

Investment Research

23 March 2010

Buy

Recommendation unchanged

Share price: EUR 3.57

closing price as of 22/03/2010

Target price: EUR 4.50

Target Price unchanged

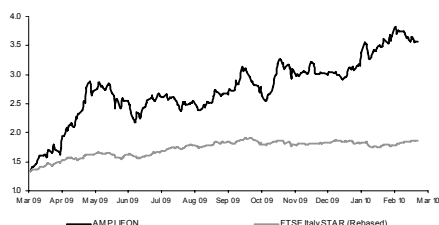
Reuters/Bloomberg

AMPF.MVAMP IM

Daily avg. no. trad. sh. 12 mth	625,654
Daily avg. trad. vol. 12 mth (m)	1.70
Price high 12 mth (EUR)	3.82
Price low 12 mth (EUR)	1.26
Abs. perf. 1 mth	1.0%
Abs. perf. 3 mth	17.0%
Abs. perf. 12 mth	178.7%

Market capitalisation (EURm)	706
Current N° of shares (m)	198
Free float	39%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	657	675	705
EBITDA (m)	90	98	113
EBITDA margin	13.7%	14.5%	16.1%
EBIT (m)	60	68	82
EBIT margin	9.1%	10.1%	11.6%
Net Profit (adj.)(m)	35	42	51
ROCE	10.7%	12.4%	15.2%
Net debt/(cash) (m)	150	124	85
Net Debt Equity	0.7	0.5	0.3
Net Debt/EBITDA	1.7	1.3	0.7
Int. cover(EBITDA/Fin.int)	6.6	8.5	9.7
EV/Sales	1.2	1.3	1.2
EV/EBITDA	8.6	8.7	7.2
EV/EBITDA (adj.)	8.6	8.7	7.2
EV/EBIT	12.9	12.6	9.9
P/E (adj.)	16.8	16.4	13.5
P/BV	2.7	2.8	2.5
OpFCF yield	13.4%	10.3%	11.2%
Dividend yield	0.9%	1.0%	1.1%
EPS (adj.)	0.18	0.22	0.27
BVPS	1.11	1.26	1.43
DPS	0.03	0.04	0.04



Shareholders: Amplifier N.V. 61%;

2010: Harvest time and a return to acquisitions

If 2009 was still a year of transition for the group, we believe that 2010 will be a year in which Amplifon:

- will further benefit from the operating leverage it obtained thanks to the several restructuring process it carried out in a number of markets last year;
- will once again start growing through acquisitions;
- will invest to maintain its competitive advantage on the other players (refurbishment of the stores with the new concept).

✓ FY 09 results showed a strong increase in profitability (FY 09 EBITDA growth was +21.3% Y/Y). This is the first important fruit from the re-organisation processes the company has undergone in several countries during the last two years, such as France, the Netherlands, Germany and the UK. Net debt recorded a highly significant decrease in 2009: EUR 150.0m at the end of 2009, lower than at the end of 2008 (EUR 190.6m). This improvement in the NFP is a sign of the group's strong capacity to generate cash in order to support the group's development even in an uncertain scenario.

✓ Based on what the management said, we believe that the following countries will be the main ones to contribute to further improve the group's sales and profitability in 2010 : 1) *France* (after the rationalisation and integration of the local network the company has carried out in the last two years, sales and profitability should improve further in 2010 thanks to continuous marketing investments and a good operating leverage); 2) *the UK* (after the restructuring process that allowed the group to reach operating breakeven in Q4 09, the local subsidiary should increase sold volumes and consequently reach reasonable profitability); 3) *Germany* (thanks to the creation of a homogeneous network after the several acquisitions in 2007 and 2008, Amplifon should start to acquire new local companies in order to increase sold volumes); 4) *North America* (this division should benefit from the first few positive effects of the first stage of the conversion process of the Sonus corporate stores into franchisee shops; furthermore, the group will benefit from the renewal of the supply agreement between its US subsidiary Miracle Ear and Siemens Hearing Instruments Inc. ("Mems") contract); the management managed to broker very favourable conditions, which will allow the group to increase its US profitability by a few percentage points .

✓ We confirm our **Buy recommendation** and we are setting a **target price of EUR 4.50 per share**, thus an upside of around 26.0% on the current share price.

For company description please see summary table footnote

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Investment Case

2009: the end of restructuring

FY 09 results showed a strong increase in profitability (FY 09 EBITDA growth was +21.3% Y/Y). This is the first important fruit from the re-organisation processes the company has undergone in several countries during the last two years, such as France, the Netherlands, Germany and the UK.

Net debt recorded a very significant decrease in 2009: EUR 150.0m at the end of 2009, lower than at the end of 2008 (EUR 190.6m). This improvement in the NFP is a sign of the group's strong capacity to generate cash in order to support the group's development even in an uncertain scenario.

2010: Harvest time and a return to growth ready for acquisitions

If 2009 was still a year of transition year for the group, we believe that 2010 will be a year in which Amplifon:

- *will further benefit from the operating leverage it obtained thanks to the several restructuring process it carried out in a number of markets last year;*
- *will once again start growing through acquisitions;*
- *will invest to maintain its competitive advantage on the other players (refurbishment of the stores with the new concept).*

Based on what the management said, we believe that the following countries will be the main ones to contribute to further improve the group's sales and profitability in 2010:

- *France* (after the rationalisation and integration of the local network the company has carried out in the last two years, sales and profitability should improve further in 2010 thanks to continuous marketing investments and a good operating leverage);
- *the UK* (after the restructuring process that allowed the group to reach operating breakeven in Q4 09, the local subsidiary should increase sold volumes and consequently obtain reasonable profitability);
- *Germany* (thanks to the creation of a homogeneous network after the several acquisitions in 2007 and 2008, Amplifon should start to acquire new local companies in order to increase sold volumes);
- *North America* (this division should benefit from the first few positive effects of the first stage of the conversion process of the Sonus corporate stores into franchisee shops; furthermore, the group will benefit from the renewal of the supply agreement between its US subsidiary Miracle Ear and Siemens Hearing Instruments Inc. ("Memosi" contract); the management managed to broker very favourable conditions, which will allow the group to increase its US profitability by a few percentage points.

Sector growth rates are holding fast

The hearing-aid segment has recorded continuous growth over the years (long-term market growth estimated at 4-7% in units per annum); it still shows a very low penetration rate compared to the real needs of people who suffer from hearing problems (only 10% of the population has a hearing impairment, but less than 2% wear any form of hearing device). Though the segment is not growing as fast as in the past few years, growth is continuing in the still current uncertain economic scenario.

Amplifon's network update

Amplifon is currently the world leader with an 8% market share in the distribution of hearing aids and in their adaptation to the needs of hypoacusis patients. The group is present in several markets: Italy, France, The Netherlands, Germany, Spain, Portugal, Switzerland, Belgium, Hungary, the UK, the USA and Egypt. The group currently boasts 3,000 stores, 2,900 Amplifon points, 1,700 USA network affiliates and 4,100 fitting specialists.

