifon S.p.A. Board of Directors adopted the new Regulations regarding Related Party Transactions and replaced the previous version approved by the Board on July 27th 2016.

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 managed at arm's-length, given the nature of the goods and of the services provided.

Information on transactions with related parties is provided in Note 36 of the consolidated financial statements and in Note 32 of the separate financial statements.

Contingent Liabilities

As of now 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 growth across all geographic areas. Such performance will be driven by favorable organic growth, thanks to sizeable investments in marketing, the launch of the Amplifon product line and innovative multichannel ecosystem in other core countries, and constant focus on distribution network productivity, as well as by favorable external growth stemming from the recent GAES acquisition and piecemeal acquisitions in core countries (Germany, France and Canada). The Company also expects a continued increase in recurring EBITDA thanks to a significant increase in revenues, a greater scale in core markets, greater operational efficiency and the integration of GAES. Amplifon, therefore, reiterates its confidence in the ability to achieve its medium-long term targets.

Yearly Report on Corporate Governance and Ownership Structure as at December 31st 2018

(pursuant to art. 123-bis TUF)

The 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.

Non-Financial Disclosure as at December 31st 2018

The Non-Financial Disclosure 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 2018				FY 2017			
	Recurring	Non-recurring	Total	% on recurring	Recurring	Non-recurring	Total	% on recurring
Revenues from sales and services	310,668	-	310,668	100.0%	295,353	-	295,353	100.0%
Operating cost	(284,173)	(1,011)	(285,184)	-91.5%	(266,833)	-	(266,833)	-90.3%
Other income and revenues	54,833	-	54,833	17.7%	44,395	-	44,395	15.0%
Other expenses	(34)	(6,911)	(6,945)	0.0%	(324)	-	(324)	-0.1%
Gross operating profit (EBITDA)	**81,294**	**(7,922)**	**73,372**	**26.2%**	**72,591**	**-**	**72,591**	**24.6%**
Depreciation and write-downs of non-current assets	(16,914)	-	(16,914)	-5.4%	(13,548)	-	(13,548)	-4.6%
Operating profit (EBIT)	**64,380**	**(7,922)**	**56,458**	**20.7%**	**59,043**	**-**	**59,043**	**20.0%**
Income, expenses, valuation and adjustments of financial assets	57,520	(9,980)	47,540	18.5%	40,587	(559)	40,028	13.7%
Net financial expenses	(12,642)	(649)	(13,291)	-4.1%	(15,782)	(8,934)	(24,716)	-5.3%
Exchange differences and non- hedge *accounting* instruments	(282)	-	(282)	-0.1%	(222)	-	(222)	-0.1%
Income (loss) before taxes	**108,976**	**(18,551)**	**90,425**	**35.1%**	**83,626**	**(9,493)**	**74,133**	**28.3%**
Tax	(13,698)	2,534	(11,164)	-4.4%	(9,411)	-	(9,411)	-3.2%
Net profit (loss)	**95,278**	**(16,017)**	**79,261**	**30.7%**	**74,215**	**(9,493)**	**64,722**	**25.1%**

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

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

(€ thousands)	FY 2018 w/o IFRS15 (*)				FY 2017			
	Recurring	Non-recurring	Total	% on recurring	Recurring	Non-recurring	Total	% on recurring
Revenues from sales and services	314,025	-	314,025	100.0%	295,353	-	295,353	100.0%
Operating cost	(286,017)	(1,011)	(287,028)	-91.1%	(266,833)	-	(266,833)	-90.3%
Other income and revenues	54,833	-	54,833	17.5%	44,395	-	44,395	15.0%
Other expenses	(34)	(6,911)	(6,945)	0.0%	(324)	-	(324)	-0.1%
Gross operating profit (EBITDA)	**82,807**	**(7,922)**	**74,885**	**26.4%**	**72,591**	**-**	**72,591**	**24.6%**
Depreciation and write-downs of non-current assets	(16,914)	-	(16,914)	-5.4%	(13,548)	-	(13,548)	-4.6%
Operating profit (EBIT)	**65,893**	**(7,922)**	**57,971**	**21.0%**	**59,043**	**-**	**59,043**	**20.0%**
Income, expenses, valuation and adjustments of financial assets	57,520	(9,980)	47,540	18.3%	40,587	(559)	40,028	13.7%
Net financial expenses	(12,642)	(649)	(13,291)	-4.0%	(15,782)	(8,934)	(24,716)	-5.3%
Exchange differences and non- hedge *accounting* instruments	(282)	-	(282)	-0.1%	(222)	-	(222)	-0.1%
Income (loss) before taxes	**110,489**	**(18,551)**	**91,938**	**35.2%**	**83,626**	**(9,493)**	**74,133**	**28.3%**
Tax	(14,052)	2,534	(11,518)	-4.5%	(9,411)	-	(9,411)	-3.2%
Net profit (loss)	**96,437**	**(16,017)**	**80,420**	**30.7%**	**74,215**	**(9,493)**	**64,722**	**25.1%**

(*) For the sake of comparison with 2017, unaudited figures are shown.

The following table shows the details of the non-recurring transactions included in the previous statement.

(€ thousands)	FY 2018	FY 2017
GAES acquisition costs	(7,922)	-
Impact of the non-recurring items on EBITDA	**(7,922)**	**-**
Impact of the non-recurring items on EBIT	**(7,922)**	**-**
Commitment fees related to the financing of the GAES acquisition	(649)	-
Writedown of equity investments in the UK, Turkish, Polish and Brazilian subsidiaries	(9,980)	(559)
Writedown of the financial payables owed by the UK subsidiaries	-	(8,934)
Impact of the non-recurring items on profit before tax	**(18,551)**	**(9,493)**
Impact of the above items on the tax burden for the year	2,534	-
Impact of the non-recurring items on net profit	**(16,017)**	**(9,493)**

Reclassified Balance Sheet

The reclassified consolidated balance sheet aggregates the assets and liabilities of the compulsory format included in the annual report based on how the business management operates, usually split into the three main functions: investment, operations and financing.

(€ thousands)	12/31/2018	12/31/2017	Change	12/31/2018 w/o IFRS 15 (*)
Goodwill	540	540	-	540
Other intangible assets	37,410	29,542	7,868	37,410
Tangible assets	29,466	26,533	2,933	29,466
Financial fixed assets	1,160,746	615,555	545,191	1,160,746
Other non-current financial assets	15,269	1,520	13,749	1,281
Non-current assets	**1,243,431**	**673,690**	**569,741**	**1,229,443**
Inventories	10,314	10,164	150	10,314
Trade receivables (1)	83,550	54,673	28,877	83,550
Other receivables (2)	32,758	15,236	17,522	22,028
Current assets (A)	**126,622**	**80,073**	**46,549**	**115,892**
Operating assets	**1,370,053**	**753,763**	**616,290**	**1,345,335**
Trade payables (3)	(50,519)	(42,437)	(8,082)	(50,519)
Other payables (4)	(72,833)	(46,354)	(26,479)	(55,181)
Current liabilities (B)	**(123,352)**	**(88,791)**	**(34,561)**	**(105,700)**
Net working capital (A)+(B)	**3,270**	**(8,718)**	**11,988**	**10,192**
Derivative instruments (5)	(10,876)	(9,866)	(1,010)	(10,876)
Deferred tax assets	21,845	18,534	3,311	18,247
Provisions for contingency and obligations (non-current portion)	(13,985)	(13,115)	(870)	(13,985)
Liabilities for employees' benefits (non-current portion)	(3,329)	(3,259)	(70)	(3,329)
Trade payables (non-current portion)	-	(240)	240	-
Deferred tax liabilities	(1,230)	(1,378)	148	(1,230)
Loan fees (6)	3,796	631	3,165	3,796
Other non-current payables	(26,861)	-	(26,861)	-
NET INVESTED CAPITAL	**1,216,061**	**656,279**	**559,782**	**1,232,258**
Net Equity	**469,331**	**423,882**	**45,449**	**485,528**
Net short-term financial indebtedness	(45,921)	190,068	(235,989)	(45,921)
Net medium and long-term financial indebtedness	792,651	42,329	750,322	792,651
Total net financial indebtedness	**746,730**	**232,397**	**514,333**	**746,730**
OWN FUNDS AND NET FINANCIAL INDEBTEDNESS	**1,216,061**	**656,279**	**559,782**	**1,232,258**

(*) For the sake of comparison with 2017, unaudited figures are shown.

Notes for reconciling the condensed balance sheet with the statutory balance sheet:
(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 is a summary version of the reclassified cash flow statement shown in the following pages. The main purpose is to detail the flows generated or absorbed by operating, investing and financing activities starting from the EBIT.

(€ thousands)	FY 2018	FY 2017
Operating profit (EBIT)	**56,459**	**59,043**
Amortization, depreciation and write-downs	16,913	13,549
Provisions, other non-monetary items and gain/losses from disposals	8,972	9,274
Net financial expenses	(12,686)	(15,455)
Write-down of financial current assets	-	(8,934)
Dividends received	57,201	40,587
Taxes paid	(7,621)	(13,663)
Change in net working capital	(16,051)	4,663
Cash flow generated from (absorbed by) operating activities (A)	**103,187**	**89,064**
Cash flow generated from (absorbed by) operating investing activities (B)	(28,354)	(22,525)
Free Cash Flow (A+B)	**74,833**	**66,539**
Purchases of equity investments/share capital increases in subsidiaries (C)	(551,865)	(89,289)
(Purchase) sale of other investments and securities (D)	-	325
Cash flow generated from (absorbed by) investing activities (B+C+D)	**(580,219)**	**(111,489)**
Other non-current assets	61	(46)
Fees paid on medium and long-term borrowings	(3,758)	(775)
Dividends paid	(24,079)	(15,292)
Treasury shares	(9,631)	(36,160)
Share capital increases	106	538
Net cash flow from the period	**(514,333)**	**(74,160)**
Net financial indebtedness at the beginning of the period	**(232,397)**	**(158,237)**
Changes in net financial position	(514,333)	(74,160)
Net financial indebtedness at the end of the period	**(746,730)**	**(232,397)**

Revenues from Sales and Services

(€ thousands)	FY 2018	FY 2018 w/o IFRS 15 (*)	FY 2017	Change	Change %
Revenues from sales and services	**310,668**	**314,025**	**295,353**	**18,672**	**6.3%**

(*) For the sake of comparison with 2017, unaudited figures are shown.

Revenue from sales and services, including the €4 thousand generated by the French branch, determined based on the new IFRS 15, amounted to €310,668 thousand.
If the same accounting standards of the prior year had been applied, revenue would have come to €314,025 thousand, an increase of €18,672 thousand (+6.3%). This sizeable increase is even more significant considering that revenue was already up 9.8% in 2017.

In 2018 sales for hearing solutions and services rose 7.3% against 2017 as result, primarily, of an increase in the number of units sold. The Italian business increased almost entirely because of organic growth. The three commercial regions into which Italy is divided all posted significant growth: north +6.4%, central +4.7%, south +9.0%. The number of customers who went to Amplifon to purchase a hearing solution, both monaural and binaural, increased noticeably for both the "New Customers" (+7.4%) and the "Return Customers" cluster (+4.3%). All three of the markets in which Amplifon sells hearing solutions posted higher results compared to 2017.
The Amplifon brand product lines were launched in the first half of the year and development of exclusive digital products to be offered to customers was begun. The launch was accompanied by an integrated cross-channel marketing plan designed to strengthen the awareness of the new Amplifon brand product families and the new Amplifon App. All marketing channels benefitted from the important commercial developments. The new television commercial starring the "Ampli-mini" caused an important increase in store traffic and, consequently, an increase in the market share in Italy. Digital continues along its path of double-digit growth, a result that is tied to both the increasingly more digital seniors and investment practices that are increasingly able to maximize the return of these channels. During the year, CRM (Customer Relationship Management) was strengthened further in terms of both technological platforms and advanced statistics models. This CRM strategy succeeded in increasing the level of repurchases by existing customers.

In 2018 effective and constant training of the hearing aid specialists also continued. This type of training continues to be one of the most important parts of Amplifon's program to maintain a high level of customer satisfaction.

The strengthening of the company's presence continued across all three regions through both the opening of new stores and the "store in store" formula.

Gross Operating Profit (EBITDA)

(€ thousands)	FY 2018			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Gross operating profit (EBITDA)	81,294	(7,922)	73,372	72,591	-	72,591

(migliaia di Euro)	FY 2018 w/o IFRS 15 (*)			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Gross operating profit (EBITDA)	82,807	(7,922)	74,885	72,591	-	72,591

(*) For the sake of comparison with 2017, unaudited figures are shown.

Gross operating profit (EBITDA), determined based on the new IFRS 15, amounted to €73,372 thousand in 2018.

If IFRS 15 had not been applied, EBITDA would have amounted to €74,885 thousand, an increase against the comparison period of €2,294 thousand (+3.2%).

The result for the period reflects €7,922 thousand in non-recurring costs relating to the acquisition of the Spanish group GAES. Net of this item, excluding IFRS 15 application, EBITDA would have increased by €10,216 thousand (+14.1%). The EBITDA margin, excluding non-recurring items, went from 24.6% in 2017 to 26.4% in 2018.

Operating Profit (EBIT)

(€ thousands)	FY 2018			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	64,381	(7,922)	56,459	59,043	-	59,043

(migliaia di Euro)	FY 2018 w/o IFRS 15 (*)			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Operating profit (EBIT)	65,893	(7,922)	57,971	59,043	-	59,043

(*) For the sake of comparison with 2017, unaudited figures are shown.

The operating profit (EBIT), determined based on the new IFRS 15, amounted to €56,458 thousand (with an EBIT margin of 18.2%).

If IFRS 15 had not been applied EBIT would have come to €57,971 thousand, a decrease of €1,072 thousand (-1.8%). Recurring EBIT showed an increase of €6,850 thousand (+11.6%) against the comparison period.

Profit before Tax

(€ thousands)	FY 2018			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	108,976	(18,551)	90,425	83,626	(9,493)	74,133

(migliaia di Euro)	FY 2018 w/o IFRS 15 (*)			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Profit before tax	110,489	(18,551)	91,938	83,626	(9,493)	74,133

(*) For the sake of comparison with 2017, unaudited figures are shown.

Profit before tax, calculated based on the new accounting standards, amounted to €90,425 thousand in 2018, €16,292 thousand higher than in 2017. If the same accounting standards of the prior year had been applied, profit before tax would have amounted to €91,938 thousand, an increase of €17,805 thousand against the prior year.

Non-recurring transactions in the year refer, in addition to the costs incurred for the GAES Group acquisition, to the writedowns of the UK, Brazilian, Polish and Turkish equity investments in order to align them with their recoverable value. Recurring profit before tax, excluding application of the new accounting standard, shows an increase of €26,863 thousand (+32.1% against the comparison period).

Net Profit

(€ thousands)	FY 2018			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Net profit	95,278	(16,017)	79,261	74,215	(9,493)	64,722

(€ thousands)	FY 2018 w/o IFRS 15 (*)			FY 2017		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Net profit	96,437	(16,017)	80,420	74,215	(9,493)	64,722

(*) For the sake of comparison with 2017, unaudited figures are shown.

Net profit reached €79,261 thousand in 2018, after non-recurring expenses of €16,017 thousand net of tax and application of the new accounting standards, an increase of €14,539 thousand compared to the €64,722 thousand posted in 2017.

If the same accounting standards of the prior year had been applied, net profit would have amounted to €80,420 thousand, an increase of €15,698 thousand against 2017; recurring net profit would have been €22,222 thousand higher.

Non-Current Assets

(€ thousands)	12/31/2018	12/31/2017	Change
Goodwill	540	540	-
Other intangible assets	37,410	29,542	7,868
Tangible assets	29,466	26,533	2,933
Financial fixed assets	1,160,746	615,555	545,191
Other non-current financial assets	15,269	1,520	13,749
Non-current assets	**1,243,431**	**673,690**	**569,741**

Non-current assets amounted to €1,243,431 thousand at 31 December 2018 compared to €673,690 thousand at 31 December 2017, an increase of €569,741 thousand attributable to:

- a €12,965 thousand increase explained by the application of IFRS 15 as of 1 January 2018 which resulted in the recognition of assets for contract costs which must be capitalized and the deferment of costs incurred to obtain a contract or to fulfill a contract, as well as deferred taxes on contract liabilities;
- 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 €517,782 thousand by the GAES Group acquisition; for €19,889 thousand, by the acquisition of 51% of the Chinese company Beijing Cohesion Hearing Science & Technology Co. Ltd; for €1,927 thousand, by the acquisition of Audio-Conseil e Aides Auditives de France by the French branch and for €2,815 thousand by the acquisition of Hearing Supplies Srl by the Dutch subsidiary Amplifon Nederland;
- a €10,664 thousand increase in the value of equity investments as a result of the periodic valuation of stock option and stock grant plans held by employees of subsidiaries;
- a €7,572 thousand decrease in the value of equity investments as a result of the fair value measurement of stock options which matured and were exercised in the period;
- a €9,980 thousand decrease linked to the writedowns of Amplifon UK Ltd, Amplifon Poland, Amplifon South America (Brazil) and Maxtone (Turkey) in order to align the carry amount with the recoverable value.

Net Invested Capital

Net invested capital came to €1,216,061 thousand at 31 December 2018, an increase of €559,782 thousand against the €656,279 thousand recorded at 31 December 2017 and not redetermined based on the accounting standards applied beginning in 2018.

The change is attributable primarily to:

- a decrease of €15,039 thousand following adoption of IFRS 15 as of 1 January 2018 which resulted in the recognition of deferred revenue for performance obligations provided over time (typically after sales services) net of the assets capitalized and the deferred costs for obtaining or fulfilling a contract and the relative net deferred tax assets;
- the increase in non-current assets described above;

- an increase in trade receivables of €28,877 thousand explained primarily by the amounts owed the French branch by the operating company;
- an increase in trade payables due to the increase in purchases of goods and services and careful management of the payment conditions;
- a decrease in the fair value of derivatives of €1,010 thousand.

Net Financial Position

(€ thousands)	12/31/2018	12/31/2017	Change
Net medium and long-term financial indebtedness	792,651	42,329	750,322
Short-term net financial indebtedness	(32,651)	233,685	(266,336)
Cash and equivalents	(13,270)	(43,617)	30,347
Net financial indebtedness	**746,730**	**232,397**	**514,333**

Net financial indebtedness amounted to €746,730 thousand at 31 December 2018, an increase of €514,333 thousand with respect to 31 December 2017.

During the year the company:
- repaid the €275 million 5-year bond loan reserved for non-American institutional investors listed on the Luxembourg Stock Exchange's Euro MTF market at maturity using available liquidity and medium-long term credit lines negotiated in 2017;
- financed the GAES Group acquisition with a syndicated loan comprised of two tranches:
  - a 5-year amortizing loan of €265 million;
  - a €265 million 18-month bullet loan with an option to extend it to 5 years which may be exercised at Amplifon's discretion before the expiration date, in order to ensure both the certainty of long-term financing and the flexibility to refinance through debt capital market issues or other forms of financing.

The US$ 130 million bond loan subscribed by the American subsidiary Amplifon USA Inc. with 7, 10 and 12 year maturities (falling due between 2013 and 2025) using liquidity obtained from the private placement made with American institutional investors, with the same characteristics and maturities, is still outstanding.

Net Equity

(€ thousands)	12/31/2018	12/31/2017	Change
Net Equity	**469,331**	**423,882**	**45,449**

Net equity amounted to €469,331 thousand at 31 December 2018 versus €423,882 thousand at 31 December 2017, an increase of €45,449 thousand, explained by:

- an increase in share capital and the share premium reserve of 23,373 shares following the exercise of stock options;
- a decrease in treasury shares following the purchase of 683,000 shares and the exercise of 2,122,718 stock grants;
- the net profit posted in 2018;
- adoption of IFRS 15 “Revenue from contracts with customers” and IFRS 9 “Financial instruments” (with the exception of the provisions relating to hedge accounting for which the Group chose to continue applying IAS 39) as of 1 January 2018 which caused a decrease of €15,115 thousand in net equity.

Reclassified Cash Flow Statement

The reclassified cash flow statement shows the change in net financial position between the beginning and the end of the reported period.

Pursuant to IAS 7 the notes of the financial statements include also a cash flow statement based on cash holdings, showing the change between the opening and the closing cash position of the reported period.

(€ thousands)	FY 2018	FY 2017
OPERATING ACTIVITIES		
Net income (loss)	79,261	64,722
Amortization, depreciation and write-downs:		
- other intangible fixed assets	*9,946*	*7,108*
- tangible fixed assets	*6,967*	*6,441*
Total amortization, depreciation and write-downs	16,913	13,549
Provisions and other non-monetary items	8,945	9,565
(Gains) losses from sale of fixed assets	27	(291)
Financial income and charges	(33,967)	(15,269)
Current and deferred income taxes	11,164	9,411
Change in assets and liabilities		
- Utilization of provisions	*(3,161)*	*(2,105)*
- (Increase) decrease in inventories	*(87)*	*(1,916)*
- Decrease (increase) in trade receivables	*(23,117)*	*(4,774)*
- Increase (decrease) in trade payables	*7,843*	*8,207*
- Increase (decrease) in other receivables/payables non-financial net of tax receivables/payables	*2,471*	*5,251*
Total change in current assets and liabilities	(16,051)	4,663
Dividends received	57,201	40,587
Interest received/paid	(12,686)	(15,276)
Taxes paid	(7,621)	(13,663)
Write-down of financial current assets	-	(8,934)
Cash flow generated from (absorbed by) operating activities	**103,186**	**89,064**

(€ thousands)	FY 2018	FY 2017
INVESTING ACTIVITIES:		
Purchase of intangible fixed assets	(17,886)	(12,360)
Purchase of tangible fixed assets	(10,472)	(10,173)
Consideration from sale of tangible fixed assets and businesses	4	8
Cash flow generated from (absorbed by) investing activities	**(28,354)**	**(22,525)**
Cash flow generated from operating and investing activities (Free cash flow)	**74,832**	**66,539**
Cash flow generated from acquisitions (*)	**(551,865)**	**(88,964)**
Cash flow generated from (absorbed by) investing activities	**(580,219)**	**(111,489)**
FINANCING ACTIVITIES:		
Commissions paid for medium/long-term financing	(3,758)	(775)
Other non-current assets	62	(46)
Dividends distributions	(24,079)	(15,292)
Treasury shares	(9,631)	(36,160)
Capital increases	106	538
Cash flow generated from (absorbed by) financing activities	**(37,300)**	**(51,735)**
Net financial indebtedness at the beginning of the period	**(514,333)**	**(74,160)**
Opening net financial indebtedness	(232,397)	(158,237)
Changes in net indebtedness	(514,333)	(74,160)
Net financial indebtedness at the end of the period	**(746,730)**	**(232,397)**

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

The change in net financial debt of €514,333 thousand is attributable mainly to:

a) investing activities:
- net increase in property, plant and equipment and intangible assets of €28,354 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 acquisition of the GAES Group and 51% of the Chinese company Beijing Cohesion Hearing Science & Technology Co. Ltd.

b) operating activities:
- interest payable on financial indebtedness and other net financial charges of €12,686 thousand;
- payment of taxes which amounted to €7,621 thousand;
- dividends received from subsidiaries amounting to €57,201 thousand;
- cash flow generated by current operations of €66,292 thousand.

c) financing activities:
- net proceeds from the capital increase following the exercise of stock options of €106 thousand;
- purchase of treasury shares for €9,631 thousand;
- dividends paid shareholders amounting to €24,079 thousand;
- payment of €3,758 thousand in commitment fees on long-term credit lines negotiated in the year;
- increase in non-current assets of €62 thousand.

Data Controller

The Board of Directors held on March 2nd, 2016 appointed the Italian General Manager representative of "Data Controller" for the data related to the Italian business while the Group's Chief Executive Officer as representative of "Data Controller" for the data related to the management and coordination of the Group Amplifon entities.

Subsidiaries

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

Management Outlook

The ambitious targets that Amplifon aims to achieve in 2019 will be supported by significant investments in both further expanding and improving the reach of its domestic network, as well as in marketing.

