
Values
PERSONAL IMPACT
We empower our people to think freely, perform and succeed, working together to make a lasting difference.
EVERYDAY EXCELLENCE
We take accountability for setting and delivering the highest standards of quality, and never give up.
ACTING RESPONSIBLY
We do well by doing good, acting with true integrity, and showing respect to everyone, every time.
Annual Report 2017 | Amplifon at a glance

WE ARE OPERATING IN FULL COMPLIANCE WITH THE HIGHEST STANDARDS

WHO ARE WE LISTENING TO?

The regulatory framework in which we operate and, above all, our values of ethics and integrity.

WHAT DO WE GIVE BACK?

Operations that abide to the laws and the highest moral and ethical standards, actively working to prevent any unethical behavior.

6. ETHICAL BEHAVIOR

6.1 REGULATORY FRAMEWORK

Amplifon operates in the healthcare sector, where regulations differ from country to country and from one area of the industry to another. The most relevant areas to Amplifon are:

- hearing aids;
- professionals entitled to select, fit and sell hearing solutions;
- reimbursement conditions.

Amplifon has implemented a series of measures to ensure its ability to promptly react to potential changes in regulations. Through the establishment of the Regulatory Affairs function, Amplifon aims to reduce the impact of any unfavorable changes and maximize the benefits of favorable ones. Specifically, the Regulatory Affairs function has the following aims:

- developing and maintaining continuous monitoring of regulatory changes and their impacts in all countries where the Company operates;
- defining responsibilities (locally or centrally) for managing current or potential issues;
- developing, with the support of outside experts, action plans to resolve issues at corporate or local level, monitoring their implementation;
- developing and coordinating the strategy to interact with institutions and actively participating in debates, associations and international conferences in order to make the voice of the sector heard.

In order to efficiently monitor the regulatory framework, the Regulatory Affairs function is centralized; consequently, at Corporate level, it defines guidelines and priorities, ensures alignment of communication with regard to the issues under its responsibility and maintains control over any action plans implemented. The Corporate function is supported by figures at regional and country level that monitor the local context and operational implementation of the action plans directly.

HEARING AIDS

Hearing aids are considered medical devices in all the markets where Amplifon operates, given they are aimed at compensating for a disability. Therefore, the devices sold must comply with several different national and international regulations on product standards, packaging and labelling requirements. The national regulations of the main countries in which Amplifon operates are illustrated below.

EU COUNTRIES: on 25 May 2017, the European Medical Directive 2017/745 entered into force, repealing Directive 93/42/EEC. The new Directive keeps the classification of hearing aids as "class IIa - low-medium risk devices". In order to sell a hearing aid in the European Union market, the CE marking, which stands for "Conformité Européenne" and literally means "European Conformity", must be attached to the device confirming that the product meets the essential requirements of all relevant European Medical Device Directives. Accordingly, the European Medical Directive 2017/745 further strengthens the concept of the hearing aid as a medical device, distinguishing it from the Personal Sound Amplification Products (PSAPs).

US: hearing devices are regulated by the Food and Drug Administration (FDA) and are classified as Class I medical devices, while wireless hearing aids are Class II. Both categories can be introduced into the market without pre-market approval (PMA), under an exemption in accordance with the 510(k) approval process. The FDA requires that information and instructions about hearing aids must be provided by a licensed hearing care professional to customers before any purchase.

In August 2017, the Over-the-Counter Hearing Aid Act, which was bundled as part of the Medical Device User Fee Amendments package and the FDA Reauthorization Act, passed into law. The new legislation provides that the FDA introduces a separate category of hearing aids approved for over-the-counter (OTC) sales to adults aged 18 and above with mild-to-moderate hearing loss without seeking treatment by a health professional. The FDA has three years from the adoption of the law to effectively apply the new regulation and set specific guidelines regarding safety standards, labelling and other technical requirements for OTC hearing aids. Only after this definition by the FDA can OTCs be introduced to market. Therefore, 2018 and 2019 were years of waiting, during which the hearing care industry acquired greater awareness. In particular, the American Academy of Audiology (AAA), the Academy of Doctor of Audiology (ADA), the American Speech-Language Hearing Association (ASHA) and the International Hearing Society (IHS) proposed recommendations to the FDA through a consensus paper, calling for an adequate balance between "safety and effectiveness" and access to hearing care. The bill is expected to be published by August 2020; after this, a period of public consultation will follow, which will in turn be followed by the time it takes for the FDA to review and evaluate the comments received. Other technical activities will also be required before the law actually enters into force, which is expected by the end of 2020. It is therefore estimated that the actual implementation will not occur until the end of 2020/ beginning of 2021.

