4. Risk Management

The risk management strategy of the Group is based on minimising potential negative effects related to the Group's financial and operating performance. Some types of risk are offset through recourse to derivative instruments.

The management of the above-mentioned risks is undertaken by the parent company which identifies, evaluates and undertakes hedging of financial risks, in close collaboration with other entities of the Group.

4.1 Credit risk

Credit risks represent the exposure of the SEA Group to potential losses deriving from the non-compliance of obligations by trading and financial partners.

This risk is primarily of an economic/financial nature, or rather the possibility of the default of a counterparty, and also factors of a technical/commercial or administrative/legal nature.

For the SEA Group the credit risk exposure is largely related to the deterioration of a financial nature of the principle airline companies which incur on the one hand the effects of the seasonality related to aviation operations, and on the other consequences of geopolitical events which impact upon the air transport sector (wars, epidemics, atmospheric events, rise in oil prices and economic/financial crises).

In order to control this risk, the SEA Group has implemented procedures and actions to monitor the expected cash flows and recovery actions.

In accordance with the internal policy on receivables the client is required to provide guarantees: this typically relates to bank guarantees issued by primary credit institutions or deposit guarantees.

In relation to the payment terms applied for the majority of the clients, credit terms are largely concentrated within 30 days from the relative invoicing.

Trade receivables are reported in the financial statements net of doubtful debt provisions, which are prudently made based on the underlying disputes at the balance sheet date. The doubtful debt provision necessary to adjust the nominal value to the realisable value is determined analysing all receivables and utilising all available information on the debtor. The SEA Group, against overdue receivables, receivables in dispute, or for which there is a legal or administrative procedure, utilises the same write-down percentages.

A summary of the trade receivables and the relative doubtful debt provisions is reported below:

Trade receivables

(In thousands of Euro)	At December 31, 2016	At December 31, 2015
Customer receivables	159,619	163,309
- of which overdue	80,991	95,466
Doubtful debt provision	(80,173)	(83,586)
Trade receivables from associated companies	7,612	10,837
Provision for doubtful debt with associates	(90)	(33)
Total trade receivables	**86,968**	**90,527**

The ageing of the overdue receivables is as follows:

Trade receivables		
(In thousands of Euro)	At December 31, 2016	At December 31, 2015
overdue less than days	6,015	17,594
overdue more than 180 days	74,976	77,872
Total trade receivables past due	**80,991**	**95,466**

The table below illustrates the gross trade receivables at December 31, 2016 and 2015, as well as the breakdown of receivables from counterparties under administration and in dispute, with indication of the bank sureties and deposit guarantees provided.

Trade receivables		
(In thousands of Euro)	At December 31, 2016	At December 31, 2015
Customer receivables	167,231	174,146
(i) receivables from parties in administration	44,573	44,493
(ii) disputed receivables	23,327	25,462
Total trade receivables net of receivables (i) and (ii)	**99,331**	**104,191**
Receivables due other than receivables at (i) and (ii)	13,091	25,511
Sureties and guarantee deposits	74,274	73,606
Percentage of receivables guaranteed by sureties and guarantee deposits compared to the total trade receivables net of receivables at (i) and (ii)	74.8%	70.6%

4.2 Market risks

The market risk to which the SEA Group is exposed comprises all types of risks directly and indirectly related to market prices. In 2016, the market risks to which the SEA Group were subject were:

a) interest rate risk;
b) currency risk;
c) commodity risk, related to the volatility of energy commodity prices, in SEA Energia.

a) Interest rate risk

The SEA Group is exposed to the risk of changes in interest rates in relation to the necessity to finance its operating activities and the use of available liquidity. The changes in interest rates may impact positively or negatively on the results of the SEA Group, modifying the costs and returns on financial and investment operations.

The SEA Group manages this risk through an appropriate mixture between fixed and variable rate loans, with the objective to mitigate the economic effect of the volatility of the interest rates.

