4. Risk Management

The risk management strategy of the Company is based on minimising potential negative effects related to the Company'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 through identifying, evaluating and undertaking the hedging of financial risks.

4.1 Credit risk

The credit risks represent the exposure of SEA 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 SEA 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, SEA 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. SEA utilises the same write-down percentages with respect to overdue receivables, receivables in dispute, or for which legal or insolvency proceedings are ongoing.

A summary of trade receivables with third parties and the relative doubtful debt provisions is reported below.

(In thousands of Euro)	At December 31, 2016	At December 31, 2015
Customer receivables gross of the related doubtful debt provision	151,066	154,104
- of which overdue	79,003	93,068
Doubtful debt provision	(78,360)	(81,859)
Total net trade receivables	**72,706**	**72,245**

Management of receivables using factoring transaction continued in 2016. Receivables sold through factoring transactions are de-recognized only if the risks and rewards associated with their ownership have been substantially transferred to the transferee. The receivables sold which do not satisfy this condition remain on the balance sheet of the Company although they have been legally sold. In this case a financial liability of the same amount is recorded under liabilities to represent the advance received.

The breakdown of overdue receivables at December 31, 2016 and comparative figure is shown below:

Trade receivables

(In thousands of Euro)	At December 31, 2016	At December 31, 2015
Customer receivables	151,066	154,104
of which overdue	79,003	93,068
overdue less than 180 days	5,908	17,051
overdue more than 180 days	73,095	76,017
% of overdue receivables	52.3%	60.4%
% of receivables overdue less than 180 days	3.9%	11.1%
% of receivables overdue more than 180 days	48.4%	49.3%

The table below illustrates the gross trade receivables at December 31, 2016 and relative comparative figure, 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	151,066	154,104
(i) receivables from parties in administration	43,347	44,322
(ii) disputed receivables	22,814	24,666
Total trade receivables net of receivables at (i) and (ii)	84,905	85,116
Receivables due other than receivables at (i) and (ii)	12,842	24,080
Sureties and guarantee deposits	55,199	55,673
Percentage of receivables guaranteed by sureties and guarantee deposits compared to the total trade receivables net of receivables at (i) and (ii)	65.0%	65.4%

4.2 Market risks

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

a) interest rate risk;
b) currency risk;
c) price risk of commodities.

a) Interest rate risk

SEA 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 Company, modifying the costs and returns on financial and investment operations.

SEA 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 Company to a risk originating from the volatility of the interest rates (cash flow risk). Relating to this risk, for the purposes of the relative hedging, SEA 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 purposes of hedging market rate volatility, are recorded through the cash flow hedge method.

At December 31, 2016 the gross financial debt of the SEA 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). The Company had no short-term debt at the reporting date.

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 the cost of 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 12/31/2016 and 41% at 12/31/2015).
(ii) Euro 60 million of EIB 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).

Overall the total medium-long term debt at variable rate not hedged by the Company at December 31, 2016 stood at approximately 23.3% of the total of this debt. There was therefore no excess hedging on future cash flows subject to hedging ("overhedging").

At December 31, 2016 SEA had the following bond issue outstanding with a total nominal value of Euro 300,000 thousand.

Description	Issuer	Listing market	ISIN Code	Term (years)	Maturity	Par value (in million of Euros)	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 debt of SEA 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); it 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 SEA to hedge 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	Signing Date	Start Date	Maturity	Fair value at 12/31/2016	Fair value at 12/31/2016
IRS	10,000	9,032	5/18/2011	9/15/2012	9/15/2021	(1,351.4)	(1,512.5)
	5,000	4,516	5/18/2011	9/15/2012	9/15/2021	(675.7)	(756.3)
	15,000	12,414	5/18/2011	9/15/2012	9/15/2021	(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

SEA is subject to a low currency fluctuation risk as, although operating in an international environment, the transactions are principally in Euro. Therefore, SEA 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 risk

SEA is exposed to the changes of the prices and the relative exchange rates of the energy commodities, namely gas, utilised by SEA Energia for the procurement of the electricity, heating and air-conditioning service on behalf of the parent company. These variations directly impact on the final price which SEA pays for the supply from the subsidiary SEA Energia. 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, SEA did not undertake any hedging of this risk, although not excluding the possibility in the future.