The launch of the Amplifon product line in 2018 was only a first step toward making the brand the undisputed leader in the technological innovation of hearing solutions. Investments in marketing aiming to destigmatize the use of hearing aids will continue. This will happen thanks to an increasing focus on a set of advanced digital services designed to improve the experience of using a hearing aid as well as, above all, strengthen the perception of the hearing aid as an innovative, technological product that also appeals to the younger users.

The efficacy of the marketing investments will continue to benefit from the communication initiatives targeting the Amplifon products and advanced digital services (Amplifon *App*); at the same time further investments will be made in the most important areas of innovation (digital media and CRM, in particular) in order to enhance the "Amplifon Smile" program – born in 2018 as a Customers' advocacy program – which in 2019 will become a customer loyalty program focused on further strengthening the relationships of customers with our stores (incentivizing word of mouth becomes an important tool for customer acquisition).

In 2019 investments will continue to be made in further increasing the reach of the network in targeted areas, through both the opening of new stores and the "store in store" format. Great attention will continue to be paid to the training of all the hearing aid specialists, key to guaranteeing high quality services.

Disclaimer

This report contains forward looking statements ("Outlook") regarding 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 several factors, the majority of which are out of the Group's contro

Consolidated Financial Statements as at December 31st, 2018

Consolidated Financial Statements as at December 31st, 2018

Consolidated Statement of the Financial Position 128
Consolidated Income Statement 130
Statement of Comprehensive Income 131
Statement of Changes in the Consolidated Net Equity 132
Consolidated Cash Flow Statement 134
Supplementary Information to the Consolidated Cash Flow Statement 136
Explanatory Notes 137
1 General Information 137
2 Changes of to the accounting policies 137
3 Impact due to the new accounting policies 140
4 Acquisitions and goodwill 142
5 Intangible fixed assets 148
6 Tangible fixed assets 150
7 Other non-current assets 151
8 Derivatives and hedge accounting 152
9 Inventories 155
10. Receivables 155
11. Contract costs 156
12. Other receivables 157
13. Cash and cash equivalents 158
14. Share capital 159
15. Net financial position 160
16. Financial liabilities 162
17. Provisions for risks and charges (medium/long-term) 167
18. Liabilities for employees' benefits (medium/long-term) 168
19. Other long-term liabilities 170

20. Trade payables 171

21. Contract liabilities 171

22. Other payables 172

23. Provisions for risks and charges (current portion) 173

24. Liabilities for employees' benefits (current portion 173

25. Short-term financial debt 174

26. Deferred tax assets and liabilities 174

27. Revenues from sales and services 176

28. Operating costs 178

29. Other income and costs 180

30. Depreciation and amortization 180

31. Financial income, charges and changes in value of financial assets 180

32. Income taxes 184

33. Stock option – Performance stock grant 185

34. Subsidiaries with relevant non-controlling interests, joint ventures and associated companies 198

35. Earnings (loss) per share 199

36. Transactions with parent companies and related parties 200

37. Guarantees provided, commitments and contingent liabilities 206

38. Transactions arising from untypical/unusual operations 207

39. Financial risks 207

40. Translation of foreign companies' financial statements 212

41. Segment information 213

42. Accounting policies 218

43. Subsequent events 237

Annexes 238

Consolidation area 238

Information pursuant to § 149-duodecies of Consob Issuers' Regulations 242

Declaration in respect of the Consolidated Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98 243

Independent Auditor's Report at 31 December 2018 244

Consolidated Statement of the Financial Position

(€ thousands)		12/31/2018	12/31/2017	Change
ASSETS				
Non-current assets				
Goodwill	**Note 4**	1,258,848	684,635	574,213
Intangible fixed assets with finite useful life	**Note 5**	223,832	199,956	23,876
Tangible fixed assets	**Note 6**	188,651	143,003	45,648
Investments valued at equity	**Note 34**	2,025	1,976	49
Financial assets measured at fair value through profit or loss	**Note 7**	-	35	(35)
Hedging instrument	**Note 8**	3,725	-	3,725
Deferred tax assets	**Note 26**	74,641	45,300	29,341
Contract costs	**Note 11**	5,594	-	5,594
Other assets	**Note 7**	60,679	48,956	11,723
Total non-current assets		**1,817,995**	**1,123,861**	**694,134**
Current assets				
Inventories	**Note 9**	61,770	37,081	24,689
Trade receivables	**Note 10**	169,454	132,792	36,662
Contract costs	**Note 11**	3,853	-	3,853
Other receivables	**Note 12**	75,387	47,584	27,803
Hedging instruments	**Note 8**	-	-	-
Other financial assets		60	19	41
Cash and cash equivalents	**Note 13**	89,915	124,082	(34,167)
Current assets		**400,439**	**341,558**	**58,881**
TOTAL ASSETS		**2,218,434**	**1,465,419**	**753,015**

(€ thousands)		12/31/2018	12/31/2017	Change
LIABILITIES				
Net Equity				
Share capital	**Note 14**	4,527	4,527	-
Share premium account		202,565	202,412	153
Treasury shares		(50,933)	(60,217)	9,284
Other reserves		(24,186)	(14,333)	(9,853)
Profit (loss) carried forward		362,503	355,714	6,789
Profit (loss) for the period		100,443	100,578	(135)
Group net equity		**594,919**	**588,681**	**6,238**
Minority interests		**1,183**	**(263)**	**1,446**
Total net equity		**596,102**	**588,418**	**7,684**
Non-current liabilities				
Medium/long-term financial liabilities	**Note 16**	872,669	123,990	748,679
Provisions for risks and charges	**Note 17**	48,043	65,390	(17,347)
Liabilities for employees' benefits	**Note 18**	20,290	16,717	3,573
Hedging instruments	**Note 8**	1,957	2,362	(405)
Deferred tax liabilities	**Note 26**	64,885	60,044	4,841
Payables for business acquisitions	**Note 19**	16,136	2,355	13,781
Contract liabilities	**Note 21**	118,791	-	118,791
Other long-term debt	**Note 19**	7,411	30,372	(22,961)
Total non-current liabilities		**1,150,182**	**301,230**	**848,952**
Current liabilities				
Trade payables	**Note 20**	173,649	137,401	36,248
Payables for business acquisitions	**Note 22**	12,643	9,468	3,175
Contract liabilities	**Note 21**	93,692	-	93,692
Other payables	**Note 22**	150,749	132,572	18,177
Hedging instruments	**Note 8**	58	43	15
Provisions for risks and charges	**Note 23**	2,768	4,055	(1,287)
Liabilities for employees' benefits	**Note 24**	476	851	(375)
Short-term financial liabilities	**Note 25**	38,115	291,381	(253,266)
Total current liabilities		**472,150**	**575,771**	**(103,621)**
TOTAL LIABILITIES		**2,218,434**	**1,465,419**	**753,015**

Consolidated Income Statement

(€ thousands)		FY 2018			FY 2017			
		Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Change
Revenues from sales and services	Note 27	1,362,234	-	1,362,234	1,265,994	-	1,265,994	96,240
Operating costs	Note 28	(1,131,060)	(2,193)	(1,133,253)	(1,053,167)	(4,992)	(1,058,159)	(75,094)
Other income and costs	Note 29	2,750	(6,264)	(3,514)	4,656	-	4,656	(8,170)
Gross operating profit (EBITDA)		**233,924**	**(8,457)**	**225,467**	**217,483**	**(4,992)**	**212,491**	**12,976**
Amortization, depreciation and impairment	Note 30							
Amortization of intangible fixed assets		(36,973)	-	(36,973)	(30,685)	(214)	(30,899)	(6,074)
Depreciation of tangible fixed assets		(34,343)	-	(34,343)	(30,788)	-	(30,788)	(3,555)
Impairment and impairment reversals of non-current assets		(841)	-	(841)	(1,127)	-	(1,127)	286
		(72,157)	**-**	**(72,157)**	**(62,600)**	**(214)**	**(62,814)**	**(9,343)**
Operating result		**161,767**	**(8,457)**	**153,310**	**154,883**	**(5,206)**	**149,677**	**3,633**
Financial income, charges and value adjustments to financial assets	Note 31							
Group's share of the result of associated companies valued at equity		426	-	426	500	-	500	(74)
Other income and charges, impairment and revaluations of financial assets		44	-	44	2	-	2	42
Interest income and charges		(12,596)	(649)	(13,245)	(18,194)	-	(18,194)	4,949
Other financial income and charges		(925)	-	(925)	(1,090)	-	(1,090)	165
Exchange gains and losses		(864)	-	(864)	(692)	-	(692)	(172)
Gain (loss) on assets measured at fair value		(170)	-	(170)	144	-	144	(314)
		(14,085)	**(649)**	**(14,734)**	**(19,330)**	**-**	**(19,330)**	**4,596**
Profit (loss) before tax		**147,682**	**(9,106)**	**138,576**	**135,553**	**(5,206)**	**130,347**	**8,229**
Current and deferred income tax	Note 32							
Current tax		(38,797)	2,433	(36,364)	(46,245)	1,480	(44,765)	8,401
Deferred tax		(1,802)	-	(1,802)	5,612	9,284	14,896	(16,698)
		(40,599)	**2,433**	**(38,166)**	**(40,633)**	**10,764**	**(29,869)**	**(8,297)**
Total net profit (loss)		**107,083**	**(6,673)**	**100,410**	**94,920**	**5,558**	**100,478**	**(68)**
Net profit (loss) attributable to Minority interests		(33)	-	(33)	(100)	-	(100)	67
Net profit (loss) attributable to the Group		**107,116**	**(6,673)**	**100,443**	**95,020**	**5,558**	**100,578**	**(135)**

Income (loss) and earnings per share (€ per share)	**Note 35**	**FY 2018 (*)**	**FY 2017**
Earnings per share			
- Base		0.45706	0.45906
- Diluted		0.44801	0.44779
Dividend per share		0.14 (*)	0.11

(*) Proposed by the Board of Directors to the shareholders' meeting called for April 17th, 2019.

Statement of Comprehensive Income

(€ thousands)		FY 2018	FY 2017
Net income (loss) for the period		**100,410**	**100,478**
Other comprehensive income (loss) that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit plans	**Note 18**	(2,570)	(1,209)
Tax effect on components of other comprehensive income that will not be reclassified subsequently to profit or loss		771	193
Total other comprehensive income (loss) that will not be reclassified subsequently to profit or loss after the tax effect (A)		**(1,799)**	**(1,016)**
Other comprehensive income that will be reclassified subsequently to profit or loss			
Gains/(losses) on cash flow hedging instruments	**Note 8**	(960)	345
Gains/(losses) on exchange differences from translation of financial statements of foreign entities		(11,482)	(33,422)
Tax effect on components of other comprehensive income that will be reclassified subsequently to profit or loss		230	(82)
Total other comprehensive income (loss) that will be reclassified subsequently to profit or loss after the tax effect (B)		**(12,212)**	**(33,159)**
Total other comprehensive income (loss) (A)+(B)		**(14,011)**	**(34,175)**
Comprehensive income (loss) for the period		**86,399**	**66,303**
Attributable to the Group		86,408	66,461
Attributable to Minority interests		(9)	(158)

Statement of Changes in the Consolidated Net Equity

(€ thousands)		Share capital	Share premium account	Legal reserve	Other reserves	Treasury shares reserve	Stock option reserve
Balance at 01/01/2017		**4,524**	**201,648**	**934**	**3,636**	**(48,178)**	**25,541**
Appropriation of FY 2016 result							
Share capital increase		3	535				
Treasury shares						(36,160)	
Dividend distribution							
Notional cost of stock options and stock grants	**Note 33**						16,394
Other changes			229			24,121	(11,548)
Total comprehensive income (loss) for the period							
- Hedge accounting	**Note 8**						
- Actuarial gains (losses)							
- Translation difference							
- Result for FY 2017							
Balance at 12/31/2017		**4,527**	**202,412**	**934**	**3,636**	**(60,217)**	**30,387**

(€ thousands)		Share capital	Share premium account	Legal reserve	Other reserves	Treasury shares reserve	Stock option reserve
Balance at 01/01/2018 as reported		**4,527**	**202,412**	**934**	**3,636**	**(60,217)**	**30,387**
Variation for introduction of new accounting principles							
Balance at 01/01/2018 restated		**4,527**	**202,412**	**934**	**3,636**	**(60,217)**	**30,387**
Appropriation of FY 2017 result							
Share capital increase			106				
Treasury shares						(9,631)	
Dividend distribution							
Notional cost of stock options and stock grants	**Note 33**						15,892
Other changes			47			18,915	(11,710)
Total comprehensive income (loss) for the period							
- Hedge accounting	**Note 8**						
- Actuarial gains (losses)							
- Translation difference							
- Result for FY 2018							
Balance at 12/31/2018		**4,527**	**202,565**	**934**	**3,636**	**(50,933)**	**34,569**

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	(1,016)		(33,364)	100,578	**66,461**	(158)	**66,303**
263					***263***		***263***
	(1,016)				***(1,016)***		***(1,016)***
			(33,364)		***(33,364)***	*(58)*	***(33,422)***
				100,578	***100,578***	*(100)*	***100,478***
(7,282)	**(5,324)**	**355,714**	**(36,684)**	**100,578**	**588,681**	**(263)**	**588,418**

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
(7,282)	**(5,324)**	**355,714**	**(36,684)**	**100,578**	**588,681**	**(263)**	**588,418**
		(60,976)			**(60,976)**	(250)	**(61,226)**
(7,282)	**(5,324)**	**294,738**	**(36,684)**	**100,578**	**527,705**	**(513)**	**527,192**
		100,578		(100,578)	-		-
					106		**106**
					(9,631)		**(9,631)**
		(24,079)			**(24,079)**		**(24,079)**
					15,892		**15,892**
		(8,734)			**(1,482)**	1,705	**223**
(730)	(1,799)		(11,506)	100,443	**86,408**	(9)	**86,399**
(730)					***(730)***		***(730)***
	(1,799)				***(1,799)***		***(1,799)***
			(11,506)		***(11,506)***	*24*	***(11,482)***
				100,443	***100,443***	*(33)*	***100,410***
(8,012)	**(7,123)**	**362,503**	**(48,190)**	**100,443**	**594,919**	**1,183**	**596,102**

Consolidated Cash Flow Statement

(€ thousands)	FY 2018	FY 2017
OPERATING ACTIVITIES		
Net profit (loss)	100,410	100,478
Amortization, depreciation and write-downs:		
- intangible fixed assets	37,052	30,899
- tangible fixed assets	35,105	31,860
- goodwill	-	55
Non cash share based payments	15,892	16,394
Provisions and gain/losses from disposals	3,851	11,447
Group's share of the result of associated companies	(547)	(500)
Financial income and charges	15,281	19,829
Current, deferred tax assets and liabilities	38,166	29,869
Cash flow from operating activities before change in working capital	***245,210***	***240,331***
Utilization of provisions	(8,778)	(13,283)
(Increase) decrease in inventories	(6,026)	(2,462)
Decrease (increase) in trade receivables	(23,301)	(9,062)
Increase (decrease) in trade payables	13,782	8,398
Changes in other receivables and other payables	16,111	8,910
Total change in assets and liabilities	***(8,212)***	***(7,499)***
Dividends received	380	302
Interest received (paid)	(19,892)	(18,320)
Taxes paid	(36,590)	(45,866)
Cash flow generated from (absorbed by) operating activities (A)	**180,896**	**168,948**
INVESTING ACTIVITIES:		
Purchase of intangible fixed assets	(29,843)	(21,304)
Purchase of tangible fixed assets	(48,128)	(50,867)
Consideration from sale of tangible fixed assets	1,825	1,506
Cash flow generated from (absorbed by) operating investing activities (B)	**(76,146)**	**(70,665)**
Purchase of subsidiaries and business units	(641,455)	(116,511)
Increase (decrease) in payables through business acquisition	14,941	(4,865)
(Purchase) sale of other investments and securities	451	23
Cash flow generated from (absorbed by) acquisition activities (C)	**(626,063)**	**(121,353)**
Cash flow generated from (absorbed by) investing activities (B+C)	**(702,208)**	**(192,018)**
FINANCING ACTIVITIES:		
Increase (decrease) in financial payables	502,519	15,312
(Increase) decrease in financial receivables	(226)	(142)
Derivatives instruments and other non-current assets	-	-
Commissions paid for medium/long-term financing	(3,758)	(775)
Other non-current assets and liabilities	1,901	(710)
Treasury shares	(9,631)	(36,160)
Dividends distributed	(24,079)	(15,292)
Capital increases and minority shareholders' contributions and dividends paid to third parties by subsidiaries	(22)	144
Cash flow generated from (absorbed by) financing activities (D)	**466,704**	**(37,623)**
Net increase in cash and cash equivalents (A+B+C+D)	**(54,608)**	**(60,693)**

(€ thousands)	FY 2018	FY 2017
Cash and cash equivalents at beginning of period	**124,082**	**183,834**
Effect of discontinued operations on cash & cash equivalents	(149)	-
Effect of exchange rate fluctuations on cash & cash equivalents	(226)	(617)
Liquid assets acquired	20,816	4,994
Flows of cash and cash equivalents	(54,608)	(60,693)
Cash and cash equivalents at end of period	**89,915**	**124,082**

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 36. The impact of these transactions on the Group's cash flows is not material.

Supplementary Information to the Consolidated Cash Flow Statement

The fair values of the assets and liabilities acquired, which are described in the following section 4, are summarized in the table below:

(€ thousands)	FY 2018	FY 2017
- Goodwill	584,294	73,316
- Customer lists	32,492	50,409
- Trademarks and non-competition agreements	-	2,870
- Other intangible fixed assets	849	989
- Tangible fixed assets	34,295	6,911
- Financial fixed assets	-	-
- Current assets	66,076	15,113
- Provisions for risks and charges	(6,188)	(4,921)
- Current liabilities	(78,999)	(25,654)
- Other non-current assets and liabilities	(22,787)	(12,349)
- Minority interests	(863)	-
Total investments	**609,169**	**106,684**
Net financial debt acquired	32,286	9,827
Total business combinations	**641,455**	**116,511**
(Increase) decrease in payables through business acquisition	(14,940)	4,865
Purchase (sale) of other investments and securities	(451)	(23)
Cash flow absorbed by (generated from) acquisitions	**626,064**	**121,353**
(Cash and cash equivalents acquired)	(20,816)	(4,994)
Net cash flow absorbed by (generated from) acquisitions	**605,248**	**116,359**

Explanatory Notes

1. General Information

The Amplifon Group in global leader in the distribution of hearing solutions and the fitting of personalized products.

The parent company, Amplifon S.p.A. is based in Milan, in Via Ripamonti 133. The Group is controlled directly by Ampliter Srl which is owned through a majority stake (93.82% as at 12/31/2018) by Amplifin S.p.A. which is fully controlled by Susan Carol Holland, with 100% of the shares, whilst Anna Maria Formiggini Holland retains usufruct.

The consolidated financial statements at 31 December 2018 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 2018. 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 2018 was authorized by the Board of Directors on 5 March 2019. These financial statements are subject to the approval of the Annual Shareholders' Meeting of Amplifon S.p.A. convened on 17 April 2019.

The accounting policies adopted in the preparation of the annual report and a disclosure of the accounting principles and interpretation of future application are detailed in section 42.

2. Changes of to the accounting policies

New accounting standards

The Group has adopted IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments" effective 1 January 2018 (with the exception of the provisions relating to hedge accounting for which the Group chose to continue applying IAS 39) which resulted in changes to the accounting policies and adjustments to the amounts recognized in the financial statements.

These notes explain the impact that adoption had on the Group's financial statements and also illustrate the new accounting policies applied since 1 January 2018 when different than those applied in previous reporting periods.

IFRS 15 "Revenues from contracts with customers"

In May 2014 IASB issued IFRS 15, a new standard for the recognition of revenue to which guidelines clarifying application were added in April 2016. The new standard and the clarifications were endorsed by the European Union in September 2016 and October 2017, respectively.
IFRS 15 introduces a five-step model to be applied to revenues from contracts with customers (unless the contracts are subject to the application of other standards). The standard introduced guidelines and examples that are much more detailed than the provisions found in prior standards relating to revenue and, in a few instances, it became necessary to change accounting standards which had been accepted and applied up until now.

The standard should be applied to the preparation of financial statements for annual reporting periods beginning on or after 1 January 2018. The Group decided to transition using a modified retrospective approach and recognized the cumulative effect at the date of first-time application.
Adoption of the standard also had an impact in terms of the timing of the recognition of revenue and certain related costs.
Following the clarifications introduced in the standard, the Group changed the way it accounts for extended warranties, material rights and accessories, passing from the recognition of accrued expenses to the deferment of revenues.

The above resulted in the recognition of the following new items in the financial statements:

- Contract liabilities which represent the obligation to transfer control of goods and services over time, while revenue recognition is deferred, and are shown as a liability in the financial statements in a specific, separate item (short- and long-term);
- Contract costs, namely costs incurred in order to obtain and fulfill a contract capitalized in accordance with IFRS 15, and are shown as a liability in the financial statements in a specific, separate item (short and long-term).

On a consolidated level the adoption of the new standard also determined:

- a decrease in revenue due to the difference between deferred revenue and release of revenue that was previously deferred and a reduction in EBITDA and EBIT, partially offset by the suspended contract costs;
- a decrease in the Group's opening net equity balance following the recognition of contract liabilities net of the assets from contract costs and the deferred tax recognized.

Application of the standard did not affect cash flows or, therefore, the statement of cash flow.
For more information about the main impact of IFRS 15 adoption please refer to Note 3.

IFRS 9 “Financial instruments“

In July 2014, IASB issued the final version of IFRS 9 “Financial Instruments“ which substitutes IAS 39 “Financial Instruments: Recognition and Measurement“ and all previous versions of IFRS 9. IFRS 9 was endorsed by the European Union in November 2016 and the standard should be applied to the preparation of financial statements for annual reporting periods beginning on or after 1 January 2018 (the Group did not opt for early adoption).

IFRS 9 addresses all aspects of accounting for financial instruments: classification and measurement, loss of value and hedge accounting. More in detail, the new standard (i) changes the classification and measurement of financial assets; (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 provisions relating to hedge accounting.

The Amplifon Group has adopted IFRS 9 “Financial instruments“ effective 1 January 2018 (with the exception of the provisions relating to hedge accounting for which the Group chose to continue applying IAS 39). The Group availed itself of the faculty, as allowed under the standard, to not restate comparative figures and recognize any differences in opening profit reserves at 1 January 2018.

Adoption of the standard by the Amplifon Group had a smaller impact on the measurement of financial assets and, in particular, on the provision for bad debt, thanks to the introduction of specific models used to quantify the forward-looking element. Other items found in the financial statements were not impacted.

For more information on the main impact of IFRS 9 please see Note 3.

In reference to the presentation of the financial assets and liabilities found in the tables of the financial statements, a reconciliation of the types of financial assets and liabilities introduced by IFRS 9 is shown below compared to the information found in the financial statements at 31 December 2017 based on IFRS 7 “Financial Instruments: Disclosures“. No relevant changes linked to the adoption of the new standard were found.

IFRS 9 \ IAS 39	Financial assets at FV offset in PL	Receivables and payables	Investments held through maturity	Assets available for sale	Financial liabilities at fair value offset in PL	Hedge accounting e non-hedge accounting derivatives	Total
Financial assets at FV offset in PL	28,007						**28,007**
Financial liabilities at FV offset in PL							-
Financial assets and liabilities at FV offset in OCI							-
Financial assets at amortized cost		201,360					**201,360**
Financial liabilities at amortized cost		(590,138)					**(590,138)**
Hedges						(2,405)	**(2,405)**
Total	**28,007**	**(388,778)**				**(2,405)**	**(363,176)**

3. Impact due to the new accounting policies

The cumulative effect in the initial reserves stemming from first-time application of IFRS 15 "Revenues from contracts with customers" and IFRS 9 "Financial instruments", adopted for the first time on 1 January 2018, including any changes made with respect to the amount stated in the first half financial report (€52.6 million), is shown below:

(€ millions)	Balance at the transaction date
Contract liabilities short/long-term - IFRS 15	(170.5)
Assets stemming from deferred contractual costs and other short/long-term assets - IFRS 15	27.9
Release of provisions for guarantees and other short/long-term liabilities - IFRS 15	63.4
Provision for bad debt - IFRS 9	(2.3)
Deferred tax	20.3
Total impact at 1 January 2018	**(61.2)**

The following table summarizes the impact of IFRS 15 and IFRS 9 on the Group's consolidated financial statements at 31 December 2018. The items which were not impacted were not reported. Consequently, the partial total and the totals shown may not be recalculated using the numbers provided.