AMPLIFON'S NETWORK IN 2010



Source: Company presentation

SWOT Analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> Unique position in a growing market (Amplifon is a global leader in terms of volumes, revenues, geographical spread) Strong operational leverage thanks to high purchasing power with suppliers Unique relationship with ENT community Strong geographic differentiation Defensive business in the crisis Strong cash flow generation 	<ul style="list-style-type: none"> USD exposure (about 20% of total sales) and GBP exposure (about 5.5% of total sales) Sudden changes in health regulation (which do not allow the management to take immediate strategic measures to overcome the first few negative effects) Need to increase the market share to around 20% in some historical countries (such as France, Germany, Spain & Portugal) in order to maximize profitability
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Ageing population and demographic trends (e.g. baby boomers) Increasing acoustic pollution and even higher prevalence of technological devices driven by the modern lifestyle Growth through external acquisitions Large potential market (in industrialized countries, on average only 20% of people needing a hearing aid currently wear one) Improving adoption rates as stigma attached to hearing aids wears off Dynamic growth in emerging markets 	<ul style="list-style-type: none"> Increase in competitiveness and high price pressure due to a more aggressive competitive landscape: optical chains, private equity funds, traditional competitors moving abroad Potential longer and worse-than-expected economic downturn Potential acquisitions realized at an unfair value or characterised by strong difficulties in restructuring and integration (e.g. UK) Potential failure or delays in the restructuring process in the USA (a strong delay in restructuring of Sonus may not allow the group to recover a reasonable profitability in the short-medium term) Potential development of alternative technologies

FY 09 results

FY09 sales were EUR 657.0m, higher than in FY 08 (+2.4% Y/Y) and slightly higher than our estimate of EUR 650.8m. This result was due to: 1) slight sales growth in CE, +3.3% Y/Y (despite the weak performance in Germany, the positive trend has been maintained in all other European countries, especially in Q4); 2) US revenues increased by 6.5% Y/Y; 3) UK revenues fell by 18.2%.

FY 09 profitability grew at all levels, confirming the positive trend registered in 9M 09 (decidedly better than our estimate of EUR 84.0m): the increase in EBITDA came primarily from the CE contribution (+16.1%), which benefited from the better purchasing terms negotiated with suppliers in prior months, from the EUR 2.2m capital gain from the sale of the "Service Italia" division and from the contribution from the newly acquired Belgian company; furthermore, the US and UK divisions showed improvements in results that were in line with the group strategy.

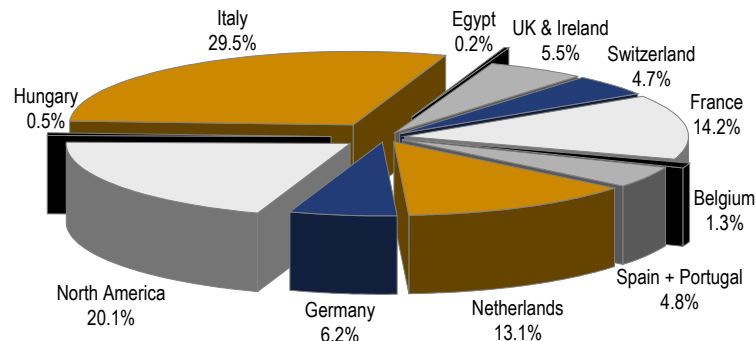
AMPLIFON: FY 09 results

	FY 08a	FY 09a	% Chg	Akros FY 09e	Vs Estimates
Sales	641.4	657.0	+2.4%	650.8	+1.0%
EBITDA	74.3	90.1	+21.3%	84.0	+7.3%
% margin	11.6%	13.7%		12.9%	
EBIT	15.6	59.9	+284.0%	54.0	+10.9%
% margin	2.4%	9.1%		8.3%	
Net profit (loss)	(14.5)	29.2	n.m.	25.7	+13.6%
% margin	n.m.	4.4%		3.8%	
Net Debt (Cash)	190.6	150.0		164.8	
D/E	1.04	0.69		0.9	
Debt/EBITDA	2.56	1.70		1.9	

Source: Company data and BANCA AKROS estimates

NFP as at 31 December 09 recorded net debt of EUR 150.0m and showed a strong reduction compared to the net debt of EUR 190.6m as at 31 December 08. This significant improvement in NFP confirmed the group's capability to generate strong cash flow.

AMPLIFON: FY 09 Sales breakdown by geographical area



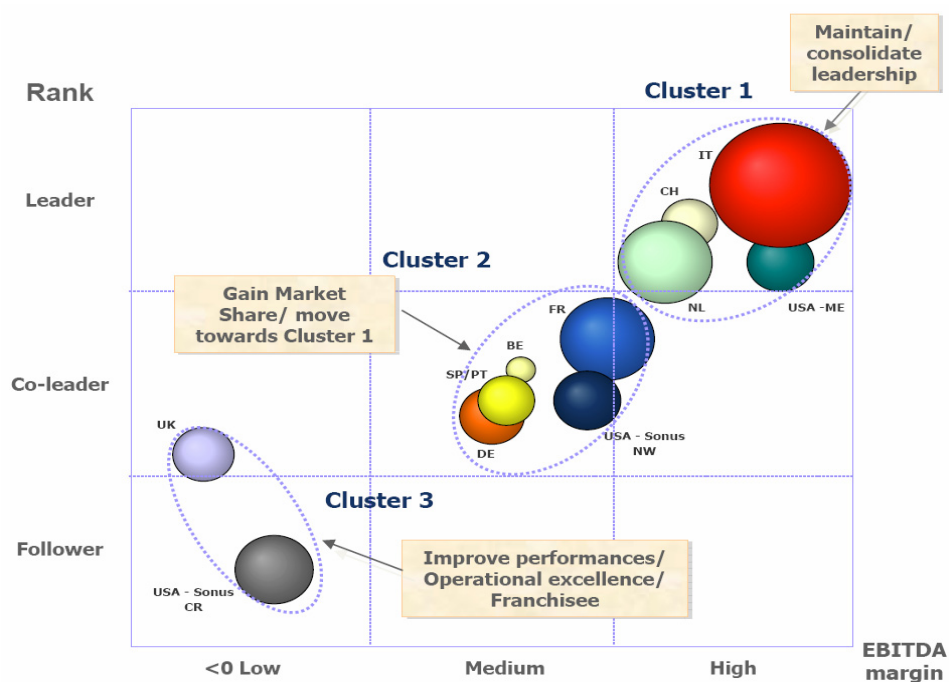
Source: Company Data

Group strategy

Different strategy for each cluster

The Group's growth strategy for the coming years is shown in the below graph.

AMPLIFON: Group's growth strategy



Source: Company presentation

The management aims to maintain the company's leadership and consolidate the profitability in the historical markets in which the group is the main operator and aims to steadily move the countries making up Cluster 2 and Cluster 3 towards the countries in Cluster 1.

Focus on 2010: different strategic actions for each market

For 2010, the management said that though there are still some signs of weakness and instability in all the reference markets, Amplifon is focused on the continuous and further improvement in operating efficiency, cost control and pursuit of an optimal market shares in all the countries it is present.