Variable interest loans expose the SEA Group to a risk originating from the volatility of interest rates (cash flow risk). Relating to this risk, for the purposes of the relative hedging, the SEA Group makes recourse to derivative contracts, which converts the variable rate to a fixed rate or limits the fluctuations in variable rates over a range, in this manner reducing the risk originating from the volatility of the rates. We highlight that these derivative contracts, underwritten exclusively for the purpose of hedging market rate volatility, are recorded through the cash flow hedge method.

At December 31, 2016 the gross financial debt of the SEA Group was comprised of medium/long-term loans

(medium/long term portions of loans) and short-term loans (the medium/long-term portion of loans maturing within 12 months. At this date SEA did not make recourse to short-term debt).
The medium/long-term debt at December 31, 2016, is reported in the following table, which shows the interest rate of each loan at the nominal value (which includes a spread of between 0.20% and 1.62%, not considering the effect of hedging operations and any additional guarantees):

Medium/long-term loans at December 31, 2016 and 2015

(In thousands of Euro)		At December 31, 2016		At December 31, 2015	
	Maturity	Amount	Average rate	Amount	Average rate
Bonds	2021	300,000	3.125%	300,000	3.125%
EIB funded bank loans	from 2017 to 2035	261,538	1.22%	276,994	1.37%
at fixed rate		57,895	3.89%	60,000	3.90%
at variable rate (*)		203,643	0.45%	216,994	0.67%
Other Bank loans	2020	176	0.50%	85	0.50%
at fixed rate		176	0.50%	85	0.50%
at variable rate		-	-	-	-
Gross medium/long-term financial debt		**561,714**	**2.24%**	**577,079**	**2.28%**

(*) Includes: (i) tranche at variable rate with interest rate hedge (approx. 36% at 31.12.2016 and 41% at 31.12.2015.
(ii) Euro 60 million of EIB loans with specific loans with specific bank guarantee.

The total medium/long-term debt at December 31, 2016 amounted to Euro 561,714 thousand, a decrease of Euro 15,365 thousand compared to December 31, 2015, with the average cost reducing 4 basis points to 2.24% at the reporting date. The cost of this debt, after interest hedging operations and the cost of bank guarantees on EIB loans, amounts to 2.83%, a reduction on 2.92% at the end of December 2015 (-9 basis points).

At December 31, 2016 the Group has the following bond issue with a total nominal value of Euro 300 million.

Description	Issuer	Listing market	ISIN Code	Term (years)	Maturity	Par value (in Million of Euro)	Coupon	Annual rate
SEA SpA 3 1/8 04/17/21	SEA SpA	Irish Stock Exchange	XS1053334373	7	04/17/21	300	Fixed, annual	3.125%

The fair value of the overall bank and bond medium/long term Group debt at December 31, 2016 amounted to Euro 596,283 thousand (down from Euro 591,660 thousand at December 31, 2015, mainly due to the trend in market rates). This value was calculated as follows:

- for the loans at fixed interest rates the capital portion and interest were discounted utilising the spot rates for each contractual maturity, extrapolated from the market rates;
- for the bond listed on a regulated market, reference was made to the market value at December 31, 2016;
- for the loans at variable interest rates, the interest portion was calculated utilising the estimate of the expected rates at the end of each contractual maturity, increased by the spread defined contractually. The interest portion defined as outlined above and the capital on maturity was discounted utilising the spot rate for each contractual maturity, extrapolated from the market rate.

The following table reports the derivative instruments utilised by the SEA Group to cover the interest rate risk (measured based on the cash flow hedge method).