(€ thousands)	12/31/2018	Variation for the adoption of IFRS 15	12/31/2018 w/o IFRS 15
ASSETS			
Non-current assets			
Goodwill	1,258,848	1,098	1,257,750
Deferred tax assets	74,641	23,772	50,869
Contract costs long-term	5,594	5,594	-
Other assets	60,679	10,882	49,797
Total non-current assets	**1,399,762**	**41,346**	**1,358,416**
Current assets			
Contract costs short-term	3,853	3,853	-
Other receivables	75,387	11,193	64,194
Total current assets	**79,240**	**15,046**	**64,194**
TOTAL ASSETS	**1,479,002**	**56,392**	**1,422,610**

(€ thousands)	12/31/2018	Variation for the adoption of IFRS 15	12/31/2018 w/o IFRS 15
LIABILITIES			
Net Equity			
Group net equity	**594,919**	**(82,939) (*)**	**677,859**
Total net equity	**596,102**	**(82,939) (*)**	**679,041**
Non-current liabilities			
Provisions for risks and charges	48,043	(22,774)	70,817
Deferred tax liabilities	64,885	112	64,773
Contract liabilities long-term	118,791	118,791	-
Other long-term debt	7,411	(29,819)	37,230
Total non-current liabilities	**239,130**	**66,310**	**172,820**
Current liabilities			
Trade payables	173,649	(971)	174,620
Contract liabilities short-term	93,692	93,692	-
Other payables	150,749	(18,360)	169,109
Provisions for risks and charges	2,768	(1,340)	4,108
Total current liabilities	**420,858**	**73,021**	**347,837**
TOTAL LIABILITIES	**1,256,090**	**139,331**	**1,199,698**

(*) for the sake of comparison with the cumulative effect of first-time application at 1 January detailed in the prior table, please note that this table includes the impact of the acquisitions made in the period, the most significant of which was the GAES acquisition (€ 15.7m).

With reference to the main impacts on 2018 income statement, please refer to note 27 about revenues from sales and services and to note 28 about operating costs.

4. Acquisitions and goodwill

In the last quarter of 2018 the Group completed two key steps in its external growth path, entering the Chinese market following the purchase of 51% of Beijing Cohesion Hearing Science & Technology Co. Ltd. and, above all, 100% of the GAES Group, the largest privately-owned specialty hearing care retailer worldwide with a network of 581 direct and indirect stores and leader in Spain (where it is market leader with 471 direct and indirect stores), Portugal and in different Latin American countries (Chile, Argentina, Ecuador, Colombia, Panama and Mexico).
Throughout 2018 the Group also pursued external growth in other countries with great intensity and made a series of acquisitions with a view to increasing regional coverage. A total of 656 points of sale were purchased in EMEA, 155 in the Americas and 29 in Asia Pacific.
A total of 840 points of sale were purchased for a total cash-out of €620,639 thousand, including the debt consolidated and the best estimate of the earn-out linked to sales and profitability targets payable over the next few years.

More in detail:
- 72 points of sale and customer lists relating to two stores were acquired in France;
- 68 points of sale were acquired in Germany;
- 8 points of sale, along with 8 points of sale that were previously part of the indirect channel, were acquired in Belgium;
- 3 points of sale and customer lists relating to two stores were acquired in Spain;
- 2 points of sale were acquired in Israel;
- 1 point of sale was acquired in Turkey;
- 15 points of sale and customer lists relating to 12 stores were acquired in the United States, along with 39 points of sale that were previously part of the indirect channel;
- 14 points of sale were acquired in Canada;
- 29 points of sale were acquired in China;
- purchase of the GAES Group resulted in the following acquisitions:
  - 471 points of sale in Spain;
  - 23 points of sale in Portugal;
  - 30 points of sale in Chile;
  - 20 points of sale in Argentina;
  - 16 points of sale in Ecuador;
  - 6 points of sale in Colombia;
  - 13 points of sale in Mexico;
  - 2 points of sale in Panama.

SHARE DEALS

Company Name	Date	Location	Company Name	Date	Location
Audition Mallet Sarl	02/01/2018	*France*	Nostar 22 S.L.	12/18/2018	*Spain*
Centre de l'Audition SAS	03/01/2018	*France*	Noalia Plus S.L.	12/18/2018	*Spain*
Audition Lyon Est SAS	03/01/2018	*France*	Nicer Beta S.L.	12/18/2018	*Spain*
Audio-Conseil SAS	04/01/2018	*France*	Boston Audit S.L.	12/18/2018	*Spain*
Aides Auditives de France SAS	06/01/2018	*France*	Instituto Gallego de la Audición S.L.	12/18/2018	*Spain*
Audition Chevet Marie Sarl	07/01/2018	*France*	Centeralia S.L.	12/18/2018	*Spain*
S.E. Ducastel SAS	09/01/2018	*France*	Centro Auditivo Benidorm S.L.	12/18/2018	*Spain*
Medical Acustic Center SAS	10/01/2018	*France*	Servicios Audiologicos Castilla y Leon S.L.	12/18/2018	*Spain*
Elocam Sarl	10/01/2018	*France*	Auditiva 2014 S.A.	12/18/2018	*Andorra*
Provas Sarl	10/01/2018	*France*	Panactiva SCRL	04/01/2018	*Belgium*
Centre Acoustique Médical SAS	10/01/2018	*France*	Hoorcentrum Kempeneers BVBA	09/04/2018	*Belgium*
Ré Audition SAS	11/01/2018	*France*	Hoorcentrum De Ridder BVBA	10/01/2018	*Belgium*
Acoustique Rey Sarl	11/01/2018	*France*	2279662 Ontario Ltd.	02/01/2018	*Canada*
Conversons Paris 19 Sarl	11/01/2018	*France*	6793798 Manitoba Ltd	05/15/2018	*Canada*
Conversons Couëron SAS	11/01/2018	*France*	2332325 Ontario, Ltd.	02/08/2018	*Canada*
Audiosons Nantes SAS	11/01/2018	*France*	GAES S.A.	12/18/2018	*Chile*
GAES S.A.	12/18/2018	*Spain*	GAES Servicios Corporativo de Latinoamerica Spa	12/18/2018	*Chile*
Instituto Valenciano De La Sordera S.L.	12/18/2018	*Spain*	GAES S.A.	12/18/2018	*Argentina*
Microson S.A.	12/18/2018	*Spain*	GAES Colombia SAS	12/18/2018	*Colombia*
Blambos S.L.	12/18/2018	*Spain*	Soluciones Audiologicas de Colombia SAS	12/18/2018	*Colombia*
Circulo Famex 25 S.L.	12/18/2018	*Spain*	Audiovital S.A.	12/18/2018	*Ecuador*
Centro de Audioprotesistas Españoles S.L.	12/18/2018	*Spain*	Centros Auditivos GAES Mexico sa de cv	12/18/2018	*Mexico*
Centre Auditiu Badalona S.L.	12/18/2018	*Spain*	Compañía de Audiologia y Servicios Medicos sa de cv	12/18/2018	*Mexico*
Cial Intra Canal S.L.	12/18/2018	*Spain*	GAES Panama S.A.	12/18/2018	*Panama*
Centre Auditiu Vic S.L.	12/18/2018	*Spain*	Beijing Cohesion Hearing Science &Technology Co. Ltd	11/01/2018	*China*
Oidos Audionatur S.L.	12/18/2018	*Spain*			

ASSET DEALS

Company Name	Date	Location	Company Name	Date	Location
Audition Mouillière	01/24/2018	*France*	Neuroth Horcenter GmbH	09/14/2018	*Germany*
Audition Plus L.M.	01/29/2018	*France*	City Hörgeräte Loch GmbH	10/01/2018	*Germany*
APE	02/16/2018	*France*	Alves de Sousa & Loch GbR, Frankfurt	10/01/2018	*Germany*
Meyzieu	03/01/2018	*France*	Alves de Sousa & Loch GbR, Bad Vibel	10/01/2018	*Germany*
Laboratoire de Correction Auditive (Riffaud)	03/26/2018	*France*	Bock Hörgeräte GmbH	10/01/2018	*Germany*
Gawronski	05/28/2018	*France*	BundK Hörgeräte GmbH	10/01/2018	*Germany*
Isère Audition	06/05/2018	*France*	Hörakustik Sauerland GmbH	10/01/2018	*Germany*
Mariane Serres	06/11/2018	*France*	Gravenstein Hörsysteme GmbH	10/01/2018	*Germany*
Hubert Ducastel	09/03/2018	*France*	HÖRF(OHR)UM - Meisterbetrieb für Hörgeräteakustik	10/01/2018	*Germany*
Conversons	09/19/2018	*France*	Hörgeräte-Akustik Michael Köchling	10/01/2018	*Germany*
Conversons	10/15/2018	*France*	Clinicas Auditivas ASIO, S.L.	01/10/2018	*Spain*
Ackermann Akustikum GmbH Alstertal	01/01/2018	*Germany*	Sonosalud, S.L.	02/12/2018	*Spain*
Hörgeräte Henken+Müller	01/01/2018	*Germany*	Miguel Del Jesus Rosa	04/01/2018	*Spain*
Hörgeräte Jahnecke e.K.	01/01/2018	*Germany*	Asturalia Audiología, S.L.	04/10/2018	*Spain*
Gut Hören Bad Kreuznach	01/01/2018	*Germany*	Jairo Miguel Gutierrez Perez	07/16/2018	*Spain*
Hörzentrum Freiberger	01/01/2018	*Germany*	Serkan Tarkan	02/06/2018	*Turkey*
Lambacher Hörakustik	01/01/2018	*Germany*	VS Audiology Mouscron	02/05/2018	*Belgium*
Gut Hören Solingen GmbH	03/01/2018	*Germany*	Van Boxel	07/02/2018	*Belgium*
Gut Hören Dülken GmbH	03/01/2018	*Germany*	Gepco	10/01/2018	*Belgium*
Gut Hören Lingen GmbH	03/01/2018	*Germany*	Hearing Aid Services	01/18/2018	*United States*
heckhuis gutes hören GmbH	03/01/2018	*Germany*	Clark's Hearing Aid Service LLC	01/18/2018	*United States*
Gut Hören Frankenthal GmbH	03/01/2018	*Germany*	TSB Management Group LLC	02/01/2018	*United States*
Gut Hören Grünstadt GmbH	03/01/2018	*Germany*	Zounds Hearing Center - Lavaca Partners LLC	02/01/2018	*United States*
Gut Hören Neustadt GmbH	03/01/2018	*Germany*	Derby City Hearing Inc.	03/01/2018	*United States*
Gut Hören Speyer GmbH	03/01/2018	*Germany*	AccuQuest Hearing Centers	05/01/2018	*United States*
Gut Hören Salzgitter GmbH	03/01/2018	*Germany*	Twin City Hearing Aid Center	05/01/2018	*United States*
Heckhuis GmbH	03/01/2018	*Germany*	Auditory Services	06/01/2018	*United States*
Hormax GmbH	03/01/2018	*Germany*	Ultimate Hearing Solutions	06/01/2018	*United States*
Hörgeräte Hohenstein e.K.	03/01/2018	*Germany*	Staten Island Audiology	06/01/2018	*United States*
Hörgeräte Middendorf e.K.	04/01/2018	*Germany*	Great Scott Audiology	07/01/2018	*United States*
Horakustik Raupach	04/01/2018	*Germany*	Zounds	07/01/2018	*United States*
Gröning Hörgeräte	04/01/2018	*Germany*	Best Hearing Products, Inc.	08/06/2018	*United States*
Alster Acoustics	05/01/2018	*Germany*	Armin	09/15/2018	*United States*
Hörgeräte Harald Schramm	06/01/2018	*Germany*	Lymin	09/15/2018	*United States*
Nüssing Hörsysteme	06/01/2018	*Germany*	Hearing Solutions Northwest	10/01/2018	*United States*
Hörgeräteakustik Rabe	06/01/2018	*Germany*	Hearing Health 4You	10/01/2018	*United States*
Nibelungen Hörgeräte	07/03/2018	*Germany*	Accuquest Hearing Center, LLC	10/01/2018	*United States*
Hörstudio Bettin	08/01/2018	*Germany*	B.M. DeVeau Lifeline Incorporated	11/01/2018	*Canada*

(€ thousands)	Total Purchase Price	Cash acquired	Financial debts acquired	Total Cost	Expected annual turnover (*)	Contribution to turnover from the purchase date
Total share deals	562,111	(20,816)	32,286	573,581	227,244	16,834
Total asset deals	47,058			47,058	39,130	7,523
Total	**609,169**	**(20,816)**	**32,286**	**620,639**	**266,374**	**24,357**

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

A summary of the book value and fair value of assets and liabilities, deriving from the provisional allocation of the purchase price due to business combinations excluding the purchase of non-controlling interests in subsidiaries, is provided in the following table.

(€ thousands)	EMEA	Americas	Asia Pacific	Total
Cost of acquisitions of the period	**542,916**	**46,991**	**19,262**	**609,169**
Assets and liabilities acquired – Book value				
Current assets	31,551	12,852	857	**45,260**
Current liabilities	(38,882)	(6,792)	(1,410)	**(47,084)**
Net working capital	**(7,331)**	**6,060**	**(553)**	**(1,824)**
Other intangible and tangible assets	30,625	4,488	31	**35,144**
Provisions for risks and charges	(6,046)	(142)	-	**(6,188)**
Other non-current assets and liabilities	3,680	112	149	**3,941**
Non-current assets and liabilities	**28,259**	**4,458**	**180**	**32,897**
Net invested capital	**20,928**	**10,518**	**(373)**	**31,073**
Net equity	2,715	(3,578)	-	**(863)**
Net financial position	**(7,724)**	**(3,929)**	**183**	**(11,470)**
NET EQUITY ACQUIRED - BOOK VALUE	**15,919**	**3,011**	**(190)**	**18,740**
DIFFERENCE TO BE ALLOCATED	**526,997**	**43,980**	**19,452**	**590,429**
ALLOCATIONS				
Trademarks	-	-	-	**-**
Non-competition agreements	-	-	-	**-**
Customer lists	26,552	3,236	2,704	**32,492**
Contract costs - Short and long-term	418	40	-	**458**
Contract liabilities - Short and long-term	(28,995)	(2,696)	(443)	**(32,134)**
Deferred tax assets	15,340	439	111	**15,890**
Deferred tax liabilities	(9,605)	(290)	(676)	**(10,571)**
Total allocations	**3,710**	**729**	**1,696**	**6,135**
GOODWILL	**523,287**	**43,251**	**17,756**	**584,294**

Changes in goodwill and amounts booked as such during the year are detailed in the table below and shown by cash generating unit.

(€ thousands)	Net carrying value at 12/31/2017	Business combinations	Disposals	Impairment	Other net changes	Net carrying value at 12/31/2018
Italy	540	-	-	-	-	540
France	100,354	14,668	-	-	-	115,022
Spain	18,570	477,691	-	-	-	496,261
Portugal	13,497	-	-	-	-	13,497
Hungary	1,033	-	-	-	(15)	1,018
Switzerland	13,134	-	-	-	490	13,624
The Netherlands	32,781	-	-	-	-	32,781
Belgium & Luxembourg	12,286	2,447	-	-	-	14,733
Germany	159,400	28,417	-	-	-	187,817
Poland	217	-	-	-	-	217
United Kingdom & Ireland	8,511	-	-	-	(69)	8,442
Turkey	1,038	2	-	-	(14)	1,026
Israel	3,662	62	-	-	(4)	3,720
USA & Canada	78,585	7,656	-	-	2,370	88,611
Latin America	-	35,595	-	-	-	35,595
Australia & New Zealand	239,989	-	-	-	(12,799)	227,190
China	-	17,756	-	-	-	17,756
India	1,038	-	-	-	(40)	998
Total	**684,635**	**584,294**	**-**	**-**	**(10,081)**	**1,258,848**

“Acquisitions in the period“ refers to the provisional allocation and goodwill relating to the portion of the purchase price paid not directly attributable to the fair value of assets and liabilities which is, rather, based on the positive contribution to cash flow that is expected to be made for an indefinite period of time.

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

No analysis was made of the recoverability of the temporary goodwill allocated as a result of the acquisitions of GAES and Beijing Cohesion Hearing Science & Technology Co. Ltd (respectively €513,286 thousand and €17,756 thousand), completed in the last quarter of the year and for which the business plans are currently being defined, as the consideration paid to third parties is deemed as being representative of the acquired company’s fair value.

In all other instances, 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 (2019-2021) approved by the company bodies of the subsidiaries.

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 2022.

	Italy	Switzerland	France	Germany	Spain	Portugal	The Netherlands	United Kingdom	North America	Hungary	Belux	Turkey	Israel	Poland	India	Oceania
Growth rate	1.61%	1.00%	1.77%	2.65%	1.88%	2.45%	2.37%	1.95%	2.11%	3.04%	1.92%	7.99%	2.00%	2.50%	4.87%	2.40%
WACC (*) 2018	7.18%	4.77%	5.24%	4.94%	5.85%	6.21%	5.11%	8.04%	6.90%	7.57%	5.31%	22.04%	6.24%	7.33%	12.64%	7.08%
Cash flow time horizon	3Y	3Y	3Y	3Y	3Y	3Y	3Y	5Y	3Y	3Y	3Y	3Y	3Y	3Y	3Y	3Y
WACC (*) 2017	6.53%	4.92%	5.38%	5.12%	6.10%	6.76%	5.29%	8.28%	6.60%	7.14%	5.29%	15.50%	6.23%	8.42%	11.99%	7.89%

(*) WACC: weighted average cost of capital.

No loss in value was identified as a result of impairment testing.

A sensitivity analysis was also carried out to determine the change in underlying assumptions which, in light of the impact of this change on other variables, would result in the CGU's recoverable value being 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 a small change in the discount rate or the growth rate would result in a recoverable amount in line with the carrying amount which would expose the CGU to impairment risk in the event of changes in excess of the ones shown below. The goodwill allocated to this CGU, however, is only €999 thousand. Long-term forecasts suggest that results will be well above those shown in the third year of the plan which was used to calculate the impairment test in perpetuity.

	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%	>100%
France	10.3%	69%	8.1%
The Netherlands	10.3%	87%	8.0%
Germany	11.7%	80%	9.2%
Belgium and Luxembourg	>100%	94%	54.0%
Switzerland	>100%	92%	43.0%
Spain	8.7%	63%	6.9%
Portugal	6.7%	62%	5.6%
United States	98.0%	89%	34.0%
Hungary	24.0%	81%	16.0%
Oceania	8.5%	59%	6.8%
India	0.8%	11%	0.7%
Poland	11.8%	65%	6.8%
Israel	20.0%	79%	14.2%
Turkey	9.0%	40%	6.8%

5. Intangible fixed assets

The following table shows the changes in intangible fixed assets.

(€ thousands)	Historical cost at 12/31/2017	Accumulated amortization and write-downs at 12/31/2017	Net book value at 12/31/2017	Historical cost at 12/31/2018	Accumulated amortization and write-downs at 12/31/2018	Net book value at 12/31/2018
Software	101,858	(69,551)	32,307	119,838	(84,195)	35,643
Licenses	12,388	(10,060)	2,328	13,969	(11,191)	2,778
Non-competition agreements	5,333	(4,661)	672	6,459	(5,808)	651
Customer lists	247,254	(121,597)	125,657	276,938	(137,874)	139,064
Trademarks and concessions	33,513	(17,127)	16,386	32,495	(18,875)	13,620
Other	23,364	(7,956)	15,408	25,541	(10,099)	15,442
Fixed assets in progress and advances	7,198	-	7,198	16,634	-	16,634
Total	**430,908**	**(230,952)**	**199,956**	**491,874**	**(268,042)**	**223,832**

(€ thousands)	Net book value at 12/31/2017	Investments	Disposals	Amortization	Business combinations	Impairment	Other net changes	Net book value at 12/31/2018
Software	32,307	11,828	(17)	(13,214)	205	-	4,534	35,643
Licenses	2,328	1,135	-	(1,175)	4	-	486	2,778
Non-competition agreements	672	381	-	(997)	-	-	595	651
Customer lists	125,657	-	(93)	(17,554)	32,492	(45)	(1,393)	139,064
Trademarks and concessions	16,386	-	(9)	(2,334)	1	-	(424)	13,620
Other	15,408	1,186	(309)	(1,770)	568	(34)	393	15,442
Fixed assets in progress and advances	7,198	15,313	-	-	71	-	(5,948)	16,634
Total	**199,956**	**29,843**	**(428)**	**(37,044)**	**33,341**	**(79)**	**(1,757)**	**223,832**

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

- for €27,388 thousand to the temporary allocation of the considerations paid for the acquisitions made in EMEA;
- for €3,244 thousand to the temporary allocation of the consideration paid for the acquisitions made in the Americas;
- for €2,709 thousand to the temporary allocation of the consideration paid for one acquisition made in China.

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

"Other net changes" refers primarily to exchange rate fluctuations during the period and to the recognition of work in progress completed in the period in the relative items in the financial statements.

6. Tangible fixed assets

The following table shows the changes in tangible fixed assets.

(€ thousands)	Historical cost at 12/31/2017	Accumulated amortization and write-downs at 12/31/2017	Net book value at 12/31/2017	Historical cost at 12/31/2018	Accumulated amortization and write-downs at 12/31/2018	Net book value at 12/31/2018
Land	162	-	162	168	-	168
Buildings, constructions and leasehold improvements	157,862	(99,388)	58,474	222,778	(135,555)	87,223
Plant and machines	43,555	(31,498)	12,057	54,247	(38,577)	15,670
Industrial and commercial equipment	44,462	(31,288)	13,174	48,368	(33,612)	14,756
Motor vehicles	6,186	(3,635)	2,551	5,931	(4,238)	1,693
Computers and office machinery	45,194	(34,500)	10,694	53,823	(41,131)	12,692
Furniture and fittings	95,542	(59,943)	35,599	114,341	(72,675)	41,666
Other tangible fixed assets	704	(566)	138	2,273	(1,295)	978
Fixed assets in progress and advances	10,154	-	10,154	13,805	-	13,805
Total	**403,821**	**(260,818)**	**143,003**	**515,734**	**(327,083)**	**188,651**

(€ thousands)	Net book value at 12/31/2017	Investments	Disposals	Amortization	Business combinations	Impairment	Other net changes	Net book value at 12/31/2018
Land	162	-	-	-	6	-	-	168
Buildings, constructions and leasehold improvements	58,474	14,153	(34)	(13,514)	25,190	(449)	3,403	87,223
Plant and machines	12,057	3,098	(42)	(2,923)	2,510	(238)	1,208	15,670
Industrial and commercial equipment	13,174	3,573	(66)	(3,325)	553	(9)	856	14,756
Motor vehicles	2,551	129	(113)	(1,006)	96	-	36	1,693
Computers and office machinery	10,694	5,753	(37)	(4,909)	1,047	(4)	148	12,692
Furniture and fittings	35,599	9,607	(109)	(8,562)	3,534	(61)	1,658	41,666
Other tangible fixed assets	138	104	(3)	(104)	860	(1)	(16)	978
Fixed assets in progress and advances	10,154	11,711	(101)	-	499	-	(8,458)	13,805
Total	**143,003**	**48,128**	**(505)**	**(34,343)**	**34,295**	**(762)**	**(1,165)**	**188,651**

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 Group's new brand image.

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

- for €29,789 thousand to the to the temporary allocation of the price related to the acquisitions made in the EMEA region, of which €27,088 thousand are related to the purchase of GAES;
- for €4,480 thousand to the temporary allocation of the price related to the acquisition made in the Americas region, of which €3,959 thousand are related to the purchase of GAES in Latin America;
- per €26 thousand to the temporary allocation of the price related to the acquisition made in China.

“Other net changes“ refers primarily to exchange rate fluctuations during the period and to the recognition of work in progress completed in the period in the relative items in the financial statements.

7. Other non-current assets

(€ thousands)	Balance at 12/31/2018	Balance at 12/31/2017	Change
Financial assets measured at fair value through profit and loss	-	35	(35)
Long-term financial receivables	8,937	10,282	(1,345)
Deposits and other restricted amounts	28,861	27,972	889
Other non-current assets	22,881	10,702	12,179
Total	**60,679**	**48,991**	**11,658**

The change in non-current assets is largely attributable to the recognition of costs following first-time adoption of IFRS 15 which amounted to €12,848 thousand at 1 January 2018.