Cluster 1 – Maintain/consolidate leadership: the management aims to maintain the group's leadership in these countries through: 1) tight cost control (e.g. exploiting the competitiveness between the several hearing aid producers to strengthen its profitability); 2) creation of long lasting competitive advantage compared to the local competitors by leveraging on the strong brand awareness and launching an innovative concept store (see paragraph *A new Amplifon image* p. 10). *In 2010, for the main countries in this cluster (Italy, the Netherlands and Switzerland), we estimate Amplifon will slightly increase its revenues, but maintain the strong operating margins it reached last year (EBITDA margins higher than 20%).*

Furthermore, it is important to highlight that in countries like **Italy**, in which the Group's market share does not allow it to grow through acquisitions and where the hearing aid penetration rate is very low (well below 20%), Amplifon has to focus its strategic actions in order to enlarge the potential market. So, the management aims to persuade a higher number of people with hearing impairments to wear a hearing aid (e.g. TV campaigns made specifically to persuade an ever growing number of people to enter an Amplifon centre and try a hearing device).

Cluster 2 – Gain market share to move towards Cluster 1: the management aims to increase the group's market share in these countries both through organic growth and acquisitions in order to better offset the fixed costs. Most of Amplifon's local subsidiaries in these countries have been restructured and reorganised and are now unified, harmonised and renewed structures, so the management can now focus on them to increase sales and, consequently, to take advantage of the good operating leverage to improve profitability (we remind investors that the group's strategic target is to achieve at least a 20% market share in the markets it operates; this percentage is considered the necessary volume to reach an optimum level of profitability). *For some countries in this cluster, we estimate Amplifon's revenues in 2010 will increase by a high single digit and profitability to improve significantly; furthermore, we believe that in some countries (especially Germany) the group could achieve some new interesting acquisitions.*

Cluster 3 – Improve performances: the management will carry out different actions in the UK and in the USA in order to move these divisions, which are currently characterised by negative or low profitability, towards the group's average profitability.

Four bets for 2010

Based on the FY 09 results and on the current market situation, we believe that the 4 countries in which Amplifon will achieve the best performances in 2010 will be:

1. **FRANCE – market share increase and improvement in profitability:** after the reorganisation process carried out in the last two years, Amplifon France has been transformed from a "federation of several legal entities" into a single operational company (single brand, single marketing approach, single IT platform, common structures and common KPI to focus on efficiency). Therefore, as highlighted by the positive effects on sales the TV campaign launched in the second part of 2009 has had, Amplifon is now fully competitive with Audika, its main rival in the country. Amplifon's main priorities for 2010 are to increase its market share through organic and external growth.

In the first case, Amplifon will continue to use its double medical/mass market strategy, maintaining its marketing approach both with the ENT community and with the end clients through TV campaigns, the refurbishment of the stores and reinforcement of new channels such as internet, as well as a new approach towards insurance companies. It is important to highlight that, as in Italy, the French market is characterised by low penetration (around 18%), so there are potential patients in the zones covered by Amplifon's stores that can be reached through an effective marketing strategy.

Since the French market is still highly fragmented (60% of the hearing aid players are M&P shops) and there are still 32 departments in the countries that are not covered by Amplifon's stores, the management aims to re-launch a new acquisition program by leveraging on the new efficient structure and the know-how in terms of integration.

Therefore, we believe that Amplifon will manage to achieve FY 10 sales growth in France almost in line with 2009 and very quickly reach a margin of over 20%.

2. **UK – getting even closer to the operating breakeven point:** the UK division showed a positive sales trend inversion in the second part of 2009 thanks to the enlargement of its portfolio by way of a range of new products with a more attractive and competitive quality/price ratio. This sales recovery and the optimized structure allowed Amplifon to get closer to the EBITDA breakeven in Q4 09 (GBP -0.2m).

We believe that the positive contribution from *this enriched portfolio will allow Ultravox to slightly increase its FY 10 revenues despite the difficulties in the UK market; therefore, in our opinion, Ultravox should still reach a negative EBITDA, but close to breakeven in 2010*; consequently, the still slightly negative contribution from this division should have hardly any effect on the Group's profitability.

The consensus, and general opinion, is that after the coming general elections in the UK the new government will have to tackle the NHS problems, therefore it could count on the privatisation of the NHS hearing aid fitting service again. Nevertheless, we have not considered this possibility in our estimates since we believe that the new UK government will have to face several other important problems first, so the hearing aid reform could be low on its list of priorities.

3. **GERMANY – return to an increase in profitability and start to acquisitions again:** after the integration of the several acquisitions made in Germany as of 2007, the German division is currently a homogeneous network that can grow through further marketing investments to consolidate the current structure and the brand image. Furthermore, since Amplifon now has a single operational company at its disposal in Germany, *the management aims to start a new acquisition program again in order to increase its market share in Germany from the current 5% to 10% in a few years* (this share will allow Amplifon to launch a national TV campaign, which is currently the most effective channel to strengthen the brand awareness and to approach the highest possible number of potential clients).

In the last few months, Amplifon's management has been involved in the Geers deal (a hearing aid distributor with 6% of the German market, so it is an important competitor). Geers was acquired by Hal Private Equity fund last February; Amplifon's management decided to give up the acquisition due to the higher multiples required by the Geers Family and to differing points of view on governance (indeed, although Hal is now the main shareholder, the Geers Family still runs the company). Instead, Amplifon wants to realize accretive acquisitions at fair multiples and it is interested in acquiring full control of the target company in order to achieve complete integration. Since the German market is very fragmented (75% of the market is composed of M&P shops and small local distributors in the several areas of Germany) and Amplifon is present only in some parts of the country, *the management will focus on the acquisition of some local entities in order to reach national coverage in a few years*.

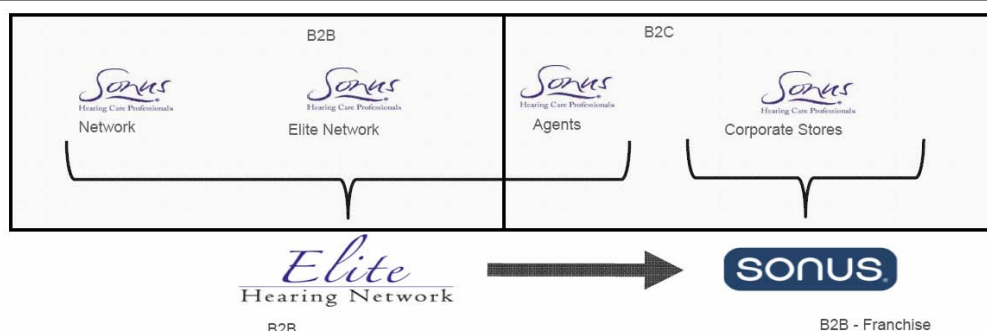
After the difficulties for the German division in the first part of 2009 due to unwillingness of the ENT community to accept regulatory changes that are more favourable to hearing-aid retail companies, *we expect sold volumes to start to rise again in 2010*. Furthermore, *we forecast a gradual improvement in profitability in Germany in 2010* due to the expected sales increase.