AUSTRALIA: the Therapeutic Goods Administration (TGA) is the competent authority for hearing aids which are considered medical devices and as such must be registered in the Australian Register of Therapeutic Goods (ARTG) database before entering the Australian market.

› HEARING AIDS AND PERSONAL SOUND AMPLIFICATION PRODUCTS (PSAP)

Hearing aids are medical devices subject to strict safety controls and are intended to improve hearing for individuals with hearing loss. In order to prevent potential hearing damage, hearing aids are customized according to individual needs and set up to ensure improvement in the perception of sounds within a safety threshold.

Personal sound amplification products (PSAPs) amplify sounds, but do not compensate hearing loss and are not medical devices. Unlike hearing aids, PSAPs are not fitted by a hearing care professional and do not require professional advice to be purchased. They may also breach the safety threshold of 150 dB in output and are thus potentially harmful to hearing. For these very reasons, they cannot be sold to correct hearing loss. There are a variety of inner ear issues that only a hearing care professional or ENT can properly identify and address. As some of these may cause temporary or permanent hearing damage, bypassing professional hearing care can be risky and might lead to further hearing-related problems.

PROFESSIONALS LICENSED TO SELECT, FIT AND SELL HEARING SOLUTIONS

EU COUNTRIES: in order to ensure people's safety, the European Medical Device Directive dictates that only professionals entitled under relevant national regulations can select, fit, sell and conduct immediate and ongoing inspections of the effectiveness of hearing solutions. The profession of hearing care specialist is therefore regulated in most EU Countries. The regulations of member states require different qualifications and education and assign different responsibilities to such professionals. In 2018, the Board of Health Technicians in Medical Radiology and Technical, Rehabilitation and Prevention Professions was established in Italy, which includes the creation of the Register of Hearing Care Technicians. This new body will therefore enhance and affirm the professionalism of hearing care specialists, consequently benefiting citizens and customers.

US: in the current regulatory scenario, the FDA requires hearing aids to be dispensed only by licensed individuals, such as audiologists or hearing aid dispensers. People older than 18 do not require a medical examination by an ENT to determine the cause of their hearing loss, whereas for underage hearing aid users, a medical evaluation is required prior to dispensing hearing devices. As mentioned above, the FDA Reauthorization Act has introduced an OTC category to address mild-to-moderate hearing loss that will be available over-the-counter. Without consultation, involvement or intervention of a hearing care professional or licensed dispenser. The FDA is responsible for the decision-making process for creation and introduction of the OTC category of hearing aids by the end of 2019 or more likely during 2021.

AUSTRALIA: in order to be accredited by the Office of Hearing Services (the office responsible for managing and administering the Australian Government Hearing Services Program), hearing care professionals and audiometrists need to be members of an approved Australian professional body. Hearing care professionals hold university qualification (Master of Clinical Audiology), while audiometrists attend courses provided by Technical And Further Education (TAFE) colleges. As far as the private market is concerned, there is no specific regulations regarding requirements for hearing aid dispensers. Nevertheless, in Australia, Amplifon only employs hearing care professionals or audiometrists that are members of an Australian professional body.

REIMBURSEMENT CONDITIONS

The reimbursement conditions for hearing aids and related services differ according to the national health systems of the countries where Amplifon operates. The possible reimbursement conditions are as follows:

- national health systems offering hearing aids free of charge to everyone (such as in the UK);
- national health systems offering partial to full reimbursement to eligible people having a certain level of hearing loss (such as in France and Italy);
- national health systems not offering reimbursement (such as Spain and the USA, with the exception of the Veterans Association).