The Amplifon Group changed the accounting of the agents’ compensation, suspending the current portion of the services that will be rendered in the future (mainly after sales services), revenues for which are deferred, in order to guarantee the correlation between costs and revenues. Excluding application of the IFRS 15, other non-current assets would have amounted to €49,797 thousand.

More in detail:

- long-term financial receivables refer largely to the loans granted by American subsidiaries to franchisees and partners of the Elite network in order to support investment and development in the United States held as part of a hold to collect business model based on which contractual cash flows are collected at maturity;
- asset plans and other restricted amounts refer 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 17;
- Other non-current assets include:
  - €7,828 thousand in security deposits for rents payable;
  - €1,626 thousand (€2,867 thousand in the comparison period) relating to the medium/long-term portion of the amounts payable to the American subsidiaries for the sale of freehold stores to franchisees;
  - €11,945 thousand in commission and other compensation payable to the agents suspended due to adoption of IFRS 15 as mentioned above.

The cash flow stemming from the contracts relating to 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.

(€ thousands)	December 31st, 2018		
Consolidated statement of financial position	Amortized cost	Fair Value through OCI	Fair Value through P&L
Non-current assets			
Financial assets measured at FV through P&L			
Financial long-term receivables	8,937		
Asset plans and other restricted amounts			28,861
Other non-current assets	22,881		

(€ thousands)	December 31st, 2017		
Consolidated statement of financial position	Amortized cost	Fair Value through OCI	Fair Value through P&L
Non-current assets			
Financial assets measured at FV through P&L			35
Financial long-term receivables	10,282		
Asset plans and other restricted amounts			27,972
Other non-current assets	10,702		

8. Derivatives and hedge accounting

These are instruments not listed on official markets; entered into for the purpose of hedging interest rate and/or currency risk. The fair value of these instruments is determined using valuation models based on market-derived inputs (source: Bloomberg) such as forward rates, exchange rates, etc. The valuation is done using the DCF method. Own risk and counterparty risk (credit/debit value adjustments) were taken into account. These credit/debit value adjustments were determined based on market information such as the value of CDS (Credit Default Swaps) and used to determine counterparty risk, also taking into account the mutual break clause if present.

The following table shows the fair values of the derivatives outstanding at the end of the comparative period and at the reporting date showing 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 separately.

(€ thousands)	Fair value at 12/31/2018		Fair value at 12/31/2017	
Type	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**
Fair value hedge	-	-	-	-
Cash flow hedge	3,725	(1,957)	-	(2,362)
Total hedge accounting	**3,725**	**(1,957)**	**-**	**(2,362)**
Non-hedge accounting	-	(58)	-	(43)
Total	**3,725**	**(2,015)**	**-**	**(2,405)**

Cash Flow Hedges

In 2018, cash flow hedges were made against the currency and interest rate risk relating to the USD130 million 2013-2025 private placement and the interest rate risk associated with a €200 million long-term loan.

(€ thousands)		*Fair value* at 12/31/2018		*Fair value* at 12/31/2017	
Hedging purpose	**Hedged risk**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**
Private placement 2013-2025	Exchange rate and interest rate	3,725	-	-	(2,257)
Long-term loans	Interest rate	-	(1,957)	-	(105)
	Total	**3,725**	**(1,957)**	**-**	**(2,362)**

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)	Recognized in net equity	Reclassified to the income statement - Effective portion	Reclassified to the income statement - Ineffective portion
	(Debit) Credit	(Loss) Gain	(Loss) Gain
1/1/2017 - 12/31/2017	(14,587)	(346)	-
1/1/2018 - 12/31/2018	4,130	5,141	(50)

The maturity of the hedges is in line with the duration of the item hedged. Please refer to Note 16 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 2019.

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

(€ thousands)	December 31st, 2018		
Consolidated statement of financial position	Amortized cost	Fair value Net Equity	Fair Value through P&L
Asset Derivative Instruments – Cash flow hedge		3,725	
Liability Derivative Instruments – Cash flow hedge		(1,957)	
Asset Derivative Instruments - Non-hedge accounting			
Liability Derivative Instruments - Non-hedge accounting			(58)

(€ thousands)	December 31st, 2018		
Consolidated statement of financial position	Amortized cost	Fair value Net Equity	Fair Value through P&L
Asset Derivative Instruments – Cash flow hedge			
Liability Derivative Instruments – Cash flow hedge		(2,362)	
Asset Derivative Instruments - Non-hedge accounting			
Liability Derivative Instruments - Non-hedge accounting			(43)

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)	2018				2017			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Hedging instruments								
- Long-term		3,725		**3,725**				
- Short-term								
Liabilities								
Hedging instruments								
- Long-term		(1,957)		**(1,957)**		(2,362)		**(2,362)**
- Short-term		(58)		**(58)**		(43)		**(43)**

There were no transfers among the levels during the period.

9. Inventories

(€ thousands)	Balance at 12/31/2018			Balance at 12/31/2017		
	Cost	Obsolescence provision	Net	Cost	Obsolescence provision	Net
Goods	65,451	(3,681)	61,770	41,127	(4,046)	37,081
Work-in-progress	-	-	-	-	-	-
Total	**65,451**	**(3,681)**	**61,770**	**41,127**	**(4,046)**	**37,081**

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

(€ thousands)	
Balance at 12/31/2017	**(4,046)**
Provision	(2,919)
Utilization	3,344
Business combination	(63)
Translation differences and other movements	3
Balance at 12/31/2018	**(3,681)**

10. Receivables

Trade receivables are detailed in the following table:

(€ thousands)	Balance at 12/31/2018	Balance at 12/31/2017	Change
Trade receivables	168,991	132,643	36,348
Trade receivables - Subsidiaries	165	123	42
Trade receivables - Parent company	296	15	281
Trade receivables - Associated companies and *joint ventures*	2	11	(9)
Total trade receivables	**169,454**	**132,792**	**36,662**

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

(€ thousands)	Balance at 12/31/2018	Balance at 12/31/2017	Change
Trade receivables	187,113	148,154	38,959
Sales returns provision	(7,699)	(7,233)	(466)
Allowance for doubtful accounts	(10,423)	(8,278)	(2,145)
Total	**168,991**	**132,643**	**36,348**

All receivables have payment terms between 30 and 120 days and there is no significant credit risk concentration.

€183,354 thousand of the trade receivables are held as part of a "held to collect" business model based on which contractual cash flows are collected at maturity and €4,222 thousand are held as part of a "held to collect and sell" business model based on which contractual cash flows are collected at maturity or through a sale.

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

(€ thousands)	
Balance at 12/31/2017	**(8,278)**
Impact as at 01/01/2018 due to the adoption of IFRS 9	(2,333)
Provisions	(2,837)
Reversals	1,676
Utilization for charges	2,890
Business combinations	(1,687)
Translation differences and other net changes	146
Balance at 12/31/2018	**(10,423)**

The face value of the factoring without recourse transactions carried out in the year amounted to €69,562 thousand (versus €52,339 thousand in the prior year) and relate to receivables generated in the year and, therefore, did not have a significant impact on working capital compared with the prior year.

In compliance with the mandatory disclosure requirements in Italy as per Law n. 124 of 4/8/17 n. 124, please note that in 2018 Amplifon S.p.A. received a total of €54,136 thousand (as shown in 54,398 documents) from public entities, of which €48,131 thousand (as shown in 49,810 documents) through financial operators, and €6,005 thousand (as shown in 4,588 documents) through direct deposits.

11. Contract costs

(€ thousands)	Balance at 12/31/2018	Balance at 12/31/2017	Change
Contract costs – Short-term	3,853	-	3,853
Contract costs – Long-term	5,594	-	5,594
Total	**9,447**	**-**	**9,447**

The contract costs, of €9,447 thousand, refer to the costs incurred to obtain or fulfil contracts capitalized in accordance with IFRS 15. These typically include commissions and bonuses paid to employees and agents for each sale made. These are deferred and recognized in the income statement based on the level to which the different contractual performance obligations have been satisfied. The change against the comparison period is linked to the first-time adoption of the IFRS standard and the Group's use of a modified retrospective approach recognized the cumulative effect at the date of first-time application which amounted to €7,503 thousand.

The significant changes in the contract cost balances are shown below:

(€ thousands)	
Net value at 31/12/2017	-
Impact of first-time application of the standard at 1 January 2018	7,503
Increase linked to customer contracts and reversals	1,500
Business combinations	458
Currency translation differences and other net changes	(14)
Net value at 31/12/2018	**9,447**

The impact of the contract costs on the income statement for the next five years is shown below:

Description	2019	2020	2021	2022	2023
Contract costs	(3,848)	(2,957)	(1,569)	(783)	(288)

12. Other receivables

(€ thousands)	Balance at 12/31/2018	Balance at 12/31/2017	Change
Tax receivables	26,310	14,867	11,443
Other receivables	23,089	19,399	3,690
Non-financial prepayments and accrued income	25,988	13,318	12,670
Total	**75,387**	**47,584**	**27,803**

Tax receivables

Tax receivables include €16,866 thousand held based on a held to collect business model (cash flows collected at maturity), €9,444 thousand based on a held to collect and sell business model (cash flows collected at maturity or through a sale).

Tax receivables amounted to €26,310 thousand and include:

- €19,879 thousand in VAT and other indirect tax credits. Factoring without recourse of VAT credits amounted to €24,266 thousand with net proceeds reaching €24,072 thousand (respectively €22,839 thousand and €22,596 thousand at 31 December 2017);
- €5,906 thousand in tax advances.

Other receivables

Other receivables are held with a view to collecting the contractual cash flows at maturity.

Non-financial prepayments and accrued income

The increase in the period is attributable to IFRS 15 adoption based on which the Amplifon Group changed the accounting of the agents' compensation, suspending the portion related to future services for which revenue recognition is deferred (mainly post sales services). This amounted to €11,193 thousand at December 31st, 2018 (of which €7,519 thousand relates to first-time adoption of

the standard at January 1st, 2018). Excluding the adoption of IFRS 15, this item would have totaled €14,822 thousand.

This item also includes:
- Prepaid rent of €3,355 thousand;
- Other services amounting to €2,471 thousand;
- Advertising expenses of €1,994 thousand;
- Insurance premiums of €568 thousand.

13. Cash and cash equivalents

(€ thousands)	Balance at 12/31/2018	Balance at 12/31/2017	Change
Bank current accounts	84,480	98,028	(13,548)
Short-term bank deposits	300	5,001	(4,701)
Funds	3,662	19,893	(16,231)
Cash on hand	1,473	1,160	313
Total	**89,915**	**124,082**	**(34,167)**

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

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

			Rating S&P short-term					
(€ thousands)	Balance at 12/31/2018		A-1+	A-1	A-2	A-3	B	Other (*)
Non-current assets								
Financial assets at fair value through profit and loss	-	**Note 7**						-
Hedging instruments – long-term	3,725	**Note 8**			3,725			
Current assets								
Hedging instruments – short-term	-							
Bank current accounts, short-term bank deposits and funds	88,442	**Note 13**	20,589	11,944	26,643	684	3,950	24,632
Cash on hand	1,473							

(*) 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.

14. Share capital

At 31 December 2018 the share capital comprised 226,353,620 ordinary shares with a par value of €0.02 fully paid in and subscribed.

The share capital at 31 December 2017 comprised 226,330,247 shares. The increase recorded in the period is due to the exercise of 23,373 stock options, equivalent to 0.010% of the share capital.

During the year Implementation continued of the buyback program approved during the Shareholders' Meetings held on April 20th, 2017 and on April 20th, 2018 when shareholders (following withdrawal of the ongoing program expiring October 2018) 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 February 24th, 1998, for a period of 18 months beginning on April 20th, 2018.

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 2018 683,000 shares were purchased under this program at an average price of €14.102.

A total of 2,122,718 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 2018 the treasury shares held amounted to 5,715,745 or 2.525% of the Company's share capital.

Information relating to the treasury shares held is shown below.

	N. of shares	Average purchase price (Euro) / FV of transferred rights (Euro)	Total amount (€ thousands)
Held at 12/31/2017	**7,155,463**	**8.415**	**60,217**
Purchases	683,000	14.102	9,631
Transfers due to exercise of performance stock grants	(2,122,718)	8.911	(18,915)
Held at 12/31/2018	**5,715,745**	**8.911**	**50,933**

15. Net financial position

In accordance with the requirements of the Consob communication dated July 28th, 2006 and in compliance with the CESR (now ESMA) Recommendation of February 10th, 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the Group's net financial position at December 31st, 2018 was as follows:

(€ thousands)	12/31/2018	12/31/2017	Change
Cash and cash equivalents	(89,915)	(124,082)	34,167
Other financial assets	-	(19)	19
Eurobond 2013-2018	-	275,000	(275,000)
Payables for business acquisitions	12,643	9,468	3,175
Bank overdraft and other short-term loans from third parties (including current portion of medium/long-term debt)	34,852	1,156	33,696
Other financial payables	5,530	15,506	(9,976)
Non-hedge accounting derivative instruments	58	43	15
Short-term financial position	**(36,832)**	**177,072**	**(213,904)**
Private placement 2013-2025	113,537	108,397	5,140
Finance lease obligations	385	871	(486)
Other medium/long-term debt	760,275	15,074	745,201
Hedging derivatives	(12,645)	(7,504)	(5,141)
Medium/long-term acquisition payables	16,136	2,355	13,781
Net medium and long-term indebtedness	**877,688**	**119,193**	**758,495**
Net financial position	**840,856**	**296,265**	**544,591**

In order to reconcile the above items with the statutory statement of the financial position, details are provided as follows.

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

a. under the item "medium/long-term financial liabilities" described in the section 16 of the explanatory notes for the long-term portion.

(€ thousands)	Balance at 12/31/2018
Private placement 2013-2025	113,537
Syndicated loan for GAES acquisition	503,500
Other medium/long-term bank loans	256,775
Finance lease obligations	385
Fees for bank loans, private placement 2013-2025 and Syndicated loan for GAES acquisition	(1,528)
Medium/long-term financial liabilities	**872,669**

b. under the item "financial payables", described in the section 25 of the explanatory notes for the current portion.

(€ thousands)	Balance at 12/31/2018
Short-term debt	4,693
Current portion of finance lease obligations	837
Other financial payables	**5,530**
Bank overdraft and other short-term debt (including current portion of other long-term debt)	34,852
Fees for bank loans, private placement 2013-2025 and Syndicated loan for GAES acquisition	(2,268)
Short-term financial liabilities	**38,115**

All the other items in the net financial position table can be easily referred to the financial statement.

The **medium/long-term portion of the net financial position** reached €877,688 thousand at December 31st, 2018 versus €119,193 thousand at December 31st, 2017, a difference of €758,495 thousand. The increase of around €758 million compared to December 31st, 2017 is attributable to the debt used to finance the GAES Group acquisition and the refinancing of the Eurobond which was repaid on July 16th, 2018 using loans and medium/long-term credit lines expiring in 2021-2022.

The **short-term portion of the net financial position** went from a negative €177,072 thousand at December 31st, 2017 (which reflected the €275,000 million in short-term debt used to repay the Eurobond mention above) to a positive €36,832 thousand at December 31st, 2018.

16. Financial liabilities

Long-term financial liabilities breakdown is as follows:

(€ thousands)	Balance at 12/31/2018	Balance at 12/31/2017	Change
Private placement 2013-2025	113,537	108,397	5,140
Syndicated loan for GAES acquisition	503,500	-	503,500
Other medium long-term debt	256,775	15,074	241,701
Fees for bank loans, private placement 2013-2025 and syndicated loan for GAES acquisition	(1,528)	(352)	(1,176)
Finance lease obligations	385	871	(486)
Total medium/long-term financial liabilities	**872,669**	**123,990**	**748,679**
Short term debt	38,115	291,381	(253,266)
- of which Eurobond 2013-2018	*-*	*275,000*	*(275,000)*
- of which current portion for the financing for GAES acquisition	*26,500*	*-*	*26,500*
- of which current portion of other short-term bank loans	*3,538*	*-*	*3,538*
- of which fees for bank loans, private placement 2013-2025 and syndicated loan for GAES acquisition	*(2,268)*	*(281)*	*(1,987)*
- of which current-portion of lease obligations	*837*	*1,080*	*(243)*
Total short-term financial liabilities	**38,115**	**291,381**	**(253,266)**
Total financial liabilities	**910,784**	**415,371**	**495,413**

The main financial liabilities are detailed below.

- **Syndicated loan for the GAES acquisition**
  An unsecured syndicated bank loan negotiated with five top-tier banks for the acquisition of GAES comprised of two tranches:
  - a 5-year amortizing loan of €265 million (Facility A);
  - a €265 million 18-month bullet loan (Facility B) with an option to extend it to 5 years which may be exercised at Amplifon's discretion before the expiration date, in order to ensure both the certainty of long-term financing and the flexibility to refinance through debt capital market issues or other forms of financing.

Issue Date	Debtor	Maturity	Face Value (/000)	Fair value (/000)	Nominal interest rate (*)
12/18/2018	Amplifon S.p.A.	09/28/2023	265,000	265,000	1.212%
12/18/2018	Amplifon S.p.A.	03/28/2020 extendable to 09/28/2023	265,000	265,000	0.562%
	Total in Euro		**530,000**	**530,000**	

(*) The nominal interest rate is equal to Euribor plus a spread.
The initial spread is 1.45% for Facility A and 0.80% for Facility B.
With regard to the first tranche, the floating Euribor rate will be converted into a fixed rate of 0.132% effective June 18th, 2019.
The spread applied to Facility A depends on the Group's net debt/EBITDA ratio while for Facility B the spread is 0.8% for the first six months, 1.0% for the second 6 months and 1.35% for the last 6 months. If the loan is extended the spread will depend on the Group's net debt/EBITDA ratio.

The following table shows the applicable rates depending on the ratio of net financial position over Group EBITDA:

Ratio between net financial position and Group EBITDA	Facility A	Facility B
Higher than 3.50x	1.65%	1.85%
Less or equal than 3.50x but higher than 3.00x	1.45%	1.65%
Less or equal than 3.00x but higher than 2.50x	1.25%	1.45%
Less or equal than 2.50x but higher than 2.00x	1.10%	1.30%
Less or equal than 2.00x	0.95%	1.15%

- **Private placement 2013-2025**

  It is a US$130 million private placement made in the US 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 (**)
05/30/2013	Amplifon USA	07/31/2020	USD	7,000	7,122	3.85%	3.39%
05/30/2013	Amplifon USA	07/31/2020	USD	8,000	8,641	4.46%	3.90%
07/31/2013	Amplifon USA	07/31/2020	USD	13,000	13,237	3.90%	3.42%
07/31/2013	Amplifon USA	07/31/2020	USD	52,000	56,280	4.51%	3.90%-3.94%
07/31/2013	Amplifon USA	07/31/2020	USD	50,000	56,137	4.66%	4.00%-4.05%
	Total			**130,000**	**141,417**		

(*) The figure shown reflects the rate paid in 2018 with a Group net debt/EBITDA ratio of below 2.75x. Following the GAES acquisition, which caused an increase in this ratio, a step-up of 25 bps will be applied beginning on 1 February 2019. If 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.

- **Bank loans**

  4 medium/long-term unsecured bank loans totaling €200 million and 2 revolving unsecured credit facilities amounting to €60 million as shown in the following table.

Issue Date	Issuer	Type	Maturity	Face Value (/000)	Fair value (/000)	Nominal rate (*)
09/28/2017	Amplifon S.p.A.	Bullet financing	09/28/2021	100,000	102,705	0.987%
10/24/2017	Amplifon S.p.A.	Amortizing financing	10/31/2022	50,000	51,323	1.329%
03/23/2018	Amplifon S.p.A.	Bullet financing	03/22/2022	30,000	30,737	1.00%
01/11/2018	Amplifon S.p.A.	Bullet financing	01/11/2022	20,000	20,374	1.04%
12/21/2016	Amplifon S.p.A.	Revolving credit facility	12/21/2021	30,000	30,000	0.75%
12/22/2016	Amplifon S.p.A.	Revolving credit facility	12/12/2021	30,000	30,000	0.70% (**)
	Total in Euro			**260,000**		

(*) With reference to the financings, the rate is composed of the fixed rate plus the applicable margin, while with reference to the revolving credits is composed of the Euribor plus the applicable margin.
(**) The rate applicable to this financing depends on the ratio of net financial position on Group EBITDA and goes from a minimum of 0.60% to a maximum of 1.10% in case this ratio is higher than 3.0x.

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

Debtor Repayments	Nominal amount and maturity date	Average rate 2018/360	Amount at 12/31/17	Exchange rate effect	Repayments as at 12/31/2018	New loans	Business Combination	Balance at 12/31/2018	Short-term portion	Medium and long-term portion
Eurobond Bullet 07/16/2018	**EUR 275,000** 07/16/2018	4.88%	**275,000**		(275,000)					
Private placement 2013-2025 Amplifon USA (*) Instalments at 01/31 and 07/31 from 01/31/2014	**USD 7,000** 07/31/2020	3.85%	**6,641**	(528)				**6,113**		**6,113**
Private placement 2013-2025 Amplifon USA (*) Instalments at 01/31 and 07/31 from 01/31/2014	**USD 8,000** 07/31/2023	4.46%	**7,589**	(602)				**6,987**		**6,987**
Private placement 2013-2025 Amplifon USA (*) Instalments at 01/31 and 07/31 from 01/31/2014	**USD 13,000** 07/31/2020	3.90%	**12,333**	(979)				**11,354**		**11,354**
Private placement 2013-2025 Amplifon USA (*) Instalments at 01/31 and 07/31 from 01/31/2014	**USD 52,000** 07/31/2023	4.51%	**49,331**	(3,916)				**45,415**		**45,415**
Private placement 2013-2025 Amplifon USA (*) Instalments at 01/31 and 07/31 from 01/31/2014	**USD 50,000** 07/31/2025	4.66%	**47,434**	(3,766)				**43,668**		**43,668**
Banca Popolare di Sondrio 2016-2021 Amplifon SpA LT Revolving Credit Facility	**EUR 30,000** 12/22/2021	0.70%				30,000		**30,000**		**30,000**
Banca Popolare di Milano 2016-2021 Amplifon SpA LT Revolving Credit Facility	**EUR 30,000** 12/21/2021	0.75%				30,000		**30,000**		**30,000**
Unicredit Facility A amortizing Expiring 09/28/2023 Amplifon SpA Euribor 6m + margin grid Instalments every 6 months from 06/18/2019	**EUR 265,000** 09/28/2023	1.21%				265,000		**265,000**	**26,500**	**238,500**
Unicredit Facility B bullet Expiring 03/28/2020 extendable to 09/28/2023 Amplifon SpA Euribor 6m + margin grid	**EUR 265,000** 03/28/2020	0.56%				265,000		**265,000**		**265,000**
Unicredit bullet Expiring 09/28/2021 Amplifon SpA Euribor 6m +0.80%	**EUR 100,000** 09/28/2021	0.53%	**10,000**			90,000		**100,000**		**100,000**
Mediobanca bullet Expiring 03/22/2022 Amplifon SpA Euribor 6m +0.70%	**EUR 30,000** 03/22/2022	0.46%				30,000		**30,000**		**30,000**
HSBC amortizing Expiring 01/11/2022 Amplifon SpA Euribor 6m +0.70% Instalments every 6 months from 07/11/2019	**EUR 20,000** 01/11/2022	0.46%				20,000		**20,000**	**3,333**	**16,667**
BPM amortizing Expiring 10/31/2022 Amplifon SpA Euribor 6m +0.85% Instalments every 6 months from 04/30/2021	**EUR 50,000** 10/31/2022	0.85%	**5,000**			45,000		**50,000**		**50,000**
TOTAL LONG-TERM DEBT			**413,328**	**9,791**	**(275,000)**	**775,000**	**-**	**903,537**	**29,833**	**873,704**
Other			827	(827)			313	313	205	108
TOTAL			**414,155**	**8,964**	**(275,000)**	**775,000**	**313**	**903,850**	**30,038**	**873,812**

(*) 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 December 31st, 2018 based on the contractual obligations.