4. **USA – strong improvement in profitability:** *even though the sales recovery is late in arriving* due to a further squeeze in consumption (there is no national health reimbursement system in the USA), a significant increase in profitability is expected due to:
- better purchasing conditions due to the renewal of the supply agreement between Miracle Ear and Siemens Hearing Instruments Inc. ("Memsic" contract): just as it did in Europe in the first part of 2009, Amplifon signed an agreement to arrange for the supply of hearing aids produced by Siemens under the brand Miracle Ear; the agreement is due to last 6 years effective from January 1st, 2010. *The management said Amplifon managed to broker very favourable conditions, which will allow the*

group to increase its US profitability by some percentage points. During the transactions in the last few months, Siemens announced to the market that it was going to sell its hearing-aid division; therefore, since Amplifon is one of Siemens' main clients, we believe Amplifon has been very clever to exploit its bargaining power in order to obtain much better conditions than in the previous contract. Furthermore, in addition to the achieved cost savings, the renewed contract with Siemens is positive for Amplifon because: 1) the group can benefit from lower procurement costs as of January 2010, a year earlier than the expiry of the previous contract, which was fixed at the end of 2010; 2) the contract renewal with Siemens wipes out the business disruption costs due to the change of supplier. Lastly, it is important to highlight that the new contract includes an escape clause in Amplifon's favour; indeed, this clause allows Amplifon to withdraw from the contract without paying a penalty in the event Siemens sells its hearing aid division and if the product range set in the contract does not respect the required standards;

- the first few benefits from the first stage of the conversion process of the Sonus corporate stores into medical franchisee shops, replicating the success of the business model of Miracle-Ear in the retail segment; this transformation should allow the US division to reduce its fixed costs and create further economies of scale in terms of marketing investments (indeed, the stores will be converted based on Designated Market Areas – DMA, as defined by TV coverage. The first few stores will be converted into franchisee shops where there are sufficient providers to turn to media efficiently). In particular, the Sonus franchisee concept will be implemented in the first wave in 2 years time, reaching around 300 stores in order to gradually move profitability towards the average group level.

AMPLIFON: The new Sonus Franchise Model



Source: Company presentation

Furthermore, *in the event there is a recovery in consumption in the coming months*, we believe the US division could show significant growth in sold volumes and, thanks to the strong operating leverage, benefit from a potential rapid increase in profitability.

Although we estimate prudential US FY10 sales growth of 2.3%, we expect that, thanks to the cost savings due to the renewal of the Memsic contract (our estimate is around USD 7m) and the ongoing re-organisation process, EBITDA should strongly increase in 2010.

A new Amplifon image

A new image/message: an all-round approach and a new concept store

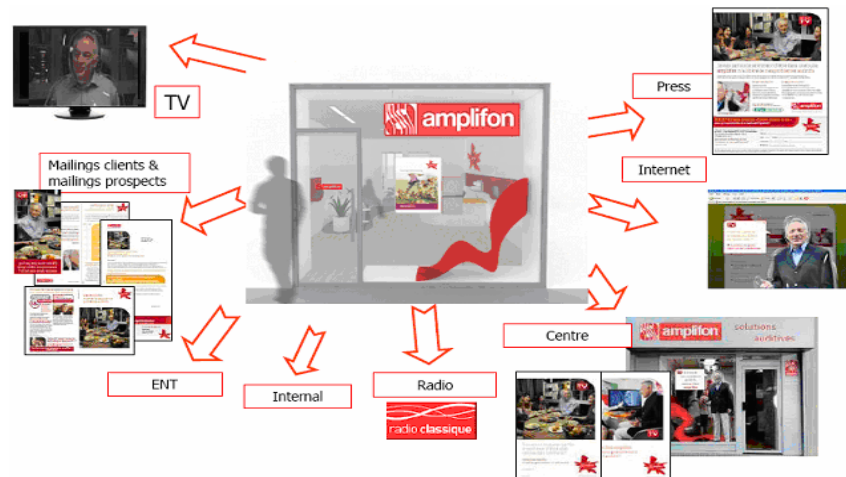
Given the increase in competitiveness and in the complexity of the social and economic scenario, the group has to update its message, its image and the way it makes itself known on the market and how it adapts to the new changes in the habits and in the lifestyles. In the coming years, the group's mission will be to serve the ever-growing population, for three basic reasons: 1) the increased life expectancy, thus a higher average age, together with growing noise pollution, will cause more and more cases of hearing loss or deficiency ; 2) the culture that demands ever better well-being and health will motivate more people to seek solutions to their hearing problems; 3) technical and scientific progress is already reducing or eradicating the problems of appearance and functionality, which in the past kept those people with hearing loss away from hearing-aids; furthermore, the foreseeable expansion of health authorities' efforts to increase public awareness will steadily improve the acceptance of hearing loss and the medical remedies for it.

New marketing strategy could be summarized with the following expression:

"Brand = Store"

Unlike the past, when messages and marketing languages were very different based on the various targets (ENT community or retail), in our modern society all people is strongly connected, the group has to use an all-round approach utilizing the same image with the retail and ENT community, in all its communications channels (TV, press, radio, internet,...), in the stores.

AMPLIFON: a 360° approach



Source: Company presentation

Therefore, based on this new strategic approach, Amplifon has developed a new concept stores. Indeed, the new layout is designed to convey openness, transparency and high visual impact, balancing emotional and rational branded communication. It displays information, hearing aids and accessories that lure customers to enter the store – going beyond the purely medical dimension to become a strong retail element to stimulate going through the door.

AMPLIFON: the new concept store



Source: Company presentation

A new approach to strengthen leadership and group profitability

We believe that this innovative approach will allow Amplifon to further stimulate organic sales growth in the markets the group has been present for a long time and consequently to maintain high profitability.

According to the management, the new concept stores will be rolled-out over the next five years; therefore, this is a mid-long term project under which the required investment will be earmarked for each quarter and for the various countries. The group will invest around EUR 17m per year to the refurbishment of the stores; therefore, this amount should be completely supported by the annual cash generation deriving from the operating activity.

Based on our estimates, we believe that *the investment required to achieve these new concept stores is around EUR 50,000/80,000 and that the investment should start to show returns in 1 to 2 years.*

We believe that the new concept stores will give positive effects both in terms of sales and profitability. This is because, as already seen in the pilot stores, the new stores will allow the group to obtain the following:

- **an increase in the appeal towards new customers** (a decrease in the average age of patients has been seen in the already opened stores; this means an enlargement of the potential market – the company has noticed that the average age of people turning to the stores is falling, which means the potential market is growing;
- **a rise in the sales conversion rate** (there is an increase in the number of free trials that turn into sales);
- **an increase in store efficiency** (the hearing aid fitting time per patient decreases);
- **an increase in the space set aside for accessories and complementary products in the retail area.**

Lastly, it is important to highlight that *the first few pilot stores that have been refurbished based on the new concept have been very successful: some stores recorded a sales growth above 20%.* Nevertheless, the management underlined that, at the moment, there is not sufficient evidence to suggest the results can be obtained on a larger scale, or that the same results can be achieved in all the stores once the project is in full swing. In any case, *in our opinion, the initial success confirms that the new concept stores are one of the essential key drivers to sustain the group's organic sales growth.*

An effective control of the performance: common KPI to focus on efficiency

We believe that the group has reached a good control of the return on investments and the effectiveness of its strategy.

An important sign of this is given by the implementation of some common KPI, which are suitable for monitoring 3 significant *conversion rates*:

- how many arranged meetings are converted into a check-up with the audiologist in the Amplifon stores;
- how many check-ups are converted into free trials of hearing aids;
- how many free trials are converted into sold hearing aids.

Solid financial structure thanks to strong debt reduction

■ Balanced capital structure

Net debt decreased significantly: EUR 150.0m at the end of 2009 (08 D/E of 0.69x), lower than at the end of 2008 (EUR 190.6m), due to the strong cash flow from operations (09 free cash flow generation was EUR 57.9m, after EUR 22.3m of capex, thus allowing the group to self finance acquisitions for EUR 17.4m).