Amplifon is committed to promoting efficient reimbursement systems and preventing unnecessary waste in all countries where it operates. The Company is engaged in roundtable discussions with health agencies and regulators to find a good balance between guaranteeing access to hearing care and maintaining economic sustainability of national health systems. In fact, public reimbursements can lead to greater penetration, but only if they allow customers freedom of choice and give them the opportunity to supplement the reimbursement with their own money, they actually support a higher penetration rate, as well as better satisfaction and wellbeing.

The new system known as "reste à charge zéro" envisages, at the end of its implementation in 2021, the offer of solutions fully reimbursed by social assistance and by supplementary health insurance (so-called mutuelles).Today the majority of the French population does not have access to a fully reimbursed product and service. For the purposes of the new regulation, hearing aids are divided into two categories: the first category (Class I) includes hearing aids that will be fully covered by social assistance and supplementary health insurance; the second category (Class II) includes the remaining hearing solutions, which can be purchased at any price freely by the consumer through a "top-up" mechanism on the reimbursed portion. In addition, the reform establishes that the minimum hearing loss threshold for reimbursement eligibility is 30 dB and that the claim for reimbursement and guarantee can be renewed every four years. Lastly, a prescription by an ENT is required for the initial purchase only, after which the renewal can be made by a general practitioner as well. These provisions should therefore facilitate access to hearing care, while confirming customers' freedom of choice, giving them greater purchasing power, and the importance of the role of the hearing care professional, responsible for evaluation, selection and customization of the right hearing solution. 2019 saw the gradual introduction of the new system, which will reach full implementation by 2021.

6.2 ANTI-CORRUPTION

Amplifon is strongly committed to carrying out fair, correct, honest and ethical business worldwide, in accordance with the laws and regulations in force in all countries in which it operates. The Company has zero tolerance towards corruption and provides specific rules for preventing and managing any corruption risks that may arise in conducting business transactions. Amplifon's people are required to operate in compliance with applicable anti-corruption laws and be aware of the Company values, standards and principles.

On July 26th, 2017, Amplifon's Board of Directors approved the Group Anti-corruption Policy, intended to ensure whether daily activities are carried out ethically, protecting value creation and the core values on which Company's activities are founded.

The provisions and guidelines contained in the Policy are inspired by the Company's culture and the behavioral principles set out in the Code of Ethics and have been developed by analyzing the activities that could potentially expose Amplifon to corruption risk. They promote the highest standards in all business dealings, the performance of activities based on loyalty, fairness, transparency, honesty and integrity, and they provide specific rules for preventing, detecting and managing corruption risks.

The Group Risk & Compliance function is in charge of facilitating the dissemination and respect of the Policy, by means of communication, training and, subsequently, audit activities.

Following its approval, the Anti-corruption Policy was formally announced in 2017 and was the subject of training sessions for each of the three regions in which all General Managers and selected key managers took part. In 2018, the Group Risk & Compliance function rolled out the program for effective implementation of the Policy within the Group. Feedback was initially collected from the countries in order to assess the local scenarios with respect to the guidelines provided by the Policy and thus define an implementation approach. Countries were subsequently asked to complete a readiness assessment survey to facilitate a comprehensive analysis of areas at risk of corruption and the relative preventive control measures and, where necessary, to draw up projects to implement the guidelines. In 2019, the Group's status, as resulting from the "readiness assessment survey" was shared with the "focal point" (the people responsible for the implementation of the at local level) during a work and training session. Current difficulties and priorities were addressed, and com-

pliance targets to be achieved were validated. Starting from 2020, following the completion of the Policy implementation program, some "compliance audits" will be planned on a recurring basis. In addition, in the first part of the year, the Group Whistleblowing Policy will be approved and, at the same time, the reporting channels will be activated to allow all employees and third parties to report any behavior that is deviant or otherwise non-compliant with the Policy, or laws and regulations, in full privacy and confidentiality. Note that a whistleblowing system is already in place in Italy, as envisaged by the Organizational Model.