(€ thousands)	Private placement 2013-2025 (*)	Syndicated loan for the GAES acquisition	Bank loans	Other	Total
2019		26,500	3,333	205	**30,038**
2020	15,522	39,750	6,666	108	**62,046**
2021		39,750	191,666		**231,416**
2022		79,500	58,335		**137,835**
2023	46,566	344,500			**391,066**
2025	38,804				**38,804**
Total	**100,892**	**530,000**	**260,000**	**313**	**891,205**

(*) 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 US$ 200 million medium/long-term loans with top-tier banking institutions;
- the €195 million in irrevocable credit lines with top-tier banking institutions, of which €60 million had been utilized at December 31st, 2018.

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 recorded 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.

The syndicated loan granted for the GAES acquisition is subject to the following covenants:
- the ratio of net financial indebtedness to EBITDA recorded in the last four quarters (determined excluding the fair value of the share-based payments and based solely on recurring business and restated if the Group's structure should change significantly) must not exceed 4.0 through June 30th, 2019 and 3.5 in subsequent reporting periods;
- the ratio of EBITDA recorded in the last four quarters (determined excluding the fair value of the share-based payments and based solely on recurring business and restated if the Group's structure should change significantly) and net interest paid in the last 4 quarters must exceed 4.0. As this last covenant is more restrictive it also applied to the private placement.

As at December 31st, 2018 these ratios were as follows:

	Syndicated loan for the GAES acquisition	Private placement and other financial liabilities
Net financial indebtedness/Group net equity	3.11	3.37
Net financial position/EBITDA for the last 4 quarters	1.24	1.24
EBITDA for the last 4 quarters/Net financial expenses	20.41	18.81

The above-mentioned ratios were determined based on an EBITDA which was restated, in order to reflect the main changes in the Group structure. In accordance, furthermore, with the clauses of the loan agreement and the options exercised by the company relative to the calculations made at December 31st, 2018, the covenant indicators were determined based on the accounting standards in effect at December 31st, 2017 and specifically without applying IFRS 15.

(€ thousands)	Syndicated loan for the GAES acquisition	Private placement and other financial liabilities
Group EBITDA 2018	225,467	225,467
Impact due to the adoption of IFRS 15	7,417	7,417
Group EBITDA 2018 used as basis for the covenant calculation	232,884	232,884
Fair value of stock grant assignment	15,892	
EBITDA normalized (from acquisitions and disposals)	4,121	5,821
Acquisitions and non-recurring costs	17,444	10,444
EBITDA for the covenant calculation	270,341	249,149

The same agreements are also subject to other covenants applied in current international practice which limit the ability to issue guarantees and complete sales and lease backs, as well as extraordinary transactions involving the sale of assets.

The remaining €0.3 million in long term debt, including the short-term portion, is not subject to any covenants.

As at December 31st, 2018 based on the management expectations (3-year plan 2019-2021) there are not foreseeable circumstances for which covenants cannot be fulfilled.

The following table show the financial liabilities according to the accounting treatment applied:

(€ thousands)	12/31/2018		
	Amortized cost	Fair value Net Equity	Fair Value through P&L
Total non-current financial liabilities	872,669		
Total current financial liabilities	38,115		

(€ thousands)	12/31/2017		
	Amortized cost	Fair value Net Equity	Fair Value through P&L
Total non-current financial liabilities	123,990		
Total current financial liabilities	291,381		

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

(€ thousands)	12/31/2018	12/31/2017	Change
Product warranty provision	2,046	21,766	(19,720)
Contractual risk provision	2,614	2,310	304
Agents' leaving indemnity	38,528	38,495	33
Other risk provisions	4,855	2,819	2,036
Total	**48,043**	**65,390**	**(17,347)**

(€ thousands)	Net value as at 12/31/2017	Impact due to new accounting standards	Provision	Reversals	Utilization	Other net changes	Translation differences	Change in the consolidation area	Net value at 12/31/2018
Product warranty provision	21,766	(21,087)	996	(610)	-	43	-	937	2,046
Contractual risk provision	2,310	-	1,009	(485)	(220)	-	-	-	2,614
Agents' leaving indemnity	38,495	-	2,068	(1,831)	-	(1,460)	1,256	-	38,528
Other risk provisions	2,819	-	(137)	(1,717)	(216)	(5)	(41)	4,153	4,855
Total	**65,390**	**(21,087)**	**3,935**	**(4,641)**	**(436)**	**(1,422)**	**1,215**	**5,090**	**48,043**

The initial balance of provisions for risks and charges included €21,087 thousand for product warranties which in 2018, following adoption of IFRS 15, were classified as contract liabilities, recognized in a specific line of the financial statements, and calculated based on the criteria described in note 21 below.

The "Agents' leaving indemnity" comprises the agents' leaving indemnity provision recognized in Amplifon S.p.A.'s financial statements amounting to €11,071 thousand and equivalent provisions in the US and Belgian subsidiaries amounting to €27,241 thousand and €216 thousand, respectively.

The changes in the scope of consolidation are explained by the GAES acquisition.

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

	FY 2018
Economic assumptions	
Annual discount rate	1.13%
Demographic assumptions	
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

18. Liabilities for employees' benefits (medium/long-term)

(€ thousands)	12/31/2018	12/31/2017	Change
Defined-benefit plans	18,398	12,571	5,827
Other defined-benefit plans	1,855	4,146	(2,291)
Other provisions for personnel	37	-	37
Total	**20,290**	**16,717**	**3,573**

Provisions for defined-benefit plans include mainly the severance pay potentially owed by the Italian companies, as well as severance owed by the Swiss and French 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)	FY 2018
Net present value of the liability at the beginning of the year	**(12,571)**
Current service cost	(477)
Financial charges	(151)
Business combinations	(540)
Actuarial losses (gains)	(2,570)
Amounts paid	389
Reclassifications	(2,208)
Translation differences	(270)
Net present value of the liability at the end of the year	**(18,398)**

The current cost of severance indemnity is recognized under personnel expenses in the consolidated financial statements, while actuarial gains and losses are recognized in the statement of comprehensive income statement.

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

	FY 2018		
	Italy	**France**	**Switzerland**
Economic assumptions			
Annual discount rate	1.13%	1.50%	0.95%
Expected annual inflation rate	1.50%	1.50%	1.00%
Annual rate of increase of severance indemnity	2.63%	2.00%	2.00%
Demographic assumptions			
Mortality rate	RG48 mortality tables published by the General Accounting Office of the State	INSEE TD-TV 13-15 tables	BVG 2015 GT tables
Disability percentage	INPS tables divided by age and sex	N/A	BVG 2015 GT tables
Retirement age	100% on meeting the requirements for compulsory national social insurance	62 years	100% on meeting the age requirements (65m/64f)

	FY 2017		
	Italy	**France**	**Switzerland**
Economic assumptions			
Annual discount rate	0.88%	1.50%	0.70%
Expected annual inflation rate	1.50%	1.50%	1.00%
Annual rate of increase of severance indemnity	2.625%	2.00%	2.00%
Demographic assumptions			
Mortality rate	RG48 mortality tables published by the General Accounting Office of the State	INSEE TD-TV 13-15 tables	BVG 2015 GT *tables*
Disability percentage	INPS tables divided by age and sex	N/A	BVG 2015 GT *tables*
Retirement age	100% on meeting the requirements for compulsory national social insurance	62 years	100% on meeting the age requirements (65m/64f)

The sensitivity analysis performed shows that a change in the economic variables (detailed above) of 0.25% would have no material impact.

Provisions for other benefits are explained primarily by the Australian subsidiaries (€1,745 thousand) which have an obligation for those benefits that are recognized when a given job seniority is reached.

19. Other long-term liabilities

(€ thousands)	12/31/2018	12/31/2017	Change
Payables for business acquisitions	16,136	2,355	13,781
Other long-term debt	7,411	30,372	(22,961)
Total	**23,547**	**32,727**	**(9,180)**

Acquisition liabilities include the estimate of the contingent consideration (earn-out) to be paid long-term on acquisitions of companies and business units made mainly in Germany if certain sales and/or profit targets are reached and the put and call option valued at fair value regarding the purchase of the minority stake in Cohesion Hearing Science & Technology Co (China). This instrument is classified under class 2 of the fair value hierarchy.

Other long-term debt includes primarily the liabilities of reinsurance companies on lost & damage policies. Last year this item included the deferred income from after-sales services and warranties for a total amount of €25,963 thousand which this year, following adoption of IFRS 15, are classified as contract liabilities, recognized in a specific line of the financial statements, and calculated based on the criteria described in note 21 below.

The following tables show the long-term liabilities according to the accounting treatment applied:

		12/31/2018	
(€ thousands)	Amortized cost	Fair value Net Equity	Fair Value through P&L
Payable for business acquisition	3,634	12,502	
Other long-term debt	7,411		

		12/31/2017	
(€ thousands)	Amortized cost	Fair value Net Equity	Fair Value through P&L
Payable for business acquisition	2,355		
Other long-term debt	30,372		

20. Trade payables

(€ thousands)	12/31/2018	12/31/2017	Change
Trade payables – Associated companies	3	2	1
Trade payables – Joint ventures	146	252	(106)
Trade payables – Related parties	1,595	1,345	250
Trade payables – Third parties	171,905	135,802	36,103
Total	**173,649**	**137,401**	**36,248**

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

21. Contract liabilities

(€ thousands)	12/31/2018	12/31/2017	Change
Contract liabilities – Short-term	93,692	-	93,692
Contract liabilities – Long-term	118,791	-	118,791
Total	**212,483**	**-**	**212,483**

The change in this item is attributable entirely to first-time adoption of IFRS 15, based on which the Group used the modified retrospective approach and recognized €170,475 thousand in contract liabilities as of 1 January 2018.

The contract liabilities refer to deferred income for goods and services provided to customers over time (after sales services, extended warranties, material rights, batteries). These are recognized in the income statement based on the level to which the different contractual performance obligations have been satisfied.

The changes in contract liabilities in the year are shown below:

(€ thousands)	
Net value at 31/12/2017	-
Impact of first-time application of the standard at 1 January 2018	170,475
Increase linked to customer contracts	112,013
Revenues included in the opening balance	(102,226)
Business combinations	32,134
Currency translation differences and other net changes	87
Net value at 31/12/2018	**212,483**

The revenue recognized in 2018 stemming from fulfilled contractual obligations, included in the opening balance of contract liabilities at January 1st, 2018, amounted to €102,226 thousand.

More in detail, the contract liabilities that should be extinguished, resulting in the recognition of the revenue allocated, over the next 5 years are shown below:

Description	2019	2020	2021	2022	2023
Contract liabilities	93,369	61,565	32,203	16,178	9,167

For a description of the performance obligations relating to goods and services provided over time please refer to note 27.

22. Other payables

(€ thousands)	12/31/2018	12/31/2017	Change
Other payables	112,265	86,172	26,093
Accrued expenses and deferred income	5,988	20,163	(14,175)
Tax payables	32,496	26,237	6,259
Total other debt	**150,749**	**132,572**	**18,177**
Payables for business acquisitions	12,643	9,468	3,175
Total	**163,392**	**142,040**	**21,352**

The other payables mainly comprise: (i) €2,246 thousand relating to customer down-payments; (ii) €22,375 thousand relating to social security liabilities; (iii) €47,089 thousand relating to amounts owed personnel; and (iv) 21,619 thousand relating to commissions and bonuses payable to agents.

In 2017 accrued expenses and deferred income included €14,408 thousand relating to deferred income from after sales services, insurances and guarantees which in 2018, following adoption of IFRS 15, are classified as contract liabilities, recognized in a specific line of the financial statements, and calculated based on the criteria described in note 21 below.

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 Germany, France, Belgium, Canada and Spain (various acquisitions of companies and business units) and to the put and call option valued at fair value regarding the purchase of the minority stake in Medtechnica Ortophone Ltd (Israel). This instrument is classified under level 2 of the fair value hierarchy.

Tax payables include mainly: (i) €15,426 thousand in direct taxes; (ii) €7,043 thousand in withholding taxes; (iii) €10,001 thousand in VAT and other indirect taxes.

The following table show other payables according to the accounting treatment applied:

(€ thousands)	12/31/2018		
	Amortized cost	Fair value Net Equity	Fair Value through P&L
Other debts	150,749		
Payables for business acquisitions	9,627	3,016	

(€ thousands)	12/31/2017		
	Amortized cost	Fair value Net Equity	Fair Value through P&L
Other debts	132,572		
Payables for business acquisitions	9,468		

23. Provisions for risks and charges (current portion)

(€ thousands)	12/31/2018	12/31/2017	Change
Other provisions for risks	2,768	4,055	(1,287)
Total	**2,768**	**4,055**	**(1,287)**

The initial balance of provisions for risks and charges included €1,004 thousand for product warranties which in 2018, following adoption of IFRS 15, are classified as contract liabilities, recognized in a specific line of the financial statements, and calculated based on the criteria described in note 21 below.

The other provisions for risks include mainly the liabilities of reinsurance companies on lost & damage policies and the costs allocated for restoring premises to the original condition when leases expire.

24. Liabilities for employees' benefits (current portion)

(€ thousands)	12/31/2018	12/31/2017	Change
Liabilities for employees' benefits - current portion	476	851	(375)
Total	**476**	**851**	**(375)**

25. Short-term financial debt

(€ thousands)	12/31/2018	12/31/2017	Change
Bank current accounts	*981*	*727*	*254*
Short-term bank borrowings	*3,771*	*5,609*	*(1,838)*
Current Portion of Eurobond 2013-2018	-	*275,000*	*(275,000)*
Current portion of long-term debts	*30,087*	*496*	*29,627*
Current portion of debts vs. other institutions	*2,139*	*16*	*2,087*
Current portion of finance lease obligations	*837*	*1,080*	*(243)*
Payables to banks and other financing	37,815	282,928	(245,113)
Current portion of fees on loans	(2,268)	(281)	(1,987)
Short-term financial debt	11	660	(649)
Financial accrued expenses and deferred income	2,557	8,074	(5,517)
Total	**38,115**	**291,381**	**(253,266)**

For the current portion of medium and long-term loans refer to the note 16.

Accrued expenses and deferred income of €2,557 thousand relate primarily to the interest owed on the 2013-2025 private placement (€1,849 thousand) and other medium/long-term loans.

26. Deferred tax assets and liabilities

The net balance of deferred tax assets and liabilities at 31 December 2018 can be broken down as follows:

(€ thousands)	12/31/2018	12/31/2017	Change
Deferred tax assets	74,641	45,300	29,341
Deferred tax liabilities	(64,885)	(60,044)	(4,841)
Net position	**9,756**	**(14,744)**	**24,500**

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

(€ thousands)	Balance as at 12/31/2017	Value at January 1st, 2018 after first-time application of the standard	Recognized in P&L	Recognized in net equity	Businesses combinations and changes in consolidation area	Exchange differences and other changes	Balance as at 12/31/2018
Deferred tax on severance indemnity and pension funds	2,650	-	295	771	-	43	3,759
Deferred tax on tax losses carried forward	9,841	-	(574)	-	1,237	43	10,547
Deferred tax on tangibles, intangibles and goodwill	(49,710)	-	1,766	-	(4,789)	(359)	(53,092)
Deferred tax on trademarks and concessions	8,162	-	(306)	-	-	125	7,981
Deferred tax on other provisions	8,275	429	(670)	-	329	(83)	8,280
Deferred tax on contract liabilities and contract costs	-	19,878	(1,997)	-	5,706	74	23,661
Other deferred tax	6,038	-	(316)	320	2,836	(258)	8,620
Total	**(14,744)**	**20,307**	**(1,802)**	**1,091**	**5,319**	**(415)**	**9,756**

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

(€ thousands)	12/31/2018	12/31/2017	Change
Germany	9,138	9,649	(511)
Israel	141	192	(51)
Spain	1,268	-	1,268
Total	**10,547**	**9,841**	**706**

As at December 31st 2018, the following prior year losses did not originate deferred tax assets:

(€ thousands)	Prior year tax losses	Rate	Deferred tax assets not recognized in the accounts	Due date
Spain	13,793	25.0%	3,435	1-15 years
Portugal	6,059	21.0%	1,272	10 years
UK	70,550	17.0%	11,992	None
Ireland	826	12.5%	103	None
India	11,891	30.9%	3,674	3-11 years
Canada	11,390	26.5%	3,018	14-20 years
Poland	3,362	19.0%	639	1-7 years
Colombia	1,661	33.0%	548	None
Mexico	1,006	30.0%	302	10 years
Panama	224	25.0%	56	12 years
Total	**120,762**		**25,039**	

27. Revenues from sales and services

The following table shows the Group revenues details.

(€ thousands)	FY 2018	FY 2017	Change
Revenues from sale of products	1,199,226	1,223,948	(24,722)
Revenues from services	163,008	42,046	120,962
Total revenues from sales and services	**1,362,234**	**1,265,994**	**96,240**
Goods and services provided at a point in time	1,199,226	(*)	
Goods and services provided over time	163,008	(*)	
Total revenues from sales and services	**1,362,234**		

(*) The Amplifon Group has adopted the new accounting standard IFRS 15 by applying the modified retrospective approach which does not require the restatement of the comparison year. Therefore, the split is not provided for 2017.

The Amplifon Group adopted IFRS 15 as of January 1st, 2018. The standard introduced guidelines and examples that are much more detailed than the provisions found in prior standards relating to revenue and, in a few instances, it became necessary to change accounting standards which had been accepted and applied up until now. The application of the standard had an impact on the timing of revenue recognition and resulted in a few changes being made to the accounting of after sales services, extended warranties, material rights and accessories (passing from the recognition of accrued expenses to the deferment of revenues).

If the Group had not adopted IFRS 15, revenues from sales and services would have amounted to €1,372,730 thousand.

Excluding the impact of IFRS 15 adoption, revenues would have been up by €106,736 thousand explained for €89,014 thousand (+7.0%) by organic growth, including the contribution of the newly opened stores, reached and for €45,369 thousand (+3.6%) by acquisitions, net of the Direito de Ouvir Amplifon Brasil SA disposal, while the foreign exchange differences had a negative effect of €27,647 thousand (-2.2%).

The main goods and services provided by the Amplifon Group, as well as the nature and terms for fulfillment of the performance obligations, are described below.

Goods and services	Nature and fulfillment terms
Hearing aid and fitting	Part of a single and inseparable performance obligation, comprised of the hearing aid, fitting and personalization of the solution using computerized systems to satisfy each person's needs. The Group recognized the relative revenue when the fitting has been completed or at the end of the trial period, when provided.
Other goods	Batteries, cleaning kits, and other accessories. The Group recognizes the revenue relative to other goods when the goods are transferred, which can happen at the time of sale (ex. batteries, cleaning kits and other accessories) or over time.
After sales services	After sales services include: - Cleaning, regulation and revision of the hearing aid; - Periodic hearing tests; - Post – sales assistance; The Group recognizes the revenue generated by after sales services over the life of the contract, generally 4-5 years. The amount of the revenue recognized based on the input method.
Extended warranties	Extended warranties are provided in addition to mandatory warranties that the supplier must provide. The Group recognizes the revenue from extended warranties in equal amounts over the duration of the extension.
Material rights	Material rights include, for example, discounts of future purchases or loyalty points. The Group recognizes the revenue from material rights when the rights are exercised by the customer or when the probability that the customer exercises the remaining rights is remote.

The following table shows the deferred revenues of goods and services transferred during time which will be realized in the following 5 years and are included in the short and long-term contract costs liabilities as at December 1st, 2018.

Description	2019	2020	2021	2022	2023
Revenues for goods and services provided over time	93,369	61,565	32,203	16,178	9,167

The services rendered over time refer mainly to after sales services, extended warranties, material rights and batteries (if delivered over time).

28. Operating costs

(€ thousands)	FY 2018	FY 2017	Change
Cost of raw materials, consumables and supplies and change in inventories of raw materials, consumables and supplies	(282,401)	(269,988)	(12,413)
Personnel expenses – Points of sale	(264,758)	(239,009)	(25,749)
Commissions – Points of sale	(96,718)	(90,664)	(6,054)
Rental costs – Points of sale	(68,437)	(64,506)	(3,931)
Total	**(712,314)**	**(664,167)**	**(48,147)**
Other personnel expenses	(165,513)	(159,015)	(6,498)
Other rental costs	(6,297)	(6,494)	197
Other costs for services	(249,129)	(228,483)	(20,646)
Total other operating costs	**(420,939)**	**(393,992)**	**(26,947)**
Total operating costs	**(1,133,253)**	**(1,058,159)**	**(75,094)**

The operating costs for 2018 include non-recurring costs linked to the GAES acquisition of €2,193 thousand, while the balance for 2017 included €4,992 thousand in non-recurring expenses incurred to integrate the AudioNova businesses acquired in France and Portugal.

The application of IFRS 15 led to the suspension in the items "Assets for short and long-term deferred contractual costs", "Other Assets" and "Other Receivables" of operating costs for a total value of Euro 3,079 thousand.

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

(€ thousands)	FY 2018	FY 2017	Change
Wages and salaries	(324,300)	(298,321)	(25,979)
Stock options and performance stock grant	(15,892)	(16,394)	502
Social contributions	(69,708)	(61,809)	(7,899)
Other personnel costs	(19,084)	(20,209)	1,125
Directors' remuneration and oversight bodies	(1,287)	(1,291)	4
Total	**(430,271)**	**(398,024)**	**(32,247)**

Staff headcount by geographic area

	12/31/2018		12/31/2017	
	Number	Average	Number	Average
Italy	504	520	480	465
France	1.249	1.186	1.133	1.015
Switzerland	281	227	288	272
Hungary	182	216	178	163
Germany	1.689	1.465	1.453	1.312
Iberian Peninsula	2.233	2.171	543	523
Belgium and Luxemburg	168	274	152	148
The Netherlands	754	694	691	691
Poland	151	163	141	136
United Kingdom and Ireland	433	422	500	505
Israel	192	204	197	200
Turkey	76	72	73	70
Egypt	174	169	171	168
Total EMEA	**8.086**	**7.783**	**6.000**	**5.668**
USA and Canada	465	453	364	375
Brazil	-	-	40	42
Argentina	87	87	-	-
Chile	112	112	-	-
Ecuador	48	48	-	-
Panama	4	4	-	-
Colombia	26	26	-	-
Mexico	33	33	-	-
Total Americas	**775**	**763**	**404**	**417**
Australia	965	935	950	877
New Zealand	439	403	391	369
India	401	452	385	340
Singapore	2	2	2	1
China	97	97	-	-
Total Asia Pacific	**1.904**	**1.889**	**1.728**	**1.587**
Total Group	**10.765**	**10.435**	**8.132**	**7.672**

29. Other income and costs

(€ thousands)	FY 2018	FY 2017	Change
Other income and costs	(3,514)	4,656	(8,170)
Total	**(3,514)**	**4,656**	**(8,170)**

Other income and costs for 2018 includes non-recurring costs linked to the GAES acquisition of €6,264 thousand, net of which the balance would be positive for €2,750 thousand due mainly to the impact of a few deferred payments for acquisitions which were not made.

30. Depreciation and amortization

(€ thousands)	FY 2018	FY 2017	Change
Amortization of intangible fixed assets	*(36,973)*	*(30,899)*	*(6,074)*
Depreciation of tangible fixed assets	*(34,343)*	*(30,788)*	*(3,555)*
Amortization and depreciation	(71,316)	(61,687)	(9,629)
Impairment	(841)	(1,127)	286
Total	**(72,157)**	**(62,814)**	**(9,343)**

In the prior year "Impairment" included €214 thousand in non-recurring items relating to the write-downs of assets pertaining to the AudioNova stores closed as part of the restructuring process.