The management managed to reduce NFP by around EUR 90m in two years (from EUR 240.8m at the end of 2007 to EUR 150.0m at the end of 2009). It is important to highlight that in 2008 a significant part of the debt reduction was realised thanks to the reduction in trade receivables, mainly due to the forfeiting of transactions (around EUR 45m), while in 2009 there were no one-offs, so the debt reduction was achieved thanks to the free cash flow generated by the group's operating activity.

Furthermore, while the group did not pay dividends in 2008, the BoD has proposed a dividend of EUR 0.033 per share for 2009.

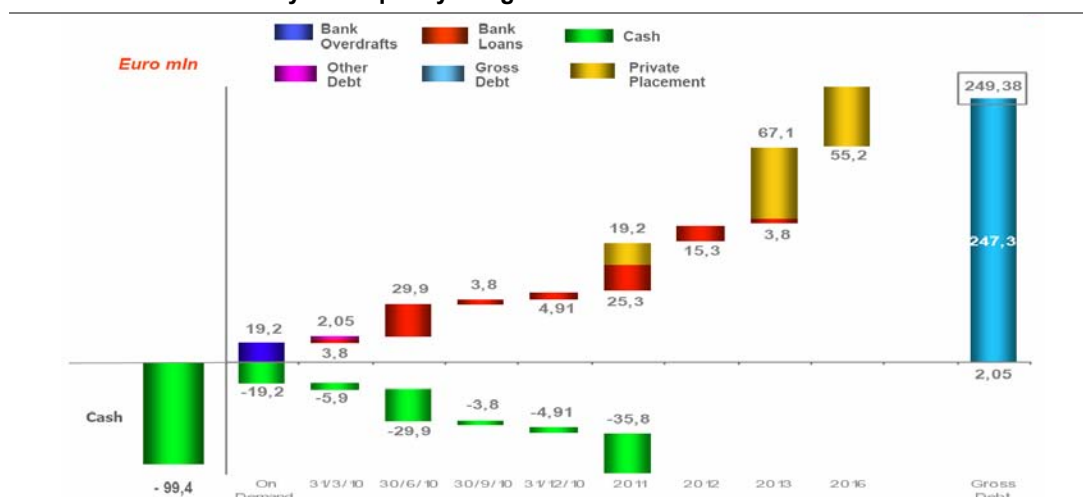
■ Sustainable debt structure

The management continues to maintain its careful financial strategy:

- Amplifon has 99.4m in cash, which covers a short-term debt of 65.1m;
- In December 2009, the company had approximately EUR 92.1m of undrawn credit lines of which EUR 25m are committed.

Based on the foregoing situation, and as shown by the following graph, Amplifon's current cash position covers maturities until August 2011; this does not include future cash flow.

AMPLIFON: debt maturity and liquidity margin



Source: Company presentation

■ No risk of breaching covenants

The group's solid financial structure and good cash flow enabled the group to comply with the Private placement and other bank loan covenants:

- FY 09 Debt/EBITDA was 1.70x compared to the covenants' target Debt/EBITDA of 3.5x;
- FY 09 Debt/Equity was 0.69x compared to the covenants' target Debt/EBITDA of 1.5x.

We believe that these covenants will be complied with also in 2010:

- FY 10e Debt/EBITDA should be around 1.26x;
- FY 10e Debt/Equity should be around 0.50x.

2010-2012 estimates

We believe that the group should realise quite a positive sales trend in the Continental European division thanks to its defensive profile (there are partial systems of reimbursement granted by local national health services and a stable pension environment) and an initial sales recovery in the USA, thus completely offsetting any potential weak sales growth in the UK in 2010. In terms of profitability, we estimate that, in line with the management's guidance, the group will manage to increase the current operative margins.

Based on our considerations above, we believe that 2010 will still be characterised by slight sales growth. On the contrary, we forecast a very good sales rebound in 2011 and further growth in 2012. Thanks to the realised structural efficiencies and an increase in sales volumes, we estimate that Amplifon will progressively continue to achieve profitability recovery as of 2010.

The following table shows our revenues forecast by geographic area.

AMPLIFON: net revenues forecast by geographic area

(EUR m)	FY 09	FY 10e	%Chg
Italy	194.1	195.3	0.6%
France	93.1	95.9	3.0%
The Netherlands	85.9	86.3	0.4%
Germany	40.5	41.5	2.5%
Spain - Portugal	31.3	31.4	0.3%
Switzerland	30.7	31.0	1.0%
Belgium	8.4	14.8	n.m.
Hungary	3.1	3.2	0.5%
Total Europe	486.8	489.3	0.5%
USA - Canada	132.4	137.3	3.7%
United Kingdom	36.4	36.5	0.3%
Egypt	1.4	1.5	10.0%
TOTAL	657.1	674.7	2.7%

Source: BANCA AKROS estimates

Based on these considerations and on our estimates for each country, as explained in the previous paragraph, we have summarised our forecasts in the following table.

AMPLIFON: 2109-2012 forecasts

PROFIT & LOSS (Euro m)	2009	2010e	%Chg	2011e	%Chg	2012e	%Chg
Sales	657.0	674.7	+2.7%	705.0	+4.5%	731.8	+3.8%
EBITDA	90.1	97.9	+8.6%	113.5	+15.9%	124.3	+9.6%
EBITDA margin	13.7%	14.5%		16.1%		17.0%	
Depreciation & amortization	(21.7)	(22.5)		(23.6)		(24.4)	
EBITA	68.4	75.4	+10.3%	89.9	+19.2%	99.9	+11.2%
EBITA margin	10.4%	11.5%		13.7%		15.2%	
Goodwill amortisation	(8.6)	(7.5)		(7.8)		(8.0)	
EBIT	59.9	67.9	+13.4%	82.1	+21.0%	91.9	+11.9%
EBIT margin	9.1%	10.3%		12.5%		14.0%	
Net financial income(charges)	(13.6)	(11.5)		(12.0)		(12.5)	
Non Recurrent items	0.0	0.0		0.0		0.0	
Pre-tax profit	46.3	56.4	+21.9%	70.1	+24.3%	79.4	+13.3%
Taxes	(17.1)	(19.7)		(24.5)		(27.8)	
Tax rate	36.9%	35.0%		35.0%		35.0%	
Minorities	(0.0)	(0.0)		(0.0)		(0.0)	
Net profit	29.2	36.6	+25.7%	45.6	+24.4%	51.6	+13.3%

Source: BANCA AKROS estimates

Our estimates do not include any significant acquisitions in strategic markets or in new countries since an external observer has low visibility on extraordinary operations such as new acquisition.

Cash flow generation will remain strong in the coming years, especially thanks to a progressive recovery in profitability. As such, Amplifon can easily finance its external growth. Assuming ordinary dividends of EUR 0.033-0.05 in the coming years, based on our estimates, the net debt should decrease from EUR 150.0m in 2009 to EUR 36.6m by 2012e.