It is important to note that, in addition to the Group's Anti-Corruption Policy, Amplifon:

- has defined a Code of Ethics, which has been distributed in all countries in which it operates and prohibits corruption practices, illegitimate favors, collusive behavior and undue pressure exerted directly and/or through third parties. All Amplifon's subsidiaries, stores and business partners must respect the Code of Ethics. During 2019, the Code of Ethics was updated with the introduction of a specific section on the prohibition of offering, directly or indirectly, money, gifts or benefits of any nature to managers, officials or employees of public or private entities, in order to obtain undue advantages. During the first part of 2020, it will again be updated to align it with the values expressed by the Company's Corporate Culture;
- the Internal Organizational Model was adopted in Italy pursuant to the Italian Legislative decree no. 231/2001, which regulates sensitive activities through control protocols and specific procedures for activities entailing relationships with the medical community;
- a function to coordinate relationships with the medical community, with a view to disseminating information and providing professional and scientific support was created in key European countries.

During the 2017-2019 three-year period, there was no case of corruption, testifying to the effectiveness of the prevention systems in place and the solidity of the company's corporate culture.

6.3 BUSINESS ETHICS AND FAIR COMPETITION

Amplifon is strongly committed to ensuring ethical behavior. The entire workforce is expected to uphold the high standards set out in the Company's Code of Ethics. To this end, a coherent culture plays a central role in addressing behaviors and tackling unexpected events in a transparent and shared manner.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Creating value always implies taking risks and managing uncertainty. In a constantly evolving business environment characterized by volatile and unstable market conditions, risk management is even more important and requires organizations to identify risks and take advantage of opportunities.

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 Company and its subsidiaries to reach targets (particularly strategic goals), includes the definition of which steps to be taken to respond to the risk, implementation and subsequent updates which take place at least once a year at a Group level. Risk management allows for better informed business decisions, reduces the gaps between actual results and objectives and, lastly, nurtures a competitive advantage.

This activity is supported by the Group Risk & Compliance function and involves the Group's top management, the heads of the three regions, all country General Managers and their local management teams.

The following table shows the internal risk annual identification process that, by means of specific activities and analysis, identifies the main risks from a Group perspective, to verify the consistency between the risk identification and the strategy (whenever there is coherence, risk management leads to "assurance" on the accomplishment of strategic objectives), and to facilitate risk management also at local level.

RISK ASSESSMENT PROCESS

COUNTRY LEVEL

Country function phase: at least three risks for each of the Company's functions are identified, described, assessed and managed. **Main contributor is the new function manager**

Country phase: the top five risks at country level are selected among the functional ones. **The contributor is the management team under the responsibility of the General Manager**

CORPORATE LEVEL

Corporate function phase: at least three risks for each of the Company's functions are identified, described, assessed and managed. **Main contributor are the heads of the corporate functions**

GROUP LEVEL

The top risks at Group level are selected among the country and corporates ones. **The contributor is the CEO supported by the Group Risk & Compliance Officer**

The Group Risks Map is presented to the Risk, Control and Sustainability Committee and to the Board of Directors, as envisaged by the Corporate Governance Code issued by the Corporate Governance Committee of the Italian Stock Exchange.

The Group risks identified as the most important are subject to in-depth examination with the managers for the country (or countries) in question, in order to gain a more complete understanding of the underlying dynamics, the mitigation measures and the potential quantitative impacts. These risks are also subject to monitoring during the year.

The internal control system also consists of the set of rules, procedures and organizational structures designed to ensure, through proper identification, assessment, management and monitoring of primary risks, the following:

- safeguarding of corporate assets;
- efficiency and efficacy of corporate operations;
- reliability of financial information;
- compliance with laws and regulations.

In 2019, the Board of Directors, also based on the contribution of the Risk, Control and Sustainability Committee and as recommended by the Corporate Governance Code, expressed an opinion on the adequacy, efficiency and actual functioning of the internal control and risk management system.

COMPETITVE BEHAVIOR AND RESPONSIBLE MARKETING

The Company faces competition from various domestic and multinational companies offering hearing aids, including specialty, non-specialty (such as optical chains or pharmacies) and online players. Amplifon responds to competition by continually monitoring market changes and focusing its investment in differentiating its services and new acquisitions, always within a framework of fair competition. The Legal Affairs function is responsible for ensuring that the Company's competitive behavior takes place in accordance with ethical principles and applicable laws.

