

7. Income Statement

7.1 Operating revenues

The breakdown of operating revenues by business unit is reported below:

Operating revenues by Business Unit		
(In thousands of Euro)	2016	2015
Aviation	415,942	395,891
Non Aviation	216,071	217,098
Total Operating revenues	632,013	612,989

The breakdown of aviation operating revenues is reported below.

Aviation operating revenues		
(In thousands of Euro)	2016	2015
Centralised infrastructure and rights	355,149	332,147
Operating revenues from security controls	45,209	48,832
Use of regulated spaces	15,584	14,912
Total Aviation operating revenues	415,942	395,891

Aviation revenue in 2016 increased Euro 20,051 thousand compared to the previous year, from Euro 395,891 thousand in 2015 to Euro 415,942 thousand in 2016. This growth was supported by the tariff adjustment defined in the Regulatory Agreement and the increase in passenger and cargo traffic resulting from: i) activation of thirteen new flights and increase of various flights on existing routes; ii) the interest of new airlines; iii) increase of places offered by Airlines; and,

iv) signing of new bilateral agreements with South Korea and Qatar and updating of some existing agreements. Passenger traffic reported an increase in movements of 3.1% and passengers of 3.1%. Cargo traffic continued the positive trend (with a 7.2% growth), beating the historic record of the previous year in terms of movements which stood at 549 tonnes of handled cargo. For additional information see the Directors' Report.

The breakdown of Non Aviation operating revenues is reported below

Non Aviation operating revenues		
(In thousands of Euro)	2016	2015
Retail	86,476	85,239
Parking	60,322	57,160
Cargo spaces	11,696	11,699
Advertising	10,316	12,005
Premium services	13,789	13,239
Real estate	1,608	1,578
Services and other revenues	31,864	36,178
Total Non Aviation operating revenues	216,071	217,098

It should be noted that for a better presentation of the financial statement figures, the breakdown of this item has been expanded, compared to the previous year, with the indication of revenues from "Premium

services" and "Real estate", with consequent reclassification of the values from "Services and other revenues" for comparative purposes.

The breakdown of retail revenues is reported below.

Retail Revenues		
(In thousands of Euro)	2016	2015
Shops	45,174	44,603
Food & Beverage	17,485	16,730
Car rental	14,652	14,364
Banking	9,165	9,542
Total Retail	86,476	85,239

The change in Non Aviation operating revenues shows a reduction of Euro 1,027 thousand for the following contrasting effects: i) Retail Revenues, with growth of Euro 1,237 thousand following the higher royalties accrued on concessions for shops. Specifically, this income was positively effected by the increase of passenger traffic, development of the retail offer at Malpensa Terminal 1 with its restyling including the opening of important brands in the "Piazza del Pop" and positive trend in the food & beverage offering in both airports; ii) Revenues from carparks with an increase of Euro 3,162 thousand thanks to an intense sales policy, characterised by a constant communication activity, differentiation of rates based on customer needs and season and continual renewal of the sales channels. This trend also benefited from the progressive resto-

ration during the year of the parking spaces affected by the railway station construction work at Malpensa Terminal 2; iii) Revenues from advertising with a reduction of Euro 1,689 thousand since the previous year had benefited from promotional investments of an exceptional nature linked to EXPO; iv) Premium Services with an increase of Euro 550 thousand, mainly due to on demand services (security services, access to Vip room, and hospitality related services); v) Services and other revenues with a decrease of Euro 4,314 thousand since the previous year had been affected by other income of a non-recurring nature linked to the settlement of payable bonds.

The item "Services and other revenues" is primarily composed of income from designing activity, ticket services, service activity and other income.

7.2 Revenue for works on assets under concession

Revenues for works on assets under concession decreased from Euro 52,384 thousand in 2015 to Euro 46,622 thousand in 2016.

These revenues, as per IFRIC 12, refer to construction work on assets under concession increased by a mark-up of 6%, representing the best estimate of the remuneration of the internal cost for the management of the works and design activities undertaken by the Company, which corresponds to a mark-up which a general constructor would request to undertake such

activities and are included in the Aviation business unit.

This account is strictly related to investment and infrastructure upgrading activities. For further information on the main investments in the period, reference is made to *Note 6.1*.

The account "Costs for work on assets under concession" (*Note 7.6*) reflects the decrease in the year due to lower work on assets under concession.