AMPLIFON: Cash flow model (EUR m)

	2009	2010e	2011e	2012e
Net Profit (reported) + Minorities	29.2	36.7	45.6	51.6
Non cash items	30.3	30.0	31.3	3.4
Cash Flow	59.5	66.7	76.9	84.1
Change in Net Working Capital	21.2	6.2	1.5	1.3
Capex	-15.2	-27.7	-28.2	-29.3
Operating Free Cash Flow (OpFCF)	65.5	45.2	50.2	56.1
Net Financial Investment	1.6	0.0	0.0	0.0
Dividends	0.0	-6.5	-6.9	-8.1
Others (incl.Capital Increase)	-17.8	-12.5	-4.0	0.0
Free Cash Flow	49.3	26.1	39.2	48.0
Net Debt	150.0	123.8	84.6	36.6
Debt / Equity	0.69x	0.50x	0.30x	0.11x
Debt / Ebitda	1.70x	1.26x	0.75x	0.29x

Source: BANCA AKROS estimates

Valuation

Based on our DCF model, we come to a fair value of EUR 4.50 per share, thus to an upside of around 26.0% on the current share price. We are also presenting a comparison with the peer group in order to show the undemanding multiples at which the company is trading.

DCF valuation

We have run our DCF analysis based on the following assumption:

- Sales and profitability forecast: a) for the period 2010/2012e we assume the estimates described in the paragraph above; b) for the period 2013/2014e, we estimate a sales CAGR of 3.6%; c) in terms of long-term forecasts, we assume a stable EBIT margin at around 13.0% (higher than the current level, because we believe that, given the ongoing restructuring process in the USA and in the UK, the growing reference sector and the strong potential economies of scale realizable with high sales volume, it is a sustainable level).
- A WACC at 7.9% calculated by assuming: a) a risk-free rate of 4.5% and a market risk premium of 4.0%; b) a target capital structure with debt covering 30% of net capital employed; c) a beta at 1.2, to take into account the still low visibility on the business trend and the higher riskiness due to the current difficulties in the USA and in the UK.
- A terminal growth rate at 1.5%.

AMPLIFON: Free Cash Flow projection (EUR m)

	2010e	2011e	2012e	2013e	2014e
EBITA	75.4	89.9	99.9	110.6	117.4
Taxes	-26.4	-31.5	-35.0	-38.7	-41.1
Tax rate	35.0%	35.0%	35.0%	35.0%	35.0%
NOPLAT	49.0	58.4	65.0	71.9	76.3
Depreciation & other provisions	22.5	23.6	24.4	24.9	25.5
Operating Cash Flow	71.5	82.0	89.3	96.8	101.8
Capex	-27.7	-28.2	-29.3	-30.4	-31.4
Change in Net Working Capital	6.2	1.5	1.3	2.1	2.1
Free Operating Cash Flow (FOCF)	50.0	55.3	61.4	68.6	72.4

Source: BANCA AKROS estimates

AMPLIFON: DCF analysis

Perpetual Growth Rate	1.50%
WACC	7.86%
Terminal Value	1,252.1
Discounting Rate of Terminal Value	0.62
Discounted Terminal Value	781.7
Cumulated DFOCF	239.5
Financial Assets as of 31/12/09	21.5
Enterprise Value (EUR m)	1,042.7
Net Financial Debt as of 31/12/09 (EUR m)	(150.0)
Minorities market value (EUR m)	(2.0)
Equity Value (EUR m)	890.7
Value per share (EUR)	4.50

Source: BANCA AKROS estimates

DCF sensitivity table (EUR)

WACC	Terminal growth rate (g)						
	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%
7.10%	4.48	4.65	4.84	5.04	5.26	5.50	5.77
7.35%	4.33	4.49	4.66	4.85	5.05	5.27	5.51
7.60%	4.19	4.34	4.50	4.67	4.86	5.06	5.28
7.85%	4.06	4.20	4.35	4.51	4.68	4.87	5.07
8.10%	3.94	4.07	4.21	4.36	4.52	4.69	4.88
8.35%	3.83	3.95	4.08	4.22	4.37	4.53	4.70
8.60%	3.73	3.84	3.96	4.09	4.23	4.38	4.54

Source: BANCA AKROS estimates

Multiple comparison

We are also presenting a comparison with other industry players (hearing-aid producers and hearing-aid distributors).

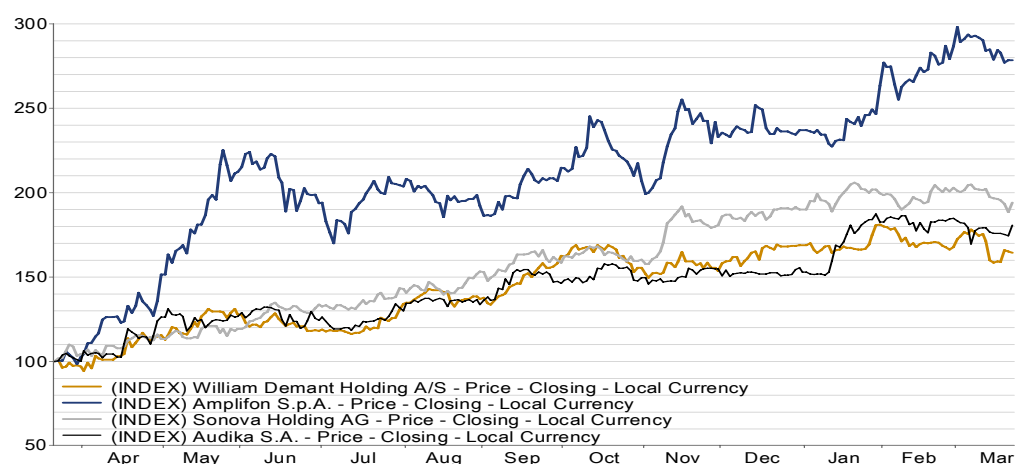
Though the stock has risen by 171.0% YTD and that the stock greatly outperformed the All Star Index by 145.2% YTD, as shown by the following table, we believe that Amplifon is still trading at undemanding multiples. In particular, at the current price, Audika, which is in our opinion Amplifon's best quoted "natural comparable", is trading at much higher multiples than Amplifon's.

AMPLIFON: multiple comparison

	EV/Sales 10	EV/EBITDA 10	P/E 10	P/BV 10
Audika	2.3x	10.3x	18.6x	4.0x
Sonova	4.6x	15.6x	20.7x	5.1x
W. Demant	3.8x	15.0x	22.7x	9.9x
Average	3.6x	13.6x	20.7x	6.3x
Amplifon	1.2x	8.7x	19.1x	2.3x

Source: BANCA AKROS estimates as of 22nd March 2010

AMPLIFON Peers' stock performance



Source: Facset

Conclusion

Based on the foregoing consideration, we confirm our Buy recommendation and we maintain a target price of EUR 4.50 per share, thus an upside of around 26.0% on the current share price.

Although the stock price has increased by 171.0% YTD incorporating, in our opinion, the effectiveness of the several restructuring and reorganisation processes, we believe that Amplifon is still an attractive investment case in the long term.

Furthermore, in our opinion, at the current price the stock still does not incorporate some important drivers for the coming future:

- its strong capacity to continue to generate cash in order to support the group's development and potential new acquisitions;
- the cost savings deriving from the renewed contract with Siemens in the USA (Memsic contract);
- the benefits deriving from the ongoing re-organisation of Sonus in the USA;
- its ever expanding reference market;
- the further potential improvement in profitability due to the investment in marketing and store refurbishment planned for the coming years.