Responsible and reliable communication with customers is another key aspect of Amplifon's business ethics in order to prevent any risk of non-compliance with existing legislative regulations as well as any damage to reputation. During 2019, the Legal department, in collaboration with Corporate Marketing, developed a policy at Group level that will be implemented from 2020. This policy provides that any marketing content, from television campaigns to brochures, is to be subjected to legal review so as to ensure its compliance with local regulations related to the advertisement of medical devices and advertising communication. In any case, the Company's Code of Ethics dictates that all employees directly in contact with customers must provide accurate and comprehensive information regarding products and services, as well as clearly explain the information provided in advertising campaigns or elsewhere, so that customers are able to make informed decisions. Moreover, in 2017, Amplifon selected a single creative agency and media partner for all its EMEA campaigns, in order to align its marketing, advertising and communication strategies and thereby raise its brand awareness with a greater efficiency.

In the three-year period, 2017-2019, Amplifon has not received significant reports regarding commercial communication, nor has it been involved in any relevant legal action regarding unfair competition practices, thus testifying to the solid corporate culture that is respectful of the market in which it operates.

6.4 ENERGY EFFICIENCY AND WASTE MANAGEMENT

Despite being a service company rather than an industrial one, Amplifon is conscious of environmental issues and the challenges posed by climate change. The Company realizes that, for any forward-looking corporate responsibility strategy to be effective, it must encompass environmental footprint assessment activities intended to ensure the utmost environmental respect. Although specific Group policies on environmental issues are not in place, Amplifon continued to monitor the both the countries' central headquarters and the direct stores environmental performance. In 2019, more specifically, the Group focused on the inclusion of environmental data of the legal entities that were previously part of the GAES Group and the Chinese joint venture, with the aim of giving its stakeholders a more complete view of their impacts. Amplifon's commitment to these issues, defined in the Group Sustainability Policy, formalized in 2018, was further enhanced by the "We Care" Corporate Citizenship Program which launched certain waste reduction pilot schemes in the headquarters of the major countries in which Amplifon operates based on the voluntary adherence of each single country. With the goal of raising awareness among employees regarding environmental sustainability, local initiatives have been put in place to promote the reduction of food waste and the use of disposable plastic as well as the responsible use of printers.

In line with the previous year, heating/cooling systems and lighting at headquarters and direct shops make up the majority of energy consumption. As for electricity consumption for headquarters, in 2019 consumption was equal to 19,410 GJ - of which 38% certified as coming from renewable energy sources -, an increase of 43% compared to the 13,587 GJ of 2018. Direct shops contributed a further 92,910 GJ, an increase of about 26% compared to the 73,572 GJ in 2018, also in this case recording a significant contribution from the share of electricity certified as coming from renewable energy sources. These increases are mainly due to the acquisition of the headquarters and direct stores of the legal entities previously belonging to the GAES Group and to the consolidation of the Chinese joint venture, which, together to the bolt-on acquisitions made during the year, added around 700 points of sale to the distribution network, an increase of around 83,000 square meters to the total area compared to 2018, or an increase that is proportional to the one registered in electricity consumption. Similarly, the increase in electricity purchased from renewable sources is the result of the GAES contribution for Spain, whose electricity is fully covered by Certificates of Origin.

In 2019, Amplifon continued to monitor fuel consumption related to the heating of the direct shops network. For 2019, total consumption was equal to 18,884 GJ, mainly due to the consumption of natural gas (94%) and, to a lesser extent, to the consumption of burning oil. As regards natural gas, more specifically, in 2019 there was a decrease in consumption, both by the direct stores network (-17%) as well as in the various headquarters (-49%), the latter mainly attributable to the renovation of the Italian headquarters and to the change of headquarters in the United States. Finally, also the consumption of diesel and petrol related to the Group's fleet substantially increased compared to 2018.