7.3 Personnel costs

The breakdown of personnel costs is as follows:

Personnel costs		
(In thousands of Euro)	2016	2015
Wages and Salaries	124,137	120,226
Social security charges	36,452	35,677
Employee Leaving Indemnity	7,642	7,441
Other personnel costs	9,247	6,920
Total	177,478	170,264

Personnel costs increased by Euro 7,214 thousand, from Euro 170,264 thousand in 2015 to Euro 177,478 thousand in 2016 (+4.2%).

This change is primarily related to the effect of the renewal of the National Collective Labour Contract signed in the second half of 2014 with a wage increase divided into various tranches including the last one scheduled for July 1, 2016 and the incentive plans

to leave established with the trade unions, phenomena that together results in a 3.5% increase in costs. For more information on the incentive plan to leave see the Directors' Report in the "Human resources" section.

The table below shows the average number of FTE (Full Time Equivalent) employees by category, compared with the previous year:

Average number of employees (FTE)				
	January - December			
	2016	%	2015	%
Executives	52	2%	53	2%
Middle Managers	261	10%	257	10%
White-collar	1,720	63%	1,681	62%
Blue-collar	660	24%	658	25%
Total employees	2,693	99%	2,649	99%
Agency employees	23	1%	20	1%
Total employees	2,716	100%	2,669	100%

The increase in personnel is due to the expansion of the security activities, created from personnel for the airport handling businesses.

Finally, the total number of employees in terms of HDC (Head-count) at the reporting date is also provided.

Head Count at period-end

	At December 31		
	2016	2015	delta
Employees HDC (at year-end)	2,792	2,795	(3)

7.4 Consumable materials

The breakdown of "Consumable materials" is as follows:

Consumable Materials

<i>(In thousands of Euro)</i>	2016	2015
Raw materials, consumables and supplies	8,341	10,517
Changes in inventories	670	901
Total consumable Materials	9,011	11,418

The account "Consumable materials" mainly includes the purchase of goods for airport activities (chemical products for de-icing and de-snowing, clothing, spare parts, etc.). The change of Euro 2,407 thousand

compared to the previous year is principally due to reduced purchases for inventories of chemical products for de-icing and anti-icing utilised in the case of snow and/or ice and fuel.

7.5 Other operating costs

The table below reports the breakdown of the account "Other operating costs":

Other operating costs		
(In thousands of Euro)	2016	2015
Commercial costs	44,251	40,513
Utilities and security	34,059	34,507
Public bodies	31,132	29,662
Ordinary maintenance costs	24,224	24,418
Airport handling services costs	22,899	23,896
Cleaning	13,221	13,194
Use of car parking spaces	12,072	11,164
Professional services	8,784	11,331
Tax charges	6,459	6,464
Hardware & software charges & rent	4,206	4,194
Disabled assistance service	3,633	3,600
Rental of equipment and vehicles	3,326	3,118
Insurance	1,277	1,680
Board of Statutory Auditors & BoD fees	701	867
Losses on assets	170	363
Premises rental	156	178
Other costs	12,443	12,059
Total other operating costs	223,013	221,208

In 2016, the account "Other operating costs" increased by Euro 1,805 thousand compared to the previous year. This increase was principally due to the following factors:

- higher commercial costs of Euro 3,738 thousand related principally to the increase in traffic incentive charges;
- increase in concession fees to Public Entities for Euro 1,470 thousand following the higher concession fee which SEA must pay for the year 2016 to ENAC. This increase is strictly correlated to the traffic numbers;
- lower costs for airport services provided by handling companies for Euro 997 thousand mainly connected to emergency/contingency services, snow emergency services and de-icing services;
- increase in costs for management of on-line sales for the Orio al Serio carparks for Euro 908 thousand;
- reduction of costs related to professional services

for legal, administrative and strategic services for Euro 2,547 thousand since the previous year was affected by charges for transactions of an extraordinary nature;

- reduction in insurance costs of Euro 403 thousand, following the renegotiation of expiring insurance policies.