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

(€ thousands)	FY 2018	FY 2017	Change
Proportionate share of the result of associated companies valued at equity	**426**	**500**	**(74)**
Other income, charges, revaluation and write-downs of financial assets	**44**	**2**	**42**
Interest income on bank accounts	499	572	(73)
Interest expenses on short and long-term bank loans	(13,744)	(18,766)	5,022
Interest income and expenses	**(13,245)**	**(18,194)**	**4,949**
Other financial income and charges	**(925)**	**(1,090)**	**165**
Exchange gains	817	1,575	(758)
Exchange losses	(1,681)	(2,267)	586
Gain/(losses) on financial assets at fair value – Non-hedge accounting derivatives	(170)	144	(314)
Exchange differences and non-hedge accounting derivatives	**(1,034)**	**(548)**	**(486)**
Total	**(14,734)**	**(19,330)**	**4,596**

Interest payable on financial indebtedness amounted to €13,744 thousand at 31 December 2018, versus €18,766 thousand at December 31st, 2017. The decrease in interest payable is explained by the repayment of €275 million Eurobond on July 16th, 2018: the medium-long term bank debt used to refinance the latter, as well as the debt utilized at December 18th, 2018 used to finance the GAES Group acquisition, was granted at rates that are significantly better than those of the Eurobond.

Interest receivable on bank deposits came to €499 thousand at December 31st, 2018, versus €572 thousand at 31 December 2017.

"Interest expenses on short and long-term bank loans" includes €649 thousand in non-recurring expenses relating to the GAES acquisition.

"Other financial income and charges" includes €880 thousand (€881 thousand in 2017) relating to the cost of factoring without recourse of receivables in Italy, the Netherlands and Belgium.

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:

The Amplifon Group's exposure to changes in interest rates is mitigated significantly by the fact that a large part of the medium/long-term debt is fixed rate as a result of interest rate hedges.

More in detail:

- as a result of swaps, the Euro interest rate on the different tranches of the US$ 130 million 2013-2025 private placement is 3.9% (average rate);
- as a result of hedges, the average rate on the loans granted by UniCredit (€100 million), Banco BPM (€50 million), HSBC (€20 million) and Mediobanca (€30) is 0.903%;
- as a result of the IRS completed on 4 January 2019, effective 18 June 2019, the €265 million Facility A of the GAES loan, is hedged at an end rate of 1.582%. The rate is set at 1.21% through 17 June 2019.

The impact on the income statement of plausible changes in interest rates, calculated based on the figures found in the consolidated financial statements at December 31st, 2018, is shown below.

(€ thousands)

FY 2018	Note	Balance at 12/31/2018	Increase/decrease in interest rates (in %)	Impact on profit before tax
Current assets				
Bank current accounts and short-term bank deposits	13	88,442	1%	884
Current liabilities				
Bank current accounts	25	(981)	1%	(10)
Short-term bank borrowings	25	(3,771)	1%	(38)
Medium/Long-term liabilities				
Facility B	16	(265,000)	1%	(2,650)
LT Revolving credit facility – Banco BPM	16	(30,000)	1%	(300)
LT Revolving credit facility - Banca Popolare di Sondrio	16	(30,000)	1%	(300)
Total impact on profit before tax				**(2,414)**
Current assets				
Bank current accounts and short-term bank deposits	13	88,442	-0.25%	(221)
Current liabilities				
Bank current accounts	25	(981)	-0.8%	8
Short-term bank borrowings	25	(3,771)	-0.25%-0.8%	21
Medium/Long-term liabilities				
Facility B	16	(265,000)	-0.25%	663
LT Revolving credit facility - Banco BPM	16	(30,000)	-0.25%	75
LT Revolving credit facility - Banca Popolare di Sondrio	16	(30,000)	-0.25%	75
Total impact on profit before tax				**621**

(€ thousands)

2017	Note	Balance at 12/31/2017	Increase/decrease in interest rates (in %)	Impact on profit before tax
Current assets				
Bank current accounts and short-term bank deposits	**13**	122,922	1.00%	1,300
Current liabilities				
Bank current accounts	**25**	(727)	1.00%	(13)
Short-term bank borrowings	**25**	(5,609)	1.00%	(369)
Total impact on profit before tax				**918**
Current assets				
Bank current accounts and short-term bank deposits	**13**	122,922	-0.80%	(319)
Current liabilities				
Bank current accounts	**25**	(727)	-0.80%	6
Short-term bank borrowings	**25**	(5,609)	-0.80%	45
Total impact on profit before tax				**(268)**

In light of interest rate levels at 31 December 2018 (ECB Euro Rate of 0.0%), sensitivity analysis takes two scenarios into account: an upside of 1% and a downside of -0.25% for the Euro zone, while specific considerations have been made for the remaining countries applying a rate of -0.8%.

Currency risk - sensitivity analysis:

The US$ 130 million 2013-2015 private placement is hedged against currency risk. More specifically, as a result of hedges the Group set the Euro/Dollar exchange rate for the duration of the loan. Therefore, it is reasonable to assume that any change in exchange rates will not have a significant impact on the income statement as the currency positions and the hedges will automatically show changes of equal amounts but of the opposite sign.

Similar considerations may be made with regard to 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, between American and Canadian companies, as well as the loan granted by GAES SA to its Mexican and Colombian subsidiares 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.

32. Income taxes

(€ thousands)	FY 2018	FY 2017	Change
Current income tax	(36,364)	(44,765)	8,401
Deferred income tax	(1,802)	14,896	(16,698)
Total	**(38,166)**	**(29,869)**	**(8,297)**

(€ thousands)	FY 2018	FY 2017	Change
Profit (loss) before tax	138,576	130,347	8,229
Tax for the year	(38,166)	(29,869)	(8,297)
Tax rate	**-27.5%**	**-22.9%**	**-4.6%**

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

(€ thousands)	December 2018 Tax effect	%	December 2017 Tax effect	%
Reconciliation with the effective tax rate				
Effective tax/effective tax rate	**38,166**	**27.5%**	**29,869**	**22.9%**
Non-recognition of deferred taxes on the year's losses and earnings which were not taxed due to carried forward tax losses	2,810	2.0%	(2,315)	-1.8%
Recognition of tax assets from prior years and write-down of previously recorded tax assets	-	-	5,039	3.9%
Patent Box incentive	2,520	1.8%	5,918	4.5%
Effect of companies taxed in countries other than Italy	(4,527)	-11.9%	(8,497)	-6.5%
Deferred tax: change in rates and correction of errors	(547)	-0.4%	9,449	7.2%
Non-deductible expense net of non-taxable income	(2,829)	-7.4%	(2,572)	-2.0%
Effective tax rate net of IRAP and CVAE	**35,594**	**25.7%**	**36,891**	**28.3%**
IRAP, CVAE and other taxes not tied to income tax	(2,335)	-1.7%	(5,608)	-4.3%
Effective tax/theoretical tax rate	**33,259**	**24.0%**	**31,283**	**24.0%**

The Group's tax rate came to 27.5% compared to 22.9% in the prior year. The figure posted in the comparison period benefitted from (i) a one-off tax gain of €9,604 thousand relating to deferred taxation in the United States as a result of tax reform which lowered the tax rate from 35% to 21% and (ii) the tax benefit of €2,709 thousand recognized for the period 2015-2016 as a result of the incentives applied pursuant to the Patent Box regime, without which the tax rate would have been 32.4%.

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

Stock Option Plan of September 30th, 2005						
	FY 2018			FY 2017		
	No. of options	Strike price (€)	Market Price (€)	No. of options	Strike price (€)	Market Price (€)
Option rights at January 1st	**8,333**	**5.697**	**12.84**	**16,667**	**5.697**	**9.05**
(Option rights exercised in the period)	8,333	5.697	12.96 (*)	8,334	5.697	9.69 (*)
(Option rights cancelled in the period)	-	-	-	-	-	-
(Option rights expired in the period)	-	-	-	-	-	-
Option rights at December 31st	**-**	**-**	**-**	**8,333**	**5.697**	**12.84**
of which exercisable at December 31st	-			*8,333*		

(*) Average weighted market price during the yearly periods.

B) 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 December 16th, 2010						
	FY 2018			FY 2017		
	No. of options	Strike price (€)	Market Price (€)	No. of options	Strike price (€)	Market Price (€)
Option rights at January 1st	**10,040**	**3.746**	**12.84**	**35,151**	**3.746**	**9.05**
(Option rights exercised in the period)	10,040	3.746	14.02 (*)	15,111	3.746	12.18 (*)
(Option rights cancelled in the period)	-	-	-	-	-	-
(Option rights expired in the period)	-	-	-	10,000	-	-
Option rights at December 31st	**-**	**-**	**-**	**10,040**	**3.746**	**12.84**
of which exercisable at December 31st				*10,040*		

(*) Average weighted market price during the yearly periods.

C) 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 April 19th, 2011					
	FY 2018			FY 2017		
	No. of options	Strike price (€)	Market Price (€)	No. of options	Strike price (€)	Market Price (€)
Option rights at January 1st	**40,000**	**4.227**	**12.84**	**70,000**	**4.227**	**9.05**
(Option rights exercised in the period)	5,000	4.227	14.58 (*)	30,000	-	10.48 (*)
(Option rights cancelled in the period)	-	-	-	-	-	-
(Option rights expired in the period)	-	-	-	-	-	-
Option rights at December 31st	**35,000**	**4.227**	**14.05**	**40,000**	**4.227**	**12.84**
of which exercisable at December 31st	*35,000*			*40,000*		

(*) Average weighted market price during the yearly periods.

Residual life of awarded stock options

Options assigned up to 12/31/2017							
		Residual life				Exercisable	
Strike price	Awarded on	< 1 year	1-5 years	5-10 years	Total	Number of shares	Average expiring date
4.227	04/19/2011	35,000	-	-	35,000	35,000	1 year
Total		**35,000**	**-**	**-**	**35,000**	**35,000**	

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 assigned on March 15th, 2012

Stock grant March 15th, 2012				
	FY 2018		FY 2017	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**33,500**	**12.84**	**247,793**	**9.05**
(Rights converted in the period)	30,500	14.67 (*)	214,293	11.07 (*)
(Rights cancelled in the period)	3,000	-	-	-
Option rights at December 31st	**-**	**-**	**33,500**	**12.84**

(*) Average weighted market price during the yearly periods.

B) Stock grant assigned on May 2nd, 2013

Stock grant May 2nd, 2013				
	FY 2018		FY 2017	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**374,000**	**12.84**	**1,296,750**	**9.05**
(Rights converted in the period)	138,750	16.93 (*)	899,375	12.439 (*)
(Rights cancelled in the period)	-	-	23,375	-
Option rights at December 31st	**235,250**	**14.05**	**374,000**	**12.84**

(*) Average weighted market price during the yearly periods.

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 3-year business targets;
  - Cluster 2: level of the Individual Performance of the Beneficiary is 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 S.p.A. 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 2018.

A) Stock grant assigned on April 28th, 2014

Stock grant April 28th, 2014				
	FY 2018		FY 2017	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**734,680**	**12.84**	**2,014,800**	**9.05**
Rights - Upside	-		305,500	
(Rights converted in the period)	438,378	16.25 (*)	1,552,787	12.42 (*)
(Rights cancelled in the period)	-	-	32,833	-
Option rights at December 31st	**296,302**	**14.05**	**734,680**	**12.84**

(*) Average weighted market price during the yearly periods.

B) Stock grant assigned on April 29th, 2015

Stock grant April 29th, 2015				
	FY 2018		FY 2017	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**2,015,073**	**12.84**	**2,219,540**	**9.05**
Rights - Upside	143,750			-
(Rights assigned in the period)	-	-	-	-
(Rights converted in the period)	1,405,090	17.81 (*)	7,500	12.00 (*)
(Rights cancelled in the period)	24,700	-	196,967	-
Option rights at December 31st	**729,033**	**14.05**	**2,015,073**	**12.84**

(*) Average weighted market price during the yearly periods.

C) Stock grant assigned on October 22nd, 2015

Stock grant October 22nd, 2015				
	FY 2018		FY 2017	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**190,500**	**12.84**	**190,500**	**9.05**
Rights - Upside	7,500			
(Rights assigned in the period)	-	-	-	-
(Rights converted in the period)	110,000	18.02 (*)	-	-
(Rights cancelled in the period)	-	-	-	-
Option rights at December 31st	**88,000**	**14.05**	**190,500**	**12.84**

(*) Average weighted market price during the yearly periods.

D) Stock grant assigned on April 27th, 2016

Stock grant April 27th, 2016 – General rules				
	FY 2018		FY 2017	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**1,660,834**	**12.84**	**1,896,000**	**9.05**
(Rights assigned in the period)	-	-	-	-
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	80,867	-	235,166	-
Option rights at December 31st	**1,579,967**	**14.05**	**1,660,834**	**12.84**

(*) Average weighted market price during the yearly periods.

Stock grant April 27th, 2016 – French rules				
	FY 2018		FY 2017	
	N. rights granted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**65,000**	**12.84**	**65,000**	**9.05**
(Rights assigned in the period)	-	-	-	-
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	2,000	-	-	-
Option rights at December 31st	**63,000**	**14.05**	**65,000**	**12.84**

E) Stock grant assigned on October 26th, 2016

Stock grant October 26th, 2016 – General rules				
	FY 2018		**FY 2017**	
	N. rights granted	**Market Price (€)**	**N. rights granted**	**Market Price (€)**
Option rights at January 1st	**258,000**	**12.84**	**289,500**	**9.05**
(Rights assigned in the period)	-	-	-	-
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	30,000	-	31,500	-
Option rights at December 31st	**228,000**	**14.05**	**258,000**	**12.84**

Stock grant October 26th, 2016 – French rules				
	FY 2018		**FY 2017**	
	N. rights granted	**Market Price (€)**	**N. rights granted**	**Market Price (€)**
Option rights at January 1st	**40,000**	**12.84**	**40,000**	**9.05**
(Rights assigned in the period)	-	-	-	-
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)		-	-	-
Option rights at December 31st	**40,000**	**14.05**	**40,000**	**12.84**

F) Stock grant assigned on April 27th, 2017

Stock grant April 27th, 2017 – General rules				
	FY 2018		**FY 2017**	
	N. rights granted	**Market Price (€)**	**N. rights granted**	**Market Price (€)**
Option rights at January 1st	**1,778,050**	**12.84**		
(Rights assigned in the period)	-	-	1,829,950	11.85
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	139,150	-	51,900	-
Option rights at December 31st	**1,638,900**	**14.05**	**1,778,050**	**12.84**

Stock grant April 27th, 2017 – French rules				
	FY 2018		**FY 2017**	
	N. rights granted	**Market Price (€)**	**N. rights granted**	**Market Price (€)**
Option rights at January 1st	**77,000**	**12.84**	**-**	**-**
(Rights assigned in the period)	-	-	85,000	11.85
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	15,000	-	8,000	-
Option rights at December 31st	**62,000**	**14.05**	**77,000**	**12.84**

G) Stock grant assigned on October 25th, 2017

Stock grant October 25th, 2017 – General rules				
	FY 2018		FY 2017	
	N. rightsgranted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**119,000**	**12.84**	**-**	**-**
(Rights assigned in the period)	-	-	119,000	12.37
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	14,000	-	-	-
Option rights at December 31st	**105,000**	**14.05**	**119,000**	**12.84**

Stock grant October 25th, 2017 – General rules				
	FY 2018		FY 2017	
	N. rightsgranted	Market Price (€)	N. rights granted	Market Price (€)
Option rights at January 1st	**3,000**	**12.84**	**-**	**-**
(Rights assigned in the period)	-	-	3,000	12.37
(Rights converted in the period)	-	-	-	-
(Rights cancelled in the period)	-	-	-	-
Option rights at December 31st	**3,000**	**14.05**	**3,000**	**12.84**

H) Stock grant assigned on May 2nd, 2018

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

	Assignment – General Rules	Assignment – French Rules
Model used	Binomial (Cox-Ross-Rubinstein method)	
Price at grant date	15.50 €	
Threshold	10 €	
Exercise Price	0.00	
Volatility	23.33% (6 years)	22.79% (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 12/31/2020 (i.e. June 2021)	
Expected Dividend Yield	0.86%	

Stock grant May 2nd, 2018 – General rules		
	FY 2018	
	N. rights granted	Market Price (€)
Option rights at January 1st	-	-
Rights granted in the period	1,294,850	15.50
(Rights converted in the period)	-	-
(Rights cancelled in the period)	50,050	-
Option rights at December 31st	**1,244,800**	**14.05**

Stock grant May 2nd, 2018 – French rules		
	FY 2018	
	N. rights granted	Market Price (€)
Option rights at January 1st	-	-
Rights granted in the period	27,300	15.50
(Rights converted in the period)	-	-
(Rights cancelled in the period)	-	-
Option rights at December 31st	**27,300**	**14.05**

l) Stock grant assigned on October 30th, 2018

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

	Assignment – General Rules	Assignment – French Rules
Model used	Binomial (Cox-Ross-Rubinstein method)	
Price at grant date	16.27 €	
Threshold	10 €	
Exercise Price	0.00	
Volatility	22.97% (6 years)	23.35% (3 years)
Risk free interest rate	0.470%	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 12/31/2020 (i.e. June 2021)	
Expected Dividend Yield	0.86%	

Stock grant October 30th, 2018 – General rules		
	FY 2018	
	N. rights granted	Market Price (€)
Option rights at January 1st	-	-
Rights granted in the period	95,100	16.27
(Rights converted in the period)	-	-
(Rights cancelled in the period)	-	-
Option rights at December 31st	**95,100**	**14.05**

Stock grant October 30th, 2018 – French rules		
	FY 2018	
	N. rights granted	Market Price (€)
Option rights at January 1st	-	-
Rights granted in the period	7,700	16.27
(Rights converted in the period)	-	-
(Rights cancelled in the period)	-	-
Option rights at December 31st	**7,700**	**14.05**

Residual life of the awarded stock grants

		Rights assigned up to 12/31/2018					
		Vesting				Exercise	
Plans	**Assignment date**	**< 1 year**	**1-5 years**	**5-10 years**	**Total**	**N. of rights**	**Average expiring date**
Performance Stock Grant 2011 - 2020	05/02/2013					235,250	1 year
New Performance Stock Grant 2014 - 2021	04/28/2014					296,302	1 year
	04/29/2015					729,033	2 years
	10/22/2015					88,000	2 years
	04/27/2016	1,642,967			1,642,967		
	of which General Rules	*1,579,967*			*1,579,967*		
	of which French Rules	*63,000*			*63,000*		
	10/26/2016	268,000			268,000		
	of which General Rules	*228,000*			*228,000*		
	of which French Rules	*40,000*			*40,000*		
	04/27/2017		1,700,900		1,700,900		
	of which General Rules		*1,638,900*		*1,638,900*		
	of which French Rules		*62,000*		*62,000*		
	10/25/2017		108,000		108,000		
	of which General Rules		*105,000*		*105,000*		
	of which French Rules		*3,000*		*3,000*		
	05/02/2018		1,272,100		1,272,100		
	of which General Rules		*1,244,800*		*1,244,800*		
	of which French Rules		*27,300*		*27,300*		
	10/30/2018		102,800		102,800		
	of which General Rules		*95,100*		*95,100*		
	of which French Rules		*7,700*		*7,700*		
	Total	**1,910,967**	**3,183,800**		**5,094,767**	**1,348,585**	

The figurative cost of the stock grants for the period is €15,892 thousand.

34. 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 (as a reference please consider the annex regarding the consolidation area). The figures are shown before intragroup eliminations.

(€ thousands)	12/31/2018	12/31/2017
Non-current assets	2,244	1,070
Current assets	3,688	3,440
Non-current liabilities	392	291
Current liabilities	3,004	3,376
Revenues	5,234	8,357
Net profit (loss) for the year	(67)	(203)
Dividends paid to minorities	94	-
Net financial positions	73	(1,269)
Cash flows	76	-

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)	12/31/2018	12/31/2017
Non-current assets	1,890	1,255
Current assets	6,025	5,675
Non-current liabilities	208	208
Current liabilities	3,483	2,837
Revenues	9,629	8,845
Amortization, depreciation and impairment	(384)	(359)
Interest income and charges	(33)	(68)
Net profit (loss)	1,093	1,009
Net financial position	2,122	2,136
Cash flows	68	908

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 (matching values):

(€ thousands)	12/31/2018	12/31/2017
Net equity of joint-ventures	4,223	3,885
% held	50%	50%
Book value	2,111	1,943

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

(€ thousands)	12/31/2018	12/31/2017
Book value	-	21
Non-current assets	43	57
Current assets	45	134
Non-current liabilities	76	3
Current liabilities	193	222
Revenues	131	355
Net profit (loss)	-	(29)

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

35. Earnings (loss) 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 2018	FY 2017
Net profit (loss) attributable to ordinary shareholders (€ thousand)	100,443	100,578
Average number of shares outstanding in the year	219,758,444	219,095,844
Average earnings per share (€ per share)	0.45706	0.45906

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.

Weighted average diluted number of shares outstanding	FY 2018	FY 2017
Average number of shares outstanding in the year	219,758,444	219,095,844
Weighted average of potential and diluting ordinary shares	4,439,021	5,525,800
Weighted average of shares potentially subject to options in the period	224,197,465	224,621,644

The diluted earnings per share was determined as follows:

Diluted earnings per share	FY 2018	FY 2017
Net profit attributable to ordinary shareholders (€ thousands)	100,443	100,578
Average diluted number of outstanding shares	224,197,465	224,621,644
Average diluted earnings per share (€)	0.44801	0.44779

36. 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 which is owned through a majority stake (93.82% as at 12/31/2018) by Amplifin S.p.A. which is fully controlled 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)	12/31/2018						FY 2018		
	Trade receivables	**Trade payables**	**Other receivables**	**Other payables**	**Other assets**	**Financial liabilities**	**Revenues for sales and services**	**Operating costs**	**Interest income and expenses**
Amplifin S.p.A.	276		1,172	232				(2,194)	52
Total – Parent Company	**276**	**-**	**1,172**	**232**	**-**	**-**	**-**	**(2,194)**	**52**
Comfoor BV (The Netherlands)	2	147					10	(3,080)	
Comfoor GmbH (Germany)		3						(35)	
Auditiva 2014 S.A. (Andorra)	185								
Beijing Cohesion Hearing Science &Technology Co. Ltd. (China)						200			
Ruti Levinson Institute Ltd (Israel)	237						216		
Afik - Test Diagnosis & Hearing Aids Ltd (Israel)	97				20		395	(21)	1
Total – Other related parties	**521**	**150**	**-**	**-**	**20**	**200**	**621**	**(3,136)**	**1**
Bardissi Import (Egypt)		370				49		(985)	
Meders (Turkey)		1,222						(967)	
Nevo (Israel)	54							(34)	
Ortophone (Israel)	1							(312)	
Moti Bahar (Israel)								(272)	
Asher Efrati (Israel)								(210)	
Arigcom (Israel)		7						(75)	
Tera (Israel)					1			(55)	1
Total – Other related parties	**55**	**1,599**	**-**	**-**	**1**	**49**	**-**	**(2,910)**	**1**
Total	**852**	**1,749**	**1,172**	**232**	**21**	**249**	**621**	**(8,240)**	**54**
Total as per financial statement	**169,454**	**173,649**	**75,387**	**150,749**	**60,679**	**38,115**	**1,362,234**	**(1,133,253)**	**(13,245)**
% of financial statement total	**0.50%**	**1.01%**	**1.55%**	**0.15%**	**0.03%**	**0.65%**	**0.05%**	**0.73%**	**-0.41%**

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

- amounts payable by Amplifin S.p.A. for the recovery of maintenance costs and condominium fees;
- amounts payable by Amplifin S.p.A. for the relative portion of costs pertaining to the restructuring of the headquarters calculated based on modern and efficient usage fees for the working spaces;
- trade receivables payable by affiliate companies (primarily in Israel) acting as resellers to which the Group supplies hearing aids.

The trade payable and operating costs refer mainly to:

- commercial transactions with Comfoor BV and Comfoor GmbH, a joint venture 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 that belong to minority shareholders) in these countries. These companies are hearing aid distributors in the above-mentioned countries. 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 shareholder Moti Bahar e Asher Efrati, as well as rents, administrative and commercial services by Ortophone (Israel).

The other payables refer to withholding tax on foreign income made by Amplifon S.p.A. during the period when the tax consolidation agreement was still in effect (2014 – 2016) and not recovered by the consolidator Amplifin S.p.A. In accordance with TUIR, the tax credit was reallocated to Amplifon S.p.A. upon termination of the tax consolidation agreement.

Financial transactions refer primarily to a short-term liability payable to the minority shareholder in China, a loan granted to the Group's company in Egypt by the minority shareholder and long-term receivable owed by Tera (Israel).