Upcoming Corporate Events Calendar

Date	Event Type	Description	Period
21/04/10	AGM	Full year 2009 AGM - 1st call	2009
30/04/10	Results	Q12010 Results	2010Q1
10/05/10	Ex Dividend Date	Full year 2009 Ex-dividend date EUR 0.03	2009
13/05/10	Dividend Payment	Full year 2009 Dividend payment date EUR 0.03	2009

Amplifon: Summary tables

PROFIT & LOSS (EURm)	2007	2008	2009	2010e	2011e	2012e
Sales	668	641	657	675	705	732
Cost of Sales & Operating Costs	576	567	567	577	592	608
Non Recurrent Expenses/Income	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	92.2	74.3	90.1	97.9	113	124
EBITDA (adj.)*	92.2	74.3	90.1	97.9	113	124
Depreciation	-23.9	-21.1	-21.7	-22.5	-23.6	-24.4
EBITA	68.3	53.2	68.4	75.4	89.9	99.9
EBITA (adj)*	68.3	53.2	68.4	75.4	89.9	99.9
Amortisations and Write Down s	-26.7	-37.6	-8.6	-7.5	-7.8	-8.0
EBIT	41.6	15.6	59.9	67.9	82.1	91.9
EBIT (adj.)*	41.6	15.6	59.9	67.9	82.1	91.9
Net Financial Interest	-14.7	-17.7	-13.6	-11.5	-11.7	-11.7
Other Financials	-1.6	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	25.4	-2.1	46.3	56.4	70.4	80.2
Tax	-9.7	-12.2	-17.1	-19.7	-24.5	-27.8
<i>Tax rate</i>	<i>38.2%</i>		<i>36.9%</i>	<i>35.0%</i>	<i>35.0%</i>	<i>35.0%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-0.1	-0.3	0.0	0.0	0.0	0.0
Net Profit (reported)	16	-15	29	37	46	52
Net Profit (adj.)	32	18	35	42	51	58
CASH FLOW (EURm)	2007	2008	2009	2010e	2011e	2012e
Cash Flow from Operations before change in NWC	67.9	44.4	59.5	66.7	77.2	84.8
Change in Net Working Capital	13.3	36.2	21.2	6.2	1.5	1.3
Cash Flow from Operations	81.2	80.6	80.7	72.9	78.7	86.1
Capex	-57.7	-24.4	-29.2	-27.7	-28.2	-29.3
Net Financial Investments	1.6	3.8	1.6	0.0	0.0	0.0
Free Cash Flow	25.0	60.1	53.1	45.2	50.5	56.9
Dividends	-6.9	-7.9	0.0	-6.5	-6.9	-8.1
Other (incl. Capital Increase & share buy backs)	-55.1	-2.1	-12.4	-12.5	-4.0	0.0
Change in Net Debt	-37	50	41	26	40	49
NOPLAT	26	106	38	44	53	60
BALANCE SHEET & OTHER ITEMS (EURm)	2007	2008	2009	2010e	2011e	2012e
Net Tangible Assets	57.7	56.4	61.0	78.7	83.3	88.2
Net Intangible Assets (incl. Goodw ill)	351	307	318	311	303	295
Net Financial Assets & Other	18.5	19.0	21.5	21.5	21.5	21.5
Total Fixed Assets	427	382	401	411	408	404
Net Working Capital	30.0	-6.2	-27.4	-33.6	-35.1	-36.4
Net Capital Invested	457	376	373	377	373	368
Group Shareholders Equity	222	185	219	249	284	328
<i>o/w own Shareholders Equity</i>	<i>221</i>	<i>184</i>	<i>219</i>	<i>249</i>	<i>284</i>	<i>327</i>
Net Debt	241	191	150	124	84.6	36.6
Provisions	8	9	8	8	8	8
Other Net Liabilities or Assets	-14	-9	-4	-4	-4	-4
Net Capital Employed	457	376	373	377	373	368
GROWTH & MARGINS	2007	2008	2009	2010e	2011e	2012e
<i>Sales growth</i>	<i>8.9%</i>	<i>-4.0%</i>	<i>2.4%</i>	<i>2.7%</i>	<i>4.5%</i>	<i>3.8%</i>
EBITDA (adj.)* growth	-12.2%	-19.5%	21.3%	8.6%	15.9%	9.6%
<i>EBITA (adj.)* growth</i>	<i>-21.7%</i>	<i>-22.1%</i>	<i>28.5%</i>	<i>10.3%</i>	<i>19.2%</i>	<i>11.2%</i>
<i>EBIT (adj)*growth</i>	<i>-47.7%</i>	<i>-62.6%</i>	<i>284.1%</i>	<i>13.4%</i>	<i>21.0%</i>	<i>11.9%</i>
<i>Net Profit growth</i>	<i>-37.1%</i>	<i>-44.7%</i>	<i>95.2%</i>	<i>20.2%</i>	<i>22.6%</i>	<i>13.1%</i>
EPS adj. growth	-34.9%	653.7%	-85.7%	20.2%	21.8%	12.3%
<i>DPS adj. growth</i>	<i>14.3%</i>	<i>-chg</i>	<i>+chg</i>	<i>6.1%</i>	<i>17.1%</i>	<i>22.0%</i>
EBITDA margin	13.8%	11.6%	13.7%	14.5%	16.1%	17.0%
<i>EBITDA (adj)* margin</i>	<i>13.8%</i>	<i>11.6%</i>	<i>13.7%</i>	<i>14.5%</i>	<i>16.1%</i>	<i>17.0%</i>
<i>EBITA margin</i>	<i>10.2%</i>	<i>8.3%</i>	<i>10.4%</i>	<i>11.2%</i>	<i>12.7%</i>	<i>13.7%</i>
<i>EBITA (adj)* margin</i>	<i>10.2%</i>	<i>8.3%</i>	<i>10.4%</i>	<i>11.2%</i>	<i>12.7%</i>	<i>13.7%</i>
<i>EBIT margin</i>	<i>6.2%</i>	<i>2.4%</i>	<i>9.1%</i>	<i>10.1%</i>	<i>11.6%</i>	<i>12.6%</i>
<i>EBIT (adj)* margin</i>	<i>6.2%</i>	<i>2.4%</i>	<i>9.1%</i>	<i>10.1%</i>	<i>11.6%</i>	<i>12.6%</i>