4.3 Liquidity risk

The liquidity risk for SEA 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 SEA are managed through policies and processes with the objective to minimise the liquidity risk. In particular SEA:

- 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 cover the financial commitments in the coming 12 months deriving from the investment plan and debt repayments as contractually envisaged;
- monitors the prospective liquidity position, in relation to the business planning.

At the end of 2016, SEA 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, SEA 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. Considering only bank loans the debt matures in 7 years (and of this 19% over 10 years).

The coverage of trade payables is guaranteed by the SEA through a careful management of working capital which includes trade receivables and the related conditions governing contracts. In should be noted that the indirect factoring transactions, as amply detailed above, do not change contractual payment condition and, therefore, they do not generate dilutive effects on working capital.

The following tables show the breakdown and maturity (up to expiry date) of financial debt (principal, interest on medium/long-term debt, financial charges on derivative instruments and leasing, financial payables to subsidiaries, which, in accordance with contractual terms, are payable on demand) and trade payables at December 31, 2016 and 2015.

Liabilities at December 31, 2016

(millions in Euro)	Total debt	> 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	161.8				161.8
Total debt	**197.2**	**70.9**	**375.0**	**170.0**	**813.1**

The table does not include the short-term Group cash pooling debt, amounting to Euro 4.6 million at the end of 2016, against which a receivable of a similar nature existed of Euro 43.5 million.

Liabilities at December 31, 2015

(millions in Euro)	Total debt	> 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	160.2				160.2
Total debt	**192.2**	**69.7**	**73.4**	**524.6**	**859.9**

The table does not include the short-term Group cash pooling debt, amounting to Euro 4 million at the end of 2015, against which a receivable of a similar nature existed of Euro 36.3 million.

At year-end 2016, loans due within one year mainly 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 funding to cover medium/long-term needs as well.

4.4 Sensitivity

In consideration of the fact that for the Company 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 debt and cash pooling position;
- loans;
- interest risk derivative hedge instruments.

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

a) Assumptions:

  > the effect was analysed on the SEA income statement for the years 2016 and 2015 of a change in market rates of +50 or of -50 basis points.

b) Calculation method:

  > the remuneration of the bank deposits and the cash pooling positions 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 SEA;

  > 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)	At December 31, 2016		At December 31, 2015	
	-50 bp	+50 bp	-50 bp	+50 bp
Current account (interest income)	-31.36	336.43	-299.24	389.30
Cash pooling positive balance (interest income)	-200.09	200.09	-183.40	183.40
Loans (interest expense)(1)	677.69	-1,085.99	984.52	-1,091.93
Cash pooling negative balance (interest expense)(1)	0.00	-15.58	0,00	-19.99
Fin. debt to subsidiaries (interest expense)(1)	0.00	0.00	0,00	0.00
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.
It should be noted that some loans include covenant conditions, relating to the capacity of SEA to meet annual and/or half year financial commitments (net of financial resources available and receivables from the State) from operating activities. 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, SEA 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 table provides a breakdown of the financial assets and liabilities by category at December 31, 2016 and at December 31, 2015:

(In thousands of Euro)	At December 31, 2016					
	Financial assets and liabilities valued at fair value	Investments held-to-maturity	Loans and receivables	Available -for-sale financial assets	Financial liabilities at amortized cost	Total
Available-for-sale-investments				26		26
Other non-current financial assets			16,776			16,776
Other non-current receivables			240			240
Trade receivables			82,965			82,965
Current financial receivables			43,532			43,532
Tax receivables			14,174			14,174
Other current financial assets			7,190			7,190
Other current receivables			8,111			8,111
Cash and cash equivalents			46,998			46,998
Total	**-**	**-**	**219,986**	**26**	**-**	**220,012**
Non-current financial liabilities excl. leasing	9,721				539,348	549,069
- of which bond payables					298,008	298,008
Trade payables					161,771	161,771
Income tax payables					6,046	6,046
Other current & non-current payables					155,003	155,003
Current financial liabilities excl. leasing					32,077	32,077
Current financial liabilities for leasing					-	-
Total	**9,721**	**-**	**-**	**-**	**894,245**	**903,966**