Other related parties

The total remuneration of Group Directors, statutory auditors and Key Managers (including of subsidiaries) for the period amounted to €11,632 thousand as shown below:

(€ thousands)

First Name and Surname	Office Held	Period in which the office has been held	Term of office ends upon	Fixed com-pens.	Com-mittee atten-dance fees	Non-equity variable com-pensation		Fringe bene-fit.	Tot.	FV equity com-pen.	Termi-nation allowance	Non-com-pete agre-ement	Total
						Bo-nuses and other incen-tives	Profit sha-ring						
Susan Carol Holland	Chairman	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	300	-	-	-	4	304	-	-	-	**304**
Enrico Vita	CEO	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	400	-	-	-	-	400	-	-	-	**2,918**
	Managing Director	Permanent		752	-	718	-	30	1,500	1,018	-	-	
Andrea Casalini	Indep. Director	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	55	30		-	-	85	-	-	-	**85**
Alessandro Cortesi	Indep. Director	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	55	25	-	-	-	80	-	-	-	**80**
Maurizio Costa	Indep. Director	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	55	30	-	-	-	85	-	-	-	**85**
Laura Donnini	Indep. Director	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	55	35	-	-	-	90	-	-	-	**90**
Maria Patrizia Grieco	Indep. Director	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	55	20	-	-	-	75	-	-	-	**75**
Lorenzo Pozza	Indep. Director	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	55	45	-	-	-	100	-	-	-	**100**
Giovanni Tamburi	Indep. Director	01/01/2018 - 31/12/2018	Approval 2018 financ. stat	55	-	-	-	-	55	-	-	-	**55**
Raffaella Pagani	Chairman of the Board of Auditors	01/01/2018 - 31/12/2018	Approval 2020 financ. stat	60	-	-	-	-	60	-	-	-	**60**
Emilio Fano	Standing Auditor	01/01/2018 - 31/12/2018	Approval 2020 financ. stat	40	-	-	-	-	40	-	-	-	**40**
Maria Stella Brena	Standing Auditor	01/01/2018 - 31/12/2018	Approval 2020 financ. stat	40	-	-	-	-	40	-	-	-	**40**
Total				**1,977**	**185**	**718**	**-**	**34**	**2,914**	**1,018**	**-**	**-**	**3,932**
Others (Key managers) A. Bonacina G. Chiesa (1) C. Finotti G. Galli M.Gerli (2) M. Lundeberg F. Morichini I. Pazzi G. Pizzini C. Stevens			Permanent	2,766	-	2,036	-	373	5,175	1,670	855	-	**7,700**
Total				**4,743**	**185**	**2,754**	**-**	**407**	**8,089**	**2,688**	**855**	**-**	**11,632**

(1) Employment started on 1 March 2018.

(2) Employment ended on 28 February 2018.

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

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 04/29/2015							
		New Performance Stock Grant 04/27/2016	120,000	June 2019					
		New Performance Stock Grant 04/27/2017	120,000	June 2020					
		New Performance Stock Grant 05/02/2018			140,000	14.47	June 2021	5/2/2018	15.5
Total			**240,000**		**140,000**				
Other key managers: A. Bonacina G. Chiesa (1) C. Finotti G. Galli M. Gerli (2) M. Lundeberg F. Morichini I. Pazzi G. Pizzini C. Stevens		New Performance Stock Grant 04/28/2014							
		New Performance Stock Grant 04/29/2015							
		New Performance Stock Grant 10/22/2015							
		New Performance Stock Grant 04/27/2016	165,000	June 2019					
		New Performance Stock Grant 04/27/2017	245,000	June 2020					
		New Performance Stock Grant 10/25/2017	30,000	June 2020					
		New Performance Stock Grant 05/02/2018			211,000	14.47	June 2021	5/2/2018	15.5
Total other key managers			**440,000**		**211,000**				
Grand Total			**680,000**		**351,000**				

* Weighted average of the market price of the underlying shares at the exercise date.
(1) Employment started on 1 March 2018.
(2) Employment ended on 28 February 2018.

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 2018 (Euro/000)
	Vested financial instruments not exercised	Vested financial instruments exercised	Num. of financial instruments	Market price at exercise date		
		150,000			150,000	115
					120,000	226
					120,000	341
					140,000	337
		150,000			**530,000**	**1,018**
			62,100	15.64 (*)		
		93,750	82,500	18.70 (*)	11,250	72
		37,500			37,500	36
30,000					135,000	254
					245,000	696
					30,000	104
					211,000	508
30,000		**131,250**	**144,600**		**669,750**	**1,670**
30,000		**281,250**	**144,600**		**1,199,750**	**2,688**

37. Guarantees provided, commitments and contingent liabilities

Guarantees provided to third parties

As at December 31st, 2018 the item included the following:

(€ thousands)	12/31/2018	12/31/2017
Guarantees provided to third parties	97,765	100,363
Total	**97,765**	**100,363**

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 (if applicable).

The guarantees provided refer mainly to:

- the guarantee issued to the subscribers of the 2013-2025 private placements issued by Amplifon USA of €27,400 thousand;
- sureties issued in favor of third parties for rents amounting to €3,964 thousand;
- surety bonds issued by Amplifon S.p.A. in favor of the Revenue Office for VAT credits amounting to €51,456 thousand;
- miscellaneous guarantees, totaling €14,945 thousand, which include letters of patronage issued on behalf of subsidiaries to third parties.

Commitments

Commitments to pay rents in the future amounted to €396,864 thousand at 31 December 2018, of which €341,084 thousand for store leases, €45,921 thousand for the rental of offices, €8,256 thousand for operating leases of cars and €1,603 thousand for other operating leases. The average residual lease term is 4.49 years.

The accounting standard IFRS 16 "Leases" will take effect on 1 January 2019. This standard replaces the accounting rules in IAS 17 and requires that all leases should be recognized in the balance sheet as assets and liabilities whether they are "financial" or "operating". More in detail, the Amplifon Group contracts that fall within the scope of the standard include mainly the rental of stores, headquarters, warehouses, cars and other electronic machinery.

The estimated financial liability at 1 January determined based on the net present value of future payments inclusive of the option period, assuming that the option is exercised, amounts to about € 430 million.

Contingent liabilities and uncertainties

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

38. Transactions arising from untypical/unusual operations

Pursuant to Consob Communication of 28 July 2006, it should be noted that during 2018 the Group carried out no atypical and/or unusual transactions, as defined by the Communication.

39. 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 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 exception of Israel, where purchases are made in Euros and US dollars, Canada where a small part of the purchase costs are incurred in US dollars, and Central and South America where the subsidiaries of the GAES Group (acquired at the end of 2018) use euros to pay GAES SA in Barcelona. 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, as result of the GAES Group acquisition year-end 2018, in Chile, Argentina, Ecuador, Colombia, Panama and Mexico.

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 loans between the Australian and New Zealand companies, between the American and Canadian companies, as well as the loan granted by GAES SA to its Mexican and Colombian subsidiaries, 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 was approximately €5.8 million lower than 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). 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 2018, the Group's medium/long term debt is explained for €790 million by floating rate bank loans (€530 million of which relates to the loan taken out for the GAES Group acquisition), €465 million of which had been swapped to fixed rate debt at the date of this report, and for €100 million (at the hedging rate) by capital market issues (US Private Placement), 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.

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) 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) 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 commercial 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 which advance the whole amount of the sale to Amplifon, while 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 Euro zone countries and the single currency itself, while smaller, still exists.

In this situation, including because of the sizeable financial commitment assumed with the GAES Group acquisition, 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 and the refinancing of debt reaching maturity.
The available credit lines amounted to €285 million (of which €135 million irrevocable) at the end of the year, while debt is medium-long term with the first significant maturity, which cannot be extended, in 2021.

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 adequacy 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 when the following conditions are satisfied:

- the hedging relationship, its purpose and the overall strategy are formally defined and documented; the hedging instrument, the hedged item, the nature of the risk to be neutralized and the procedures the entity will use to assess the effectiveness of the hedge must be defined in the documentation;
- 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;
- if the hedged risk relates to changes in cash flows linked to a future transaction, the latter must be highly probable and entail 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 current 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 any hedges of net investments in place.

40. Translation of foreign companies' financial statements

The exchange rates used to translate non-Euro zone companies' financial statements are as follows:

	12/31/2018		12/31/2017	
	Average exchange rate	Year-end exchange rate	Average exchange rate	Year-end exchange rate
Panamanian balboa	1.181	1.145	1.130	1.199
Australian dollar	1.58	1.622	1.473	1.535
Canadian dollar	1.529	1.561	1.465	1.504
New Zealand dollar	1.707	1.706	1.590	1.685
Singapore dollar	1.593	1.559	1.559	1.602
US dollar	1.181	1.145	1.130	1.199
Hungarian florin	318.890	320.980	309.193	310.330
Swiss franc	1.155	1.127	1.112	1.170
Egyptian lira	21.041	20.511	20.156	21.331
Turkish lira	5.708	6.059	4.121	4.546
New Israeli shekel	4.242	4.297	4.062	4.164
Argentine peso	32.909	43.159	18.741	22.931
Chilean peso	756.94	794.37	732.61	737.29
Colombian peso	3,486.74	3,721.81	3,336.17	3,580.19
Mexican peso	22.705	22.492	21.329	23.661
Brazilian real	4.309	4.444	3.605	3.973
Chinese Renminbi	7.808	7.875	7.629	7.804
Indian rupee	80.733	79.73	73.532	76.606
British pound	0.885	0.895	0.877	0.887
Polish zloty	4.262	4.301	4.257	4.177

41. 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, Chile, Argentina, Ecuador, Colombia, Panama and Mexico) and Asia-Pacific (Australia, New Zealand, India and China).

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 2018

(€ thousands)	EMEA	AMERICAS	APAC	CORPORATE	ELIM.	CONSOLIDATED
Revenues from sales and services	952,337	231,818	174,520	3,559	-	1,362,234
Operating costs	(776,271)	(185,982)	(130,926)	(40,074)	-	(1,133,253)
Other income and costs	2,559	357	185	(6,615)	-	(3,514)
Gross operating profit by segment (EBITDA)	**178,625**	**46,193**	**43,779**	**(43,130)**	**-**	**225,467**
Amortization, depreciation and impairment						
Amortization	(19,062)	(4,015)	(7,977)	(5,919)	-	(36,973)
Depreciation	(26,593)	(1,239)	(5,589)	(922)	-	(34,343)
Impairment and impairment reversals of non-current assets	(741)	-	(100)	-	-	(841)
	(46,396)	**(5,254)**	**(13,666)**	**(6,841)**	**-**	**(72,157)**
Operating result by segment	**132,229**	**40,939**	**30,113**	**(49,971)**	**-**	**153,310**
Financial income, charges and value adjustments to financial assets						
Group's share of the result of associated companies valued at equity	426	-	-	-	-	426
Other income and charges, impairment and revaluations of financial assets						44
Interest income and charges						(13,245)
Other financial income and charges						(925)
Exchange gains and losses						(864)
Gain (loss) on assets measured at fair value						(170)
						(14,734)
Net profit (loss) before tax						**138,576**
Current and deferred income tax						
Current income tax						(36,364)
Deferred tax						(1,802)
						(38,166)
Total net profit (loss)						**100,410**
Minority interests						(33)
Net profit (loss) attributable to the Group						**100,443**

Income Statement – FY 2017

(€ 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
Gross operating profit by segment (EBITDA)	**145,445**	**45,156**	**51,491**	**(29,601)**	**-**	**212,491**
Amortization, depreciation and impairment						
Amortization	(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)
	(40,122)	**(5,094)**	**(12,619)**	**(4,979)**	**-**	**(62,814)**
Operating result by segment	**105,323**	**40,062**	**38,872**	**(34,580)**	**-**	**149,677**
Financial income, charges and value adjustments to financial assets						
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
						(19,330)
Net profit (loss) before tax						**130,347**
Current and deferred income tax						
Current income tax						(44,765)
Deferred tax						14,896
						(29,869)
Total net profit (loss)						**100,478**
Minority interests						(100)
Net profit (loss) attributable to the Group						**100,578**

Statement of Financial Position as at December 31st, 2018 (*)

(€ thousands)	EMEA	AMERICAS	APAC	ELIM.	CONSOLIDATED
ASSETS					
Non-current assets					
Goodwill	888,696	124,207	245,945	-	1,258,848
Intangible fixed assets with finite useful life	152,351	21,415	50,066	-	223,832
Tangible fixed assets	155,470	9,366	23,815	-	188,651
Investments valued at equity	2,025	-	-	-	2,025
Hedging instruments	3,725	-	-	-	3,725
Deferred tax assets	68,862	1,494	4,285	-	74,641
Contract costs	5,391	137	66	-	5,594
Other assets	22,360	37,537	782	-	60,679
Total non-current assets					**1,817,995**
Current assets					
Inventories	53,343	5,084	3,343	-	61,770
Receivables	184,711	44,346	17,420	(1,636)	244,841
Contract costs	3,660	119	73	-	3,853
Other financial assets					60
Cash and cash equivalents					89,915
Total current assets					**400,439**
TOTAL ASSETS					**2,218,434**
LIABILITIES					
Net Equity					**596,102**
Non-current liabilities					
Medium/long-term financial liabilities					872,669
Provisions for risks and charges	20,286	27,240	517	-	48,043
Liabilities for employees' benefits	18,368	177	1,745	-	20,290
Hedging instruments	1,957	-	-	-	1,957
Deferred taxes	36,741	16,226	11,918	-	64,885
Payables for business acquisitions	15,827	309	-	-	16,136
Contract liabilities	110,228	6,859	1,704	-	118,791
Other long-term debt	6,521	13	877	-	7,411
Total non-current liabilities					**1,150,182**
Current liabilities					
Trade payables	123,539	39,728	12,011	(1,629)	173,649
Payables for business acquisitions	11,732	711	200	-	12,643
Contract liabilities	77,977	7,606	8,109	-	93,692
Other payables	134,058	6,660	10,038	(7)	150,749
Hedging instruments	58	-	-	-	58
Provisions for risks and charges	2,673	95	-	-	2,768
Liabilities for employees' benefits	410	66	-	-	476
Short-term financial liabilities					38,115
Total current liabilities					**472,150**
TOTAL LIABILITIES					**2,218,434**

(*) The items in the statement of financial position are analyzed by the CEO and Top Management by geographic area without being separated from the Corporate functions which are included in EMEA.

Statement of Financial Position as at December 31st, 2017 (*)

(€ thousands)	EMEA	AMERICAS	APAC	ELIM.	CONSOLIDATED
ASSETS					
Non-current assets					
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
Total non-current assets					**1,123,861**
Current assets					
Inventories	34,640	314	2,127	-	37,081
Receivables	135,938	33,551	14,427	(3,540)	180,376
Hedging instruments					19
Cash and cash equivalents					124,082
Total current assets					**341,558**
TOTAL ASSETS					**1,465,419**
LIABILITIES					
Net Equity					**588,418**
Non-current liabilities					
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
Total non-current liabilities					**301,230**
Current liabilities					
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
Total current liabilities					**575,771**
TOTAL LIABILITIES					**1,465,419**

(*) The items in the statement of financial position are analyzed by the CEO and Top Management by geographic area without being separated from the Corporate functions which are included in EMEA.

42. Accounting policies

42.1. Presentation of Financial Statements

The consolidated financial statements at 31 December 2018 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
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	03/28/2018	04/03/2018	Financial years beginning on or after 01/01/2018	01/01/2018
Amendments to IAS 40 "Transfers to or from Investment Property"	03/14/2018	03/15/2018	Financial years beginning on or after 01/01/2018	01/01/2018
Amendments to IFRS 2 "Share-based Payment"	02/26/2018	02/27/2018	Financial years beginning on or after 01/01/2018	01/01/2018
Annual improvements to IFRS 2014-2016	02/07/2018	02/08/2018	Financial years beginning on or after 01/01/2018	01/01/2018
IFRS 15 "Revenues from contracts with customers"	09/22/2016	10/29/2016	Financial years beginning on or after 01/01/2018	01/01/2018
Clarifications to IFRS 15 "Revenues from contracts with customers"	10/31/2017	11/09/2017	Financial years beginning on or after 01/01/2018	01/01/2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	11/09/2017	11/09/2017	Financial years beginning on or after 01/01/2018	01/01/2018
IFRS 9 "Financial Instruments"	11/22/2016	11/29/2016	Financial years beginning on or after 01/01/2018	01/01/2018

The IFRS and interpretations approved by the IASB and approved for adoption in Europe during the year underway described in note 2 have to do with:

- 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;
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" clarify the accounting treatments and measurement for share-based payment transactions;
- the "Annual improvements to IFRS Standards 2014-2016 cycle" which amend IFRS 1, IFRS 12 and IAS 28;
- amendments of IAS 40 "Real estate investments".

Please refer to note 3 for an explanation of the impact of IFRS 15 and IFRS 9 adoption, while the first-time adoption of other standards and interpretations during the year did not have any material impact on the valuation of Group assets, liabilities, costs and revenues.

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 recognized 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.

42.2. 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:

- revenues recognition for the goods and services transferred during the time based on the contracts with the customers and the related performance obligations;
- provisions for impairment, calculated on the basis of the asset's estimated realizable 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 realizable value;
- provisions for employee benefits, recognized on the basis of the actuarial valuations made;
- amortization and depreciation recognized on the basis of the estimated remaining useful life and recoverable amount;
- income tax, which is recognized 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 recognized 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.

42.3. Future accounting principles and interpretations

International accounting standards and interpretations approved by the IASB and endorsed in Europe

The following table lists the IFRS/interpretations approved by the IASB and endorsed in Europe for mandatory adoption subsequent to 31 December 2018.

Description	Endorsement date	Publication	Effective date	Effective date for Amplifon
IFRS 16 "Leases"	31 Oct '17	9 Nov '17	Financial years beginning on or after 1 Jan	1 Jan '19
Amendments to IFRS 9 "Financial instruments – elements of prepayment with negative compensation"	22 Mar '18	26 Mar '18	Financial years beginning on or after 1 Jan	1 Jan '19
IFRIC 23 "Uncertainty over income tax treatments"	23 Oct '18	24 Oct '18	Financial years beginning on or after 1 Jan	1 Jan '19

- **IFRS 16 "Leases"**

  With the publication of the new accounting standard IFRS 16 "Leases", IASB substitutes the accounting rules called for in IAS 17, as well as the interpretation of IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions involving the Legal Form of a Lease based on which all leasing contract should be recognized in the balance sheet as assets and liabilities whether they are "financial" or "operative".

  The adoption of the principle calls for the recognition of all leased right-of-use assets which fall in the scope of the standard as plant, property and equipment and the recognition of the relative financial payable as a liability.

  The Amplifon Group opted to transition using the modified retrospective approach.

  More in detail, based on the modified retrospective approach for the leases classified previously as operating leases:

  - the lessee must assume the leasing liabilities like the present value of remaining payments over remaining lease term discounted using the incremental borrowing rate at the first-time application date;
  - the lessee must recognize a right-of-use asset at the date of first-time application for leases classified previously as operating leases. As allowed under the standard, the Amplifon Group opted to value the right-of-use asset as a lease lability, adjusted by the amount of any prepaid or accrued lease payments recognized in the statement of financial statement prior to first-time adoption.

  Based on the transition rules, the Company intends to avail itself of the option provided in the event the modified retrospective approach is used which allows for the initial direct costs stemming from the right-of-use measurement at 1 January 2019 to be excluded.

  The Group also exercised the option not to apply the standard to assets of modest value like computers, printers, electronic equipment (IFRS 16.5.b) and short-term contracts (IFRS 16.5.a).

  The Amplifon Group contracts that fall within the scope of the standard include mainly the rental of stores, headquarters, warehouses, cars and other electronic machinery.

For these contracts, the introduction of IFRS 16 will not result in the recognition of the financial liability of the lease and the relative right-of-use, but the rent paid will be recognized in the income statement on a straight-line basis over the lease term.

The transition to IFRS 16 required certain professional judgements to be made including the definition of a few accounting policies and the use of assumptions and estimates relating to the lease term, as well as the determination of the incremental borrowing rate which are summarized below:

- lease term: the duration was determined on a lease-by-lease basis and is comprised of the "non - cancellable" period along with the impact of any extension or early termination clauses if exercise of that clause is reasonably certain. This valuation for the properties took into account circumstances and facts specific to each asset;
- incremental borrowing rate: in most of the lease agreements stipulated by the Group there is not implied interest rate, therefore the discount rate applied to future rent payments was determined using the risk-free rate in the country where the agreement was executed, with expirations consistent with the term of the specific lease agreement plus the parent company's credit spread and any costs for additional guarantees.

The effects at 1 January 2019 amount to an increase in the financial assets and liabilities of around €430 million, namely the present value of future rents payable over the lease term.

The future commitments for payments of operating leases, calculated based on the IAS 17 standard currently in effect, are shown in note 37 "Commitments, risks, uncertainties and contingent liabilities".

- **Amendments to IFRS 9: "Prepayment Features with Negative Compensation"**

  The amendments of IFRS 9 aim to clarify the classification of certain financial assets which may be prepaid under IFRS 9.
  Adoption of the amendments is not expected to have a significant impact.

- **IFRIC 23 "Uncertainty over Income Tax Treatments"**

  The interpretation clarifies the accounting for uncertainties in income taxes in certain situations. The interpretation will be applicable to the preparation of annual reports beginning on 1 January 2019. Adoption of the interpretation is not expected to have a significant impact.

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 31 December 2018 had not yet been endorsed for adoption in Europe.

Description	Effective date
IFRS 17 "Insurance Contracts" (issued on 18 May 2017)	Financial years beginning on or after 1 Jan '21
Amendments to IAS 19: "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018)	Financial years beginning on or after 1 Jan '19
Amendments to IAS 28: "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017)	Financial years beginning on or after 1 Jan '19
"Annual improvements to IFRS 2015-2017 Cycle" (issued on 12 December 2017)	Financial years beginning on or after 1 Jan '19
Amendments to the Conceptual Framework of the IFRS (issued on 29 March 2018)	Financial years beginning on or after 1 Jan '20
Amendments to IFRS 3: "Business Combinations" (issued on 22 October 2018)	Financial years beginning on or after 1 Jan '20
Amendments to IAS 1 and IAS 8: "Definition of Material" (issued on 31 October 2018)	Financial years beginning on or after 1 Jan '20

It is not expected that adoption of the standards and interpretations detailed above will have a significant impact on the valuation of the Group's assets, liabilities, costs and revenues.

- **IFRS 17 Insurance Contracts**
  New accounting standard for the accounting of insurance contracts which will substitute IFRS 4 which aims to improve the users of financial statements understanding of the effect that insurance contracts have on an insurer exposure to risk, profitability and financial position.

- **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**
  The amendments clarify how to determine pension costs when a change in defined benefit plan occurs.

- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**
  These amendments aim to clarify the application of IFRS 9 when accounting for long-term interest in associates or joint ventures that form part of the investment net in the associate or joint venture.

- **Annual Improvements to IFRS Standards 2015-2017 Cycle**
  The improvements relate to the following standards:
  - IAS 12 Income Taxes: accounting of the tax effect of dividends on financial instruments classified as equity;
  - IAS 23 Borrowing Costs: classification of loans relating to qualifying assets at the time that the assets are ready for use or sale;
  - IFRS 3 Business Combination and IFRS 11 Joint Arrangements: accounting of the control of a business which is classified as a joint operation.

- **Amendments to the Conceptual Framework of the IFRS**
  In March 2018 IASB has published a revised version of the Conceptual Framework for Financial Reporting ("Conceptual Framework") and, at the same time, updates the references made in the IFRS to the previous Conceptual Framework.

- **Amendments to IFRS 3 Business Combinations**
  IASB issued a definition of "business" in order to resolve problems encountered by an entity when determining if it acquired a business or a group of assets.

- **Amendments to IAS 1 and IAS 18: definition of material**
  IASB issued a definition of "material" in order to align the definition used in the Conceptual Framework and in the regulations.

42.4. 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.

42.5. 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.

42.6. 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.

42.7. 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 recognized 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 recognized 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 recognized;
- 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.

42.8. 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 recognized in the income statement.

42.9. 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 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 amortized systematically over their useful lives and written down for impairment (see section 42.12). Amortization 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 amortization criterion are periodically reviewed and, where significant changes have occurred compared to the previously adopted assumptions, the amortization charge for the current year and subsequent ones is adjusted.