The residual account "Other costs" includes, principally, the remuneration to SEA for airport charges collection activity connected to general aviation totalling Euro 4,088 thousand (Euro 291 thousand in 2015), catering costs for the VIP lounge of Euro 2,550 thousand (Euro 2,579 thousand in 2015), commission and brokerage costs of Euro 1,374 thousand (Euro 1,273 thousand in 2015), other industrial costs (mainly certification and authorisation charges, reception and welcoming passengers etc.) of Euro 550 thousand (Euro 564 thousand in 2015), landside transportation services of Euro 846 thousand (Euro 981 thousand in 2015), association contributions paid by the Company of Euro

932 thousand (Euro 833 thousand in 2015), purchase and subscription of newspapers and magazines of Euro 467 thousand (Euro 411 thousand in 2015) and office running expenses. It should be noted that this item in 2015 also included the cost, for Euro 3,365 thousand, related to the payment of the administrative fine issued by the Anti-trust Authority (AGCM) following the conclusion of the Proceeding related to the allegation of abuse of the dominant position in the called for tenders procedure for ATA Ali Trasporti Aerei SpA (now SEA Prime SpA) and ATA Ali Servizi SpA (now Flight Signature Support Italy Srl).

The subsidiary SEA Energia SpA submitted an application to the GSE on September 29, 2015, to obtain the SEESEU qualification which would enable it to obtain preferential tariff conditions on the electricity consumed and not withdrawn from the grid to the extent of 5% of the corresponding unit amounts payable and charged back to SEA.

On February 28, 2017, following a receipt of a notice of rejection, the subsidiary SEA Energia SpA sent the additional documentation to GSE to satisfy the requests received.

Despite the uncertainties related to the progress of the application and the fact that the SEESEU-C qualification for application of the preferential tariff system

charges had not yet been obtained as at the reporting date, the Directors of the subsidiary considered it reasonable to estimate the payment of system charges for the years 2015 and 2016 on favourable tariff conditions, supported by their technical management regarding the objective evidence in support of the application and on the basis of the progress in the application process.

Therefore the cost of energy under "Utilities and Security" is increased by system charges estimated at the preferential 5% rate.

7.6 Costs for works on assets under concession

Revenues for works on assets under concession decreased from Euro 48,781 thousand in 2015 to Euro 43,114 thousand in 2016. The change in the account is related to the investment activities (*Note 7.2*).

These costs refer to the costs for the works undertaken on assets under concession and concern the Aviation business unit.

7.7 Provisions and write-downs

The breakdown of provisions and write-downs is as follows:

Provisions & write-downs		
(In thousands of Euro)	2016	2015
Provisions / (releases) of receivables of current assets and cash and cash equivalents	3,908	(3,808)
Fixed assets write-downs	-	2,091
Provisions for future charges	(464)	4,749
Total provisions and write-downs	3,444	3,032

In 2016, "Provisions and write-downs" increased by Euro 412 thousand compared to the previous year, from Euro 3,032 thousand in 2015 to Euro 3,444 thousand in 2016.

The doubtful debt provision in the year was calculated to take into account the risk in deterioration of the financial positions of the principle operators with which disputes exist and write-downs for receivables under administration.

The net releases for future risks and charges, amounting to Euro 464 thousand in 2016 (net provisions totalling Euro 4,749 thousand in 2015), have higher releases, only partly offset by provisions, performed consistent with previous years and refer principally to adjustments on valuations related to legal disputes concerning the operational management of the Milan Airports.

7.8 Restoration and replacement provision

The breakdown of the restoration and replacement provision is as follows:

Restoration & replacement provision		
(In thousands of Euro)	2016	2015
Restoration & replacement provision	17,100	14,150
Total restoration & replacement provision	17,100	14,150

This account includes the provision for the year relating to the scheduled replacement and maintenance of the assets within the so-called "Concession Right".

The account increased Euro 2,950 thousand in 2016, from Euro 14,150 thousand in 2015 to Euro 17,100 thousand in 2016, following the updating of the long-

term scheduled replacement and maintenance plan of the assets within the so-called "Concession Right".

7.9 Amortisation and depreciation

The account "Amortisation & depreciation" is comprised of:

Amortisation and Depreciation		
(In thousands of Euro)	2016	2015
Amortisation of intangible assets	44,516	41,855
Depreciation of property, plant & equipment	13,537	13,900
Depreciation of investment property	2	2
Total amortisation and depreciation	58,055	55,757

The depreciation of tangible fixed assets reflects the estimated useful life made by the company while, for the intangible assets within the "Concession Right", consideration is taken of the concession duration.