Amplifon: Summary tables

RATIOS	2007	2008	2009	2010e	2011e	2012e
Net Debt/Equity	1.1	1.0	0.7	0.5	0.3	0.1
Net Debt/EBITDA	2.6	2.6	1.7	1.3	0.7	0.3
Interest cover (EBITDA/Fin.interest)	6.3	4.2	6.6	8.5	9.7	10.6
Capex/D&A	241.2%	115.8%	134.3%	123.0%	119.7%	120.0%
Capex/Sales	8.6%	3.8%	4.4%	4.1%	4.0%	4.0%
NWC/Sales	4.5%	-1.0%	-4.2%	-5.0%	-5.0%	-5.0%
ROE (average)	13.1%	8.7%	17.1%	17.8%	19.1%	18.9%
ROCE (adj.)	5.9%	29.7%	10.7%	12.4%	15.2%	17.2%
WACC	8.4%	8.0%	8.0%	8.7%	8.7%	8.1%
ROCE (adj.)/WACC	0.7	3.7	1.3	1.4	1.8	2.1
PER SHARE DATA (EUR)***	2007	2008	2009	2010e	2011e	2012e
Average diluted number of shares	197.8	197.8	197.8	197.8	197.8	197.8
EPS (reported)	0.08	-0.07	0.15	0.19	0.23	0.26
EPS (adj.)	0.17	1.26	0.18	0.22	0.27	0.30
BVPS	1.12	0.93	1.11	1.26	1.43	1.65
DPS	0.04	0.00	0.03	0.04	0.04	0.05
VALUATION	2007	2008	2009	2010e	2011e	2012e
EV/Sales	1.4	0.6	1.2	1.3	1.2	1.0
EV/EBITDA	10.3	5.1	8.6	8.7	7.2	6.2
EV/EBITDA (adj.)*	10.3	5.1	8.6	8.7	7.2	6.2
EV/EBITA	13.9	7.1	11.3	11.3	9.0	7.7
EV/EBITA (adj.)*	13.9	7.1	11.3	11.3	9.0	7.7
EV/EBIT	22.8	24.1	12.9	12.6	9.9	8.3
EV/EBIT (adj.)*	22.8	24.1	12.9	12.6	9.9	8.3
P/E (adj.)	20.7	0.7	16.8	16.4	13.5	12.0
P/BV	3.1	0.9	2.7	2.8	2.5	2.2
Total Yield Ratio	1.2%	0.0%	0.9%	1.0%	1.1%	
EV/CE	2.2	1.1	2.2	2.4	2.3	2.2
OpFCF yield	11.8%	49.2%	13.4%	10.3%	11.2%	12.2%
OpFCF/EV	8.5%	21.5%	10.4%	8.5%	9.7%	11.3%
Payout ratio	50.9%	0.0%	22.4%	18.9%	17.8%	19.2%
Dividend yield (gross)	1.2%	0.0%	0.9%	1.0%	1.1%	1.4%
EV AND MKT CAP (EURm)	2007	2008	2009	2010e	2011e	2012e
Price** (EUR)	3.5	0.8	3.0	3.6	3.6	3.6
Outstanding number of shares for main stock	198	198	198	198	198	198
Total Market Cap	687	164	600	706	706	706
Net Debt	241	191	150	124	84.6	36.6
<i>o/w Cash & Marketable Securities (-)</i>	<i>0.0</i>	<i>-27.5</i>	<i>-34.3</i>	<i>-34.3</i>	<i>-34.3</i>	<i>-34.3</i>
<i>o/w Gross Debt (+)</i>	<i>241</i>	<i>218</i>	<i>184</i>	<i>158</i>	<i>119</i>	<i>70.9</i>
Other EV components	23	21	24	23	23	23
Enterprise Value (EV adj.)	951	375	774	853	813	765

Source: Company, Banca Akros estimates.

Notes

* Where EBITDA (adj.) or EBITA (adj.) or EBIT (adj.) = EBITDA (or EBITA or EBIT) +/- Non Recurrent Expenses/Income

**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

***EPS (adj.) diluted= Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.

Sector: Healthcare/Medical Equipment

Company Description: Established in 1950, Amplifon is the world leader (8% market share – 13% in the countries it is present) in the distribution of hearing aids and in their adaptation to the needs of hypoacusis patients. The company's main markets are: Italy, France, The Netherlands, Germany, Spain, Portugal, Switzerland, the UK, the USA and finally Belgium, in which the group acquired Dialogue last July, the second largest distributor of hearing aids in the country. The group currently boasts 3,000 retail outlets, 3,500 service centres and around 3,600 fitting specialists. £cr£

ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.

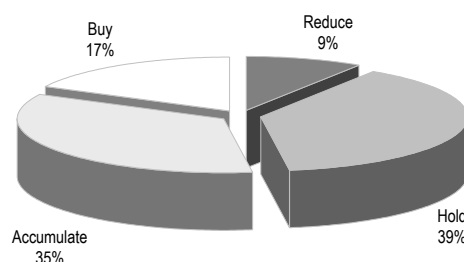
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 20%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
- **Hold:** the stock is expected to generate total return of **0% to 10%** during the next 12 months time horizon.
- **Reduce:** the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
- **Sell:** the stock is expected to generate total return **under -10%** during the next 12 months time horizon
- **Rating Suspended:** the rating is suspended due to a capital operation (take-over bid, SPO, ...) where the issuer of the document (a partner of ESN) or a related party of the issuer is or could be involved or to a change of analyst covering the stock
- **Not Rated:** there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

Banca Akros Ratings Breakdown

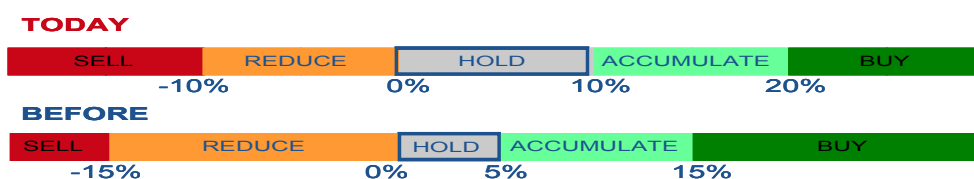


History of ESN Recommendation System

Since 18 October 2004, the Members of ESN are using an Absolute Recommendation System (before was a Relative Rec. System) to rate any single stock under coverage.

Since 4 August 2008, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:



Il presente documento è stato redatto da Paola Saglietti (socio AIAF) che svolge funzioni di analista presso Banca Akros SpA ("Banca Akros"), soggetto responsabile della produzione del documento stesso.

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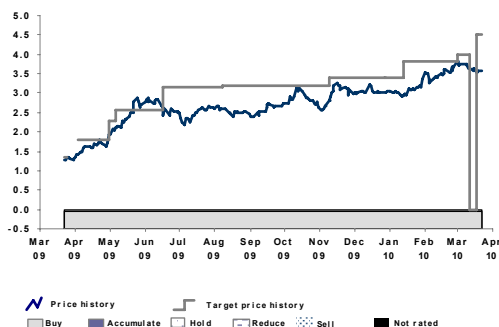
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Recommendation history for AMPLIFON

Date	Recommendation	Target price	Price at change date
18-Mar-10	Buy	4.50	3.55
12-Mar-10	Buy	0.00	3.65
01-Mar-10	Buy	4.00	3.82
13-Jan-10	Buy	3.80	2.95
09-Nov-09	Buy	3.40	2.79
07-Aug-09	Buy	3.20	2.60
17-Jun-09	Buy	3.15	2.42
06-May-09	Buy	2.55	2.12
30-Apr-09	Buy	2.30	1.94
03-Apr-09	Buy	1.80	1.42

Source: Factset & ESN, price data adjusted for stock splits.

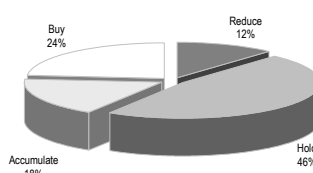
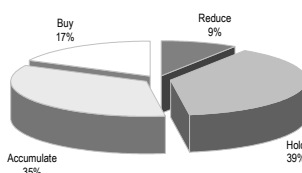
This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Paola Saglietti (since 30/01/2006)



Percentuale delle raccomandazioni al 31 dicembre 2009

Tutte le raccomandazioni

Raccomandazioni su titoli in conflitto di interessi (*)



(*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 20% del totale degli emittenti oggetto di copertura

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