The periods of amortization are shown in the following table:

Asset type	Years
Software	3-5
Licenses	1-15
Non-competition agreements	5
Customer lists	10-20
Trademarks and concessions	3-15
Other	5-9

42.10. Goodwill

Goodwill is recognized 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 amortized but valued at cost less any cumulative impairment losses (see section 42.12).

42.11. Tangible fixed 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 recognized 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 recognized 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 42.12). 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 capitalized 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

42.12. 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 recognized 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 recognized in previous years. The reversal is immediately recognized in the income statement.

42.13. Financial assets and liabilities

42.13.1 Financial assets (excluding derivatives)

The Group's financial assets are classified based on the business model used to manage them and the nature of the relative cash flows.

a) Financial assets valued at amortized cost

Financial assets that meet the following requirements are classified in this category:

(i) assets held as part of a business model where the objective of the entity's business model is collecting contractual cash flows; and

(ii) the cash flows contemplated under the contract refer solely to payments of principal and interest on the amount of principal to be repaid.

These are mainly customer receivables, loans and other receivables.

The trade receivables without a significant financing component are recognized at the price of the relative transaction (determined in accordance with IFRS 15 Revenue from contracts with customers).

The other receivables and loans are recognized in the financial statements at fair value plus any ancillary costs attributable directly to the transactions that generated them.

After initial recognition, the effective interest rate applied to financial assets measured at amortized cost (with the exception of receivables without a significant financing component) is used to determine interest income which is recognized in profit or loss.

Impairment of the receivable is measured based on the expected loss.

The Group used a simplified approach to measure trade receivables which does not call for periodic adjustments of the credit risk nor of the expected credit loss ("ECL") calculated over the life of the receivable ("lifetime ECL").

More in detail, the policy implemented by the Group calls for the stratification of receivables broken down into similar risk categories. Different percentages of impairment are applied to these categories based on the expected level of recoverability which refer to historical percentages and any forward-looking elements that could affect recoverability. The trade receivables are written off entirely if there is not a reasonable expectation of recoverability (i.e. past due above a certain level, bankruptcy and/or legal proceedings begun).

The Group uses a general approach for the measurement of the long-term financial receivables relating to the loans granted by American subsidiaries to franchisees and members of the Elite network in order support investment and development in the United States which requires the verification of any increase in the credit risk at the end of each reporting period.

Impairment recognized pursuant to IFRS 9 are presented in the income statement, net of any positive effects stemming from releases or reversals, as operating costs.

b) Financial assets at fair value recognized through the comprehensive income statement ("FVOCI")
Financial assets that meet the following requirements are classified in this category:
(i) assets held as part of a business model where the objective of the entity's business model is collecting contractual cash flows and selling the assets; and
(ii) the cash flows contemplated under the contract refer solely to payments of principal and interest on the amount of principal to be repaid.

These include trade receivables that the Group sometimes used in factoring without recourse transactions.

These assets are initially recognized in the financial statements at their fair value plus any ancillary costs directly attributable to the transactions generating them. After initial recognition, the measurement is updated and any changes in fair value are recognized in the comprehensive income statement.
The impairment model used is describe in a) above.

c) Financial assets at fair value recognized through the consolidated income statement ("FVPL")
Financial assets which are not classified in the other categories (i.e. residual category).These are mainly derivatives.

Assets belonging to this category are initially recognized at fair value.

The ancillary costs incurred when the asset is recognized are immediately recognized in the consolidated income statement. After initial recognition the FVPL are measured at fair value.

The gains and losses stemming from changes in fair value are recognized in the consolidated income statement for the reporting period under "Gains (losses) from assets measured at fair value".

The purchases and disposals of financial assets are accounted for on the settlement date.

Financial assets are derecognized from the financial statements when the related contractual rights expire, or when the Group transfers all the risks and rewards of ownership associated with the financial asset.

42.13.2. Financial liabilities (excluding derivatives)

Financial liabilities include financial payables, lease obligations and trade payables. Amounts payable to banks and other lenders are initially recognized at fair value less any directly attributable transaction costs and subsequently valued at amortized cost based on the effective interest rate. If there is a change in the forecast cash flow the value of the liabilities is recalculated in order to reflect this change based on the present value of the new future cash flows and the internal rate of return initially determined.

Whenever legal rights to compensation arise, the Group decides whether or not to show cash and cash equivalents net of bank overdrafts.

Lease obligations are initially recognized 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 obligations to pay for goods and services acquired from suppliers as part of general business operations. The amounts owed suppliers are classified as current liabilities if the payment will be made within a year of the relative reporting period. Conversely, these payables are classified as non-current liabilities.

The trade and other payables are initially measured at fair value and subsequently using the amortized cost 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 amortized cost calculation. These changes are amortized starting from the moment fair value hedge accounting is discontinued.

Financial liabilities are derecognized 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 for available liquidity or 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. Based on the Group's accounting policy any change in the value of the liability is recognized in net equity.

42.13.3. Derivative financial instruments

The Amplifon Group continues to apply IAS 39 in relation to Hedge Accounting.

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 8).

The documentation which formalizes 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 recognized 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 recognized;

(iii) if these instruments qualify as cash flow hedges, starting from that date, any changes in the fair value of the derivative are recognized in net equity, but only to the extent of the effective amount of the hedge, with the amount of any hedge ineffectiveness being recognized in the income statement; 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 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 recognized 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 recognized 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 recognized 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 amortized 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 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 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.

42.14. 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.

42.15. Cash and cash equivalents and financial assets

The item cash and cash equivalents comprise 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.

42.16. 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 recognized 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 recognized 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.

42.17. Employees' benefits

Post-employment benefits are defined on the basis of pension plans, even if not formalized, 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 recognized in other comprehensive income.

Net financial charges on defined-benefit plans are recognized in profit or loss under financial income and charges.

42.18. Stock option and 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 recognized 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 recognized at the end of the vesting period.

42.19. Revenues

The revenues from contracts with customers are recognized in accordance with IFRS 15.

Based on the five-step model introduced in IFRS 15, the Group records revenue after having identified the contracts with its customer and the relative performance obligations (transfer of control of goods and/or services), determined the consideration to which it is entitled upon satisfaction of each of the obligations, as well as the way these obligations will be satisfied (at a point in time or over time).

The Group will recognize revenue once the above steps have been taken (identification of the contract with the customer) and it is involved in fulfilling the respective obligations; and it is probable that the Group will receive the consideration to which it is entitled in exchange for the goods and services transferred to the customer.

The main performance obligations identified by the Amplifon Group involve: the hearing aid and fitting, which represent a single inseparable performance obligation, after sales care, extended warranties which are above and beyond normal supplier warranties, the material rights (discounts on future purchases and loyalty points) and accessories (batteries, cleaning kits) provided to the customer.

The goods and services may be sold separately or bundled.

The transaction price, which represents the amount the entity expects to receive from the customer for the goods and services provided, is allocated based on the stand-alone selling prices of the relative performance obligations.

The stand-alone selling price is determined based on observable prices when available, while for goods and services not sold separately (ex. after sales services) and when observable market prices are not available the cost plus a margin method is used.

Any commercial discounts are allocated to the different performance obligations that make up the bundle sold to the customer, with the exception of after sales services in proportion to the weight of the relative stand-alone selling price.

Revenues are recognized when control of the goods and services has been transferred to the customer and performance obligations have been satisfied. This can happen at a point in time or over time.

Revenues realized over time, represented typically by after sales services, extended warranties, and accessories supplied over time, are recognized based on the level to which the different contractual performance obligations have been satisfied. More in detail, transfer over time is measured based on the input method, namely taking into account the work done (inputs) by the Group to fulfill each performance obligation.
The up-front fee paid by franchisees is considered a revenue stream generated over time and is recognized over the life of the franchising agreement.

Revenues realized at a point in time refer to the transfer of goods and services that the customer receives and consumes at the same time.
These are generally attributable to the sale of hearing aids and relative fitting, accessories and a few services that are sold separately. In these situations, revenue is recorded when control of the good of service is transferred to the customer.

The performance obligation to transfer control of the goods and services over time is recognized under "contract liabilities".

The Group incurs costs to acquire and fulfill contracts over time. These costs, which typically include commissions and bonuses paid to employees and agents for each sale made that will be recovered through the revenues generated by the contract, are capitalized as contract costs and amortized based on the progress made in transferring the goods and services to the customer over time.

The contract costs are recognized as assets in a specific line of the financial statement (Short-term and long-term contract costs).

The dividends are recognized as profit (loss) for the year only when:

a) the entity's right to receive a dividend arises;
b) it's likely that the economic benefits stemming from the dividend will flow to the entity; and
c) the amount of the dividend can be reliably measured.

42.20. 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 recognized on temporary differences between the value of assets and liabilities in the financial statements and the corresponding tax bases.

Deferred income taxes are not recognized: (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.

Current and deferred tax are debited or credited directly to net equity if they relate to elements which are recognized 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 recognized in the income statement on the temporary difference arising as a result of the revaluation.

42.21. Value added tax

Revenues, costs and assets are recognized net of valued added tax (VAT), except where VAT applied to the purchase of goods or services is non-deductible, in which case it is recognized 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.

42.22. 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 recognized 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.

42.23. 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.

43. Subsequent events

The main events that took place after the end of the year are described below.

During the months of January and February 2019 the company continued its stock grant remuneration program and granted 39,000 treasury shares as at March 5th, 2019.
As at the date of the above financial statements, the total of treasury shares in portfolio is 5,676,745, corresponding to 2.508% of the company share capital.

Since the beginning of the year the company has continued its external growth through acquisitions and purchased about 35 stores in France, Germany and USA.

Milan, March 5th, 2019

On behalf of the Board of Directors
CEO

Enrico Vita

Annexes

Annex I

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 2018.

Parent company:

Company name	Head office	Currency	Share capital
Amplifon S.p.A.	Milan (Italy)	EUR	4,527,072

Subsidiaries consolidated using the line-by-line method:

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held as at 12/31/2018
Hearing Supplies Srl	Milan (Italy)	I	EUR	87,283	100.0%
Amplifon France SAS	Arcueil (France)	D	EUR	48,550,898	100.0%
SCI Eliot Leslie	Lyon (France)	I	EUR	610	100.0%
Aides Auditives de France SAS	Clermont-Ferrand (France)	D	EUR	30,000	100.0%
Audio-Conseil SAS	Sedan (France)	D	EUR	100,000	100.0%
S.E. Ducastel SAS	Tarbes (France)	I	EUR	68,602	100.0%
Audition Chevet Marie Sarl	Montrond-les-Bains (France)	I	EUR	6,000	100.0%
Medical Acoustic Center SAS	Colmar (France)	I	EUR	8,001	100.0%
Elocam Sarl	Colmar (France)	I	EUR	1,000	100.0%
Provas Sarl	Colmar (France)	I	EUR	1,000	100.0%
Centre Acoustique Médical SAS	Macon (France)	I	EUR	45,000	100.0%
Ré Audition SAS	La Rochelle (France)	I	EUR	400,000	100.0%
Acoustique Rey Sarl	La Rochelle (France)	I	EUR	7,623	100.0%
Conversons Paris 19 Sarl	Paris (France)	I	EUR	1,000	100.0%
Conversons Couëron SAS	Paris (France)	I	EUR	1,000	100.0%
Audiosons Nantes SAS	Paris (France)	I	EUR	16,000	100.0%
Amplifon France Holding	Arcueil (France)	D	EUR	1	100.0%
Amplifon Iberica SA	Barcelona (Spain)	D	EUR	26,578,809	100.0%
Fundación Amplifon Iberica	Madrid (Spain)	I	EUR	30,000	100.0%

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held as at 12/31/2018
GAES S.A.	Barcelona (Spain)	D	EUR	332,112	100.0%
Instituto Valenciano De La Sordera S.L.	Valencia (Spain)	D	EUR	12,020	100.0%
Microson S.A.	Barcelona (Spain)	D	EUR	61,752	100.0%
Blambos S.L.	Barcelona (Spain)	I	EUR	5,959,600	100.0%
Circulo Famex 25 S.L.	Barcelona (Spain)	I	EUR	847,523	100.0%
Centro de Audioprotesistas Españoles S.L.	Girona (Spain)	I	EUR	120,200	100.0%
Centre Auditiu Badalona S.L.	Barcelona (Spain)	I	EUR	75,000	100.0%
Centre Auditiu Vic S.L.	Barcelona (Spain)	I	EUR	37,500	100.0%
Oidos Audionatur S.L.	Barcelona (Spain)	I	EUR	90,000	100.0%
Nostar 22 S.L.	Barcelona (Spain)	I	EUR	3,012	100.0%
Noalia Plus S.L.	Barcelona (Spain)	I	EUR	3,012	100.0%
Nicer Beta S.L.	Barcelona (Spain)	I	EUR	33,012	100.0%
Boston Audit S.L.	Barcelona (Spain)	I	EUR	77,820	100.0%
Instituto Gallego de la Audición S.L.	Barcelona (Spain)	I	EUR	10,000	100.0%
Centeralia S.L.	Barcelona (Spain)	I	EUR	3,012	100.0%
Centro Auditivo Benidorm S.L.	Barcelona (Spain)	I	EUR	3,005	100.0%
Servicios Audiologicos Castilla y Leon S.L.	Barcelona (Spain)	I	EUR	27,900	100.0%
Amplifon Portugal SA	Lisbon (Portugal)	I	EUR	5,720,187	100.0%
GAES Portugal SA	Lisbon (Portugal)	I	EUR	50,000	100.0%
Amplifon Magyarország Kft	Budapest (Hungary)	D	HUF	3,500,000	100.0%
Amplibus Magyarország Kft	Budaörs (Hungary)	I	HUF	3,000,000	100.0%
Amplifon AG	Baar (Switzerland)	D	CHF	1,000,000	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%
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%
Hoorcentrum Kempeneers BVBA	Bruxelles (Belgium)	I	EUR	18,550	100.0%
Hoorcentrum De Ridder BVBA	Bruxelles (Belgium)	I	EUR	6,200	100.0%
Amplifon Luxemburg Sarl	Luxemburg (Luxemburg)	I	EUR	50,000	100.0%
Amplifon RE SA	Luxemburg (Luxemburg)	D	EUR	3,700,000	100.0%
Amplifon Deutschland GmbH	Hamburg (Germany)	D	EUR	6,026,000	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%

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held as at 12/31/2018
Amplifon Poland Sp.z o.o.	Lodz (Poland)	D	PLN	3,343,580	100.0%
Amplifon UK Ltd	Manchester (UK)	D	GBP	76,600,000	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 İşitme Ürünleri Perakende Satış A.Ş.	Istanbul (Turkey)	D	TRY	300,000	51.0%
Medtechnica Ortophone Ltd (*)	Tel Aviv (Israel)	D	ILS	1,000	80.0%
Medtechnica Ortophone Shaked Ltd (*)	Tel Aviv (Israel)	I	ILS	1,001	80.0%
Amplifon Middle East SAE	Cairo (Egypt)	D	EGP	3,000,000	51.0%
Miracle Ear Inc.	St. Paul (USA)	I	USD	5	100.0%
Elite Hearing, LLC	Minneapolis (USA)	I	USD	1,000	100.0%
Amplifon USA Inc.	Dover (USA)	D	USD	52,500,010	100.0%
Amplifon Hearing Health Care, Inc.	St. Paul (USA)	I	USD	10	100.0%
Ampifon IPA, LLC	New York (USA)	I	USD	1,000	100.0%
ME Pivot Holdings LLC	Minneapolis (USA)	I	USD	2,000,000	100.0%
Miracle Ear Canada Ltd.	Vancouver (Canada)	I	CAD	47,000,200	100.0%
Boreal Hearing Centre Inc.	Thunder Bay (Canada)	I	CAD	0	100.0%
Sound Authority, Inc.	Orangeville (Canada)	I	CAD	0	100.0%
2279662 Ontario Ltd	Stouffville (Canada)	I	CAD	0	100.0%
6793798 Manitoba Ltd	Winnipeg (Canada)	I	CAD	0	100.0%
2332325 Ontario Ltd	Stouffville (Canada)	I	CAD	0	100.0%
Amplifon South America Holding LTDA	São Paulo (Brazil)	D	BRL	3,636,348	100.0%
GAES S.A.	Santiago del Cile (Chile)	D	CLP	1,381,655,108	100.0%
GAES Servicios Corporativo de Latinoamerica Spa	Santiago del Cile (Chile)	I	CLP	10,000,000	100.0%
GAES S.A.	Buenos Aires (Argentina)	D	ARS	1,057,770	100.0%
GAES Colombia SAS	Bogotá (Colombia)	I	COP	10,000,000,000	100.0%
Soluciones Audiologicas de Colombia SAS	Bogotá (Colombia)	I	COP	45,000,000	100.0%
Audiovital S.A.	Quito (Ecuador)	I	USD	430,337	100.0%
Centros Auditivos GAES Mexico sa de cv	Mexico City (Mexico)	I	MXN	50,000	100.0%
Compañía de Audiologia y Servicios Medicos sa de cv	Aguascalientes (Mexico)	I	MXN	43,306,212	66.4%
GAES Panama S.A.	Panama (Panama)	I	PAB	10,000	100.0%
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%

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held as at 12/31/2018
Dilworth Hearing Ltd	Auckland (New Zealand)	I	NZD	0	100.0%
Amplifon India Pvt Ltd	Gurgaon (India)	I	INR	1,230,000,000	100.0%
NHanCe Hearing Care LLP (on liquidation) (**)	Gurgaon (India)	I	INR	1,000,000	0.0%
Beijing Cohesion Hearing Science &Technology Co. Ltd. (***)	Beijing (China)	D	CNY	2,000,000	100.0%

(*) Medtechnica Ortophone Ltd and its subsidiary Medtechnica Ortophone Shaked Ltd, despite being owned by Amplifon at 80%, are consolidated at 100% without exposure of non-controlling interest due to the put-call option exercisable from 2019 and related to the purchase of the remaining 20%.
(**) Consolidated company because the Amplifon Group has de facto control.
(***) Beijing Cohesion Hearing Science &Technology Co. Ltd., despite being owned by Amplifon at 51%, is consolidated at 100% without exposure of non-controlling interest due to the put-call option exercisable from 2022 and related to the purchase of the remaining 49%.

Companies valued using the equity method:

Company name	Head office	Direct/Indirect ownership	Currency	Share Capital	% held at 12/31/2018
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%
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%
Auditiva 2014 S.A.	Andorra la Vella (Andorra)	I	EUR	3,000	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 2018 financial year.

	Subject that provided the service	Recipient	2018 fees (€)
Independent auditing services	PricewaterhouseCoopers	Parent company - Amplifon S.p.A.	304,765
Certification services	PricewaterhouseCoopers	Parent company - Amplifon S.p.A.	88,780
Total – Parent Company			*393,545*
Independent auditing services	PricewaterhouseCoopers	Subsidiaries	1,165,311
Services other than auditing (*)	PricewaterhouseCoopers	Parent company - Amplifon S.p.A. and its subsidiaries	231,422
Total			**1,790,278**

(*) Other services mainly include tax assistance the American subsidiaries and Swiss.

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:

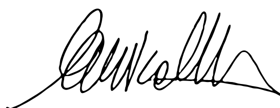
- the adequacy, by reference to the characteristics of the business and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2018.

We also certify that the consolidated financial statements at 31 December 2018:

- 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.

March 5th, 2019

CEO	**Executive Responsible for Corporate Accounting Information**
Enrico Vita	Gabriele Galli
	

AMPLIFON SpA

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

Consolidated financial statements as of 31 December 2018

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

Report on the Audit of the Consolidated Financial Statements

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 2018, the consolidated income statement, statement of comprehensive income, consolidated statement of changes in equity, consolidated 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 2018, 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.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Assessment of the recoverability of the carrying amount of the line item 'Goodwill' in the consolidated financial statements	
Note 2 to the consolidated financial statements "Acquisitions and Goodwill" *Paragraph 37.10 "Goodwill" of the Accounting Policies section of the notes to the consolidated financial statements* 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 1,258,848 thousand as of 31 December 2018. Our audit strategy focused on the measurement of this balance because of: • The materiality of the balance relative to the Group's equity (211 per cent), • 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 • 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. To determine the recoverable amount of each cash generating unit ("CGU") to which goodwill has been allocated the Company applies the discounted cash flow method. In detail, management exercises judgement and uses its ability to make accounting estimates in the following areas: • Preparation of business plans supporting the calculation of the estimated future cash flows from each CGU based on appropriate and reasonable assumptions; • Definition of a discount rate suitable to reflect the sector risk for each CGU and	In performing our auditing procedures we reconciled the amount of goodwill allocated to each CGU to the amounts resulting from the consolidated reporting system. We then obtained the business plan and related impairment test for each CGU. With reference to the three-year business plans: • We verified the existence of a procedure, approved by the board of directors of AMPLIFON SpA, 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 in impairment testing were actually those approved by the boards of the individual entities to which the CGUs belong. • 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. • Finally, we verified the reasonableness of future growth rates against past results and against the medium-term strategic assumptions. 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 rates used. In detail: • We verified that the values in the business plans had been accurately reported in the

market assessments of the time value of money (weighted average cost of capital); • Use of growth rates that are consistent with the business and with medium-term macroeconomic trends; • Preparation of a sensitivity analysis designed to value the impact of changes to the variables used on the valuations performed. 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.	calculation model used for the impairment test; • We recalculated the discount rate for each CGU independently, based on sector comparables and market assessments of the time value of money; • 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; • We verified the mathematical accuracy of the individual impairment tests; • We performed sensitivity analyses to measure the variances and impacts on the valuations of changes to the key assumptions (growth and discount rates); • We verified the accuracy of calculation of the net capital employed attributed to each CGU. Finally, we verified the accuracy and completeness of disclosures in the notes to the consolidated financial statements as of 31 December 2018.
Revenue recognition *Note 27 to the consolidated financial statements "Revenues from sales and services"* *Paragraph 42.19 "Revenue from contracts with customers" of the Accounting Policies section of the notes to the consolidated financial statements* The consolidated income statement for the year 2018 includes "Revenues from sales and services" equal to Euro 1,362,234 thousand mainly attributable to product sales. Also following the adoption of the new international reporting standard IFRS 15 "Revenue from contracts with customers" (applied starting from 1 January 2018, which entailed significant changes in the recognition and measurement of revenues), our audit strategy focused on the measurement of this item, with particular reference to: - those countries where, due to the specific	 We performed activities to verify, using sampling techniques, the correct adoption of IFRS 15 in terms of: identification of the contracts, identification of the performance obligations, determination of the selling price, allocation of the price and correct recognition on an accrual basis. We performed specific analyses to understand, evaluate and validate the relevant controls implemented by the Company over the area "Revenues from sales and services" to assess the adequacy of their design. We understood the accounting policies applied to revenues and the methods adopted by management to ensure, specifically, the correct application of the accrual basis of accounting. We performed sample testing to verify the correct recognition and measurement of revenues of the period. In detail, we placed

features of the local business model, the timing of delivery of products or performance of services does not coincide with the discharge of the contractual obligations to transfer goods and/or services to the customer (performance obligations); and - commercial offerings of a package of products/services for a single price, for which it was necessary to identify and measure the different performance obligations. In detail, we focused our attention on the correct application of the accrual basis of accounting, both when determining the impact on the opening equity of first-time application of IFRS 15, and in the recognition of transactions carried out in the period.	special emphasis on the assumptions used to determine the part of income to be deferred because it relates to future periods in accordance with the accounting rules introduced by IFRS 15. We performed sample testing to verify the existence, accuracy and completeness of transactions carried out in the period by obtaining supporting evidence. We performed balance confirmation procedures to obtain documentary evidence from third parties supporting the trade receivables booked arising from services rendered. Finally, we verified the accuracy and completeness of disclosures presented in the notes to the financial statements as of 31 December 2018.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are 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 they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are 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, the directors use the going concern basis of accounting unless they either intend to liquidate AMPLIFON SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is 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 auditor's 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 our 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 the directors;
- We concluded on the appropriateness of the directors' 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 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 the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

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

The directors of AMPLIFON SpA are 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 2018, 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 2018 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 AMPLIFON SpA as of 31 December 2018 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.

Milan, 15 March 2019

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

Concept & Design: SERVIFLAB
Print: SERVIF