7.10 Investment income and charges

The breakdown of investment income and charges is as follows:

Investment income (charges)		
(In thousands of Euro)	2016	2015
SEA Handling SpA Revaluation (write-down)	(249)	3,229
Dividends from SACBO SpA	1,801	1,361
Dividends from SEA Services Srl	680	528
Dividends from Disma SpA	281	328
Dividends from Malpensa Logistica Europa SpA	173	
Other income	1,901	
Dividends from Dufrital SpA		120
Total investment income (charges)	4,587	5,566

The item balance shows investment income of Euro 4,587 thousand at December 31, 2016, compared with investment income of Euro 5,566 thousand in the previous year.

Investment income increased by Euro 598 thousand compared to the previous year, increasing from Euro 2,337 thousand in 2015 to Euro 2,935 thousand in 2016. These amounts concern dividends received from investees.

The other income, totalling Euro 1,901 thousand, refers to the income matured on the Financial Instruments of Participation in Airport Handling SpA.

The item "Revaluation (Write-down) of SEA Handling

SpA in liquidation", totalling Euro -249 thousand in 2016 (Euro 3,229 thousand in 2015), refers to the write-down of the value of the investment held in SEA Handling in liquidation with the aim of realigning the value of the investment to the estimated value of assets that can be liquidated to SEA.

For further information, reference should be made to Note 6.4.

7.11 Financial income and charges

The breakdown of the account "Financial income and charges" is as follows:

Financial income (charges)		
(In thousands of Euro)	2016	2015
Currency gains	12	8
Other financial income	1,120	1,528
Total financial income	1,132	1,536
Interest expense on medium/long-term loans	(12,793)	(13,725)
Currency losses	(2)	(5)
Other interest expenses	(6,116)	(6,119)
Total financial charges	(18,911)	(19,849)
Total financial income (charges)	(17,779)	(18,313)

Net financial charges decreased by Euro 534 thousand, from Euro 18,313 thousand in 2015 to Euro 17,779 thousand in 2016. While financial income decreased by Euro 404 thousand, financial charges recorded a positive trend with a decrease in costs of Euro 938 thousands.

The reduction in financial charges of Euro 938 thousand is mainly due to the decrease in the average cost of medium/long term debt, based on the trend of interest rates, and decrease of gross debt, with lower interest expense. It should also be noted that the positive effect related to the decrease of interest expense for the finance lease, expired April 30, 2016, for Euro 125 thousand (dropping from Euro 136 thousand in 2015 to Euro 11 thousand in

2016), post-employment benefits for Euro 156 thousand (dropping from Euro 801 thousand in 2015 to Euro 645 thousand in 2016), fees on loans for Euro 173 thousand, is basically offset by the increase, totalling Euro 390 thousand, of the expenses related to bank guarantees linked to the distribution of EIB loans in June 2015.

For further information on the change in the financial liabilities, reference should be made to Note 6.18.

Finally the decrease in financial income of Euro 404 thousand was mostly influenced by the combined effect of reduced average cash balance on bank current accounts and the trend in interest rates.

7.12 Income taxes

The breakdown of the account “income taxes” is shown below:

Income taxes		
(In thousands of Euro)	2016	2015
Current income taxes	47,013	49,230
Deferred income taxes	(640)	231
Total	46,373	49,461

The reconciliation between the theoretical and effective IRES tax rate for 2016 is shown below:

(In thousands of Euro)	2016	%
Pre-tax profit	134,229	
Theoretical income taxes	36,913	27.5%
Tax effect of permanent differences	(153)	-0.1%
IRAP	7,069	5.3%
Others	2,544	1.9%
Actual taxes	46,373	34.5%

The amount of the “Other” item is mainly composed of, i) Euro 900 thousand for the remaining deduction of the net balance between deferred tax assets and liabilities following the reduction (starting with the years after the one closed at December 31, 2016 of the IRES rate from 27.5% to 24%, (included in the so-called 2016 *Stability Law*), ii) Euro 522 thousand

for adjustments on deferred taxation recalculated for submission of the 2016 Modello Unico tax return, and iii) Euro 558 thousand for deduction of the higher deferred tax assets connected with the portion of the post-employment benefits provision, exceeding the annual deductible limit.