ENERGY CONSUMPTION WITHIN THE ORGANIZATION (GJ)

	HEADQUARTERS			DIRECT STORES		
	2017	2018	2019	2017	2018	2019
Direct energy consumption from non-renewable sources	**57,467**	**59,709**	**68,123**	**-**	**22,367**	**18,884**
Natural gas	7,888	7,933	4,052	-	21,320	17,757
Burning oil	102	103	120	-	1,047	1,127
Diesel (car fleet – HQs only)	39,003	38,462	43,948	-	-	-
Petrol (car fleet – HQs only)	10,474	13,211	20,004	-	-	-
Indirect energy consumption	**13,258**	**13,967**	**24,617**	**70,981**	**73,572**	**93,011**
Purchased electricity from renewable sources	1,268	1,221	7,370	-	14,513	37,114
Purchased electricity from non-renewable sources	11,614	12,366	12,040	70,981	59,059	55,846
District heating	376	380	5,207	-	-	50
Total energy consumption	**70,725**	**73,676**	**92,740**	**70,981**	**95,940**	**111,894**

For details con energy consumption calculation, please refer to the Notes on methodology.

The Company is also striving to understand its carbon footprint by keeping track of direct and indirect emissions associated with fuel consumption for the Company's car fleet, refrigerant gas for cooling systems, energy consumption (electricity and heating) and business travels. As regards the emissions associated with the electricity purchased, the table below shows the values calculated using both the Location-based and the Market-based method, as required by the GRI Standards. The first reflects the average intensity of the emissions related to the networks from which the energy is supplied, while the second shows the emissions related to electricity that the Company has decided to purchase. Finally, emissions related to corporate air travel recorded a significant increase compared to 2018, mainly based on a better tracking of this information at Group level, guaranteed by the adoption of a single travel provider. From 2019, this information is further monitored by differentiating the different flight classes, i.e., by distinguishing between flights in Economy, Premium Economy, Business and First Class, for which different emission factors have been applied. In addi-tion to this, note that the increase in emissions is also linked to the increase in air travel, due to the dual effect of the presence of several expats in the Group and the growth in size of the Company.

In fact, the consolidation of GAES (around 600 points of sale) and the Company's M&A activity during the year led to an increase of around 83,000 square meters to the total area of both direct stores and headquarters compared to 2018, which proportionally increases emissions.

GREENHOUSE GAS EMISSIONS

Scope I (Direct emissions – tons of CO_2e)	2017	2018	2019
From fuels used for the car fleet	4,006	4,085	4,736
From fuels used for heating in the headquarters	390	410	229
From fuels used for heating in the direct stores	-	1,154	1,043
From refrigerant gas used for cooling systems in the headquarters and the direct stores	230*	531	271
Total	**4,626**	**6,180**	**6,279**

* 2017 refers to refrigerant gas in the headquarters only

Scope II (Indirect emissions – tons of CO_2e)	2017	2018	2019
From electricity purchased for the headquarters (Location-based)	1,546	1,598	2,063
From electricity purchased for the headquarters (Market-based)	1,686	1,709	1,732
From electricity purchased for direct stores (Location-based)	6,822	6,901	8,550
From electricity purchased for direct stores (Market-based)	8,168	5,615	4,983
From district heating for the headquarters	21	20	255
From district heating for direct stores	-	-	2
Total (Location-based)	**8,390**	**8,519**	**10,870**
Total (Market-based)	**9,875**	**7,343**	**6,972**

Scope III (Other indirect emissions – tons of CO_2)	2017	2018	2019
Business travels by airplane	1,930	1,941	4,624
Business travels by train	84	90	115
Business travels by car (hiring)	109	126	131
Total	**2,123**	**2,157**	**4,871**

Even though in 2019 Amplifon did not consider waste a material topic, the Group continued to monitor its management in the various headquarters in order to assess possible reduction strategies. With regard to the disposal method, which is strongly linked to local waste management systems, Amplifon sends over 75% of hazardous waste and 59% of non-hazardous waste to recycling. The remaining part is sent mostly to landfill. It should also be noted that the increase in waste for 2019 is mostly due to the inclusion of GAES in the data collection.

WASTE PRODUCTION WITHIN THE HEADQUARTERS (KG)[23]

	2017	2018	2019
Hazardous waste	13,983	67,544	43,146
Non-hazardous waste	124,790	150,615	333,301

23. Data related to the German headquarter estimated since 2018. Data related to the headquarter in Poland is not available.