Interest Rate Hedges

(€/000)	Notional on signing	Residual Notional at 12/31/2016	Date stipulated	Start Date	Maturity	Fair value at December 31, 2016	Fair value at December 31, 2016
IRS	10,000	9,032	5/18/2011	9/15/2012	9/15/2012	(1,351.4)	(1,512.5)
	5,000	4,516	5/18/2011	9/15/2012	9/15/2012	(675.7)	(756.3)
	15,000	12,414	5/18/2011	9/15/2012	9/15/2012	(1,793.5)	(2,028.0)
	11,000		5/18/2011	9/15/2011	9/15/2016		(258.5)
	10,000	7,500	6/6/2011	9/15/2012	9/15/2021	(1,014.2)	(1,155.6)
	11,000	7,966	6/6/2011	9/15/2012	9/15/2021	(1,075.6)	(1,225.3)
	12,000	8,276	6/6/2011	9/15/2012	9/15/2021	(1,099.9)	(1,258.5)
	12,000	8,276	6/6/2011	9/15/2012	9/15/2021	(1,099.9)	(1,258.5)
COLLAR	10,000	7,500	6/6/2011	9/15/2011	9/15/2021	(810.3)	(905.6)
	11,000	7,586	6/6/2011	9/15/2011	9/15/2021	(800.3)	(897.9)
Total		**73,066**				**(9,720.8)**	**(11,256.7)**

"-" indicates the cost for the SEA Group for advance settlement of the operation.
"+" indicates the benefit for the SEA Group for advance settlement of the operation.

The fair value of the derivative financial instruments at December 31, 2016 and at December 31, 2015 was determined in accordance with IFRS 13.

b) Currency risk

The SEA Group, with the exception of the currency risk related to the commodity risk, is subject to a low currency fluctuation risk as, although operating in an international environment, the transactions are principally in Euro. Therefore, the SEA Group does not consider it necessary to implement specific hedging against this risk as the amounts in currencies other than the Euro are insignificant and the relative receipts and payments generally offset one another.

c) Commodity risky

The SEA Group, limited to only SEA Energia, is exposed to changes in prices, and the relative currency fluctuations, of the energy commodities utilised i.e. gas. These risks derive from the purchase of the above-mentioned energy commodities, which are principally impacted by fluctuations in the prices of the underlying fuels, denominated in US Dollars. These fluctuations arise both directly and indirectly, through formulas and indexations utilised in the pricing structures. The risks also arise in the sales phase, in relation to the fluctuations in the electricity market prices sold to third parties.
In 2016, the SEA Group did not undertake any hedging of this risk, although not excluding the possibility in the future.

4.3 Liquidity risk

The liquidity risk for the SEA Group may arise where the financial resources available are not sufficient to meet the financial and commercial commitments within the agreed terms and conditions.
The liquidity, cash flows and financial needs of the SEA Group are managed through policies and processes with the objective to minimise the liquidity risk. Specifically, the SEA Group:

- centrally monitors and manages, under the control of the Group Treasury, the financial resources available, in order to ensure an efficient management of these resources, also in forward budgeting terms;
- maintains adequate liquidity in treasury current accounts;
- obtains committed credit lines (revolving and non-revolving), which covers the financial commitments of the Group in the coming 12 months deriving from

the investment plan and contractually agreed debt repayments;
- monitors the prospective liquidity position, in relation to the business planning.

At the end of 2016, the SEA Group had irrevocable unutilised credit lines of Euro 200 million, of which Euro 120 million relating to a revolving line available until April 2020 and Euro 80 million relating to a new EIB loan, of which utilization is expected by December 2017, with maturities comprised between 15 and 20 years. At December 31, 2016, the SEA Group also had a further Euro 187,317 thousand of uncommitted credit lines available for immediate cash requirements. The SEA Group has available committed and uncommitted credit lines which guarantee the covering of future financial needs and current operational needs, with an average maturity of medium/long-term debt just under 6 years, including the bond issued in 2014. Not considering the bonds, the remaining debt matures in 7 years (and of this 19% over 10 years).
The coverage of trade payables is guaranteed by the SEA Group through a careful management of working capital which includes trade receivables and the related conditions governing contracts.
The tables below illustrate for the SEA Group the breakdown and maturity of the financial debt (capital, medium/long-term interest, financial charges on derivative instruments and leasing) and trade payables at December 31, 2016 and December 31, 2015:

Liabilities at December 31, 2016

(In millions of Euro)	< 1 year	> 1 year < 3 years	> 3 years < 5 years	> 5 years	Total
Gross debt	35,4	70,9	375,0	170,0	**651,3**
Trade payables	161,5				**161,5**
Total debt	**196,9**	**70,9**	375,0	170,0	812,8

Liabilities at December 31, 2015

(In millions of Euro)	< 1 year	> 1 year < 3 years	> 3 years < 5 years	> 5 years	Total
Gross debt	32,0	69,7	73,4	524,6	**699,7**
Trade payables	164,5				**164,5**
Total debt	**196,5**	**69,7**	73,4	524,6	864,2

At year-end 2016, loans due within one year almost entirely relate to the capital portion to be paid on some of the EIB loans and interest due on the total debt. The loan repayment scheduling reflects the capacity of the SEA Group funding to cover medium/long-term needs as well.

4.4 Sensitivity

In consideration of the fact that for the SEA Group the currency risk is almost non-existent, the sensitivity analysis refers to balance sheet accounts which could incur changes in value due to changes in interest rates.

In particular, the analysis considered:

- bank deposits;
- loans;
- interest risk derivative hedge instruments.

The assumptions and calculation methods utilised in the sensitivity analysis undertaken by the SEA Group were as follows:

a) Assumptions:
   > the effect was analysed on the SEA Group income statement at December 31, 2016 and December 31, 2015 of a change in market rates of +50 or of -50 basis points.

b) Calculation method:
   > the remuneration of the bank deposits is related to the interbank rates. In order to estimate the increase/decrease of interest income to changes in market conditions, the change was assumed as per point a) on the average annual balance of bank deposits of the SEA Group;
   > the loans measured were those at variable interest rates, which incur interest payable linked to the Euribor at 6 months. The increase/decrease of the interest payable to changes in market conditions was estimated applying the changes assumed as per point a) on the capital portion of the loans held during the year;
   > the interest risk derivative hedge instruments were measured both in terms of cash flows and fair value (in terms of changes compared to the same period of the previous year). In both cases, the values were estimated applying the changes as per point a) to the forward curve expected for the period.

The results of the sensitivity analysis are reported below:

(In thousands of Euro)	December 31, 2016		December 31, 2015	
	-50 bp	+50 bp	-50 bp	+50 bp
Current account (interest income)	-31.37	336.79	-299.25	389.59
Loans account (interest expense) (1)	677.69	-1,085.99	984.52	-1,091.93
Derivative hedging instruments (cash flow) (2)	-439.92	439.92	-136.37	474.83
Derivative hedging instruments (fair value)(3)	-1,398.54	1,342.50	-1,627.42	1,729.20

(1) + = lower interest expense; = higher interest expense.
(2) + = hedging income; = hedging cost.
(3) Amount entirely allocated to equity as hedges are fully effective.

It should be noted that the results of the *sensitivity analysis* conducted on some items of the above tables were affected by the low level of market interest rates. By applying a change of -50 *basis points* to the current curve of market interest rates, the flows related to current accounts and loans would be the opposite sign of those forecast by the relative loan types; in such cases, these flows have been entered at zero.

Some loans include covenant conditions, relating to the capacity of the SEA Group to meet annual and/or half year financial commitments (net of financial resources available and receivables from the State) from operating activities. It should be noted that, for some loans, non-compliance of the covenant terms results in, for the following half-year period, the application of a correlated predetermined spread (in accordance with a contractually defined pricing grid).

At the present moment the SEA Group is not aware of any default situations related to the loans held or violations of any of the above-mentioned covenants.

5. Classification of the financial instruments

The following tables provide a breakdown of the financial assets and liabilities by category at December 31, 2016 and at December 31, 2015 of the Group.