

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.

4 Risk Management

The risk management strategy of the Company is based on minimising potential negative effects related to the 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

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 statement of financial position 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, 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 trade receivables with third parties and the relative doubtful debt provisions is reported below.

(Euro thousands)	at December 31, 2017	at December 31, 2016
Trade receivables - customers, gross of doubtful debt provision	196,242	151,066
- of which overdue	119,956	79,003
Doubtful debt provision - customers	(99,799)	(78,360)
Total trade receivables - customers	96,443	72,706

The increase in trade receivables at December 31, 2017 is strictly related to the conclusion of the factoring operation in the first half of 2017 which the company commenced in the second half of 2015 and the extraordinary administration procedure of the carrier Alitalia SAI on May 2, 2017, which resulted in a significant increase in

the doubtful debt provision.

Receivables transferred following factoring operations are eliminated from the statement of financial position only when the related risks and benefits of ownership have been substantially transferred. Non-recourse receivables which do not satisfy these requi-

sites remain on the statement of financial position of the company, even if legally transferred. In this case a financial liability of a similar amount is recorded under liabilities against advances received.

The breakdown of overdue receivables at December 31, 2017 and the previous year is shown below:

TRADE RECEIVABLES - CUSTOMERS

(Euro thousands)	at December 31, 2017	at December 31, 2016
Trade receivables - customers	196,242	151,066
Of which overdue	119,956	79,003
less than 180 days	23,505	5,908
over 180 days	96,451	73,095
% of overdue receivables	61.1%	52.3%
% overdue less than 180 days	12.0%	3.9%
% overdue over 180 days	49.1%	48.4%



The table below illustrates the gross trade receivables at December 31, 2017 and 2016, as well as the breakdown of receivables from counterparties under admin-

istration and in dispute, with indication of the bank and insurance sureties and deposit guarantees provided.

TRADE RECEIVABLES - CUSTOMERS

(Euro thousands)	at December 31, 2017	at December 31, 2016
Trade receivables - customers	196,242	151,066
(i) receivables from parties subject to administration procedures	94,715	43,347
(ii) receivables subject to dispute	20,625	22,814
Total trade receivables, net of the receivables at points (i) and (ii)	80,902	84,905
Overdue receivables, other than at points (i) and (ii)	4,616	12,842
Sureties and deposits	55,143	55,199
% of receivables guaranteed by sureties and deposits vs total trade receivables, net of the receivables at points (i) and (ii)	68.2%	65.0%

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 2017, 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 record-

ed through the cash flow hedge method.

At December 31, 2017 the gross financial debt of 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. At the reporting date, the company does not hold any short-term debt.

The medium/long term debt at December 31, 2017 is reported in the following table, which shows each loan at the nominal value (which includes a spread of between 0.20% and 1.62%, not considering the effect of the hedging operations and the cost of the relative guarantees):

MEDIUM/LONG-TERM LOANS AT DECEMBER 31, 2017 AND 2016

(Euro thousands)	Maturity	at December 31, 2017		at December 31, 2016	
		Amount	Average rate	Amount	Average rate
Bonds	2021	300,000	3.125%	300,000	3.125%
Bank loans - EIB funding	from 2017 to 2037	261,849	1.08%	261,538	1.22%
o/w at Fixed Rate		51,557	3.89%	57,895	3.89%
o/w at Variable Rate ^(*)		210,292	0.39%	203,643	0.45%
Other bank loans	2020	154	0.50%	176	0.50%
o/w at Fixed Rate		154	0.50%	176	0.50%
o/w at Variable Rate		-	-	-	-
Medium/long-term gross financial debt		562,003	2.17%	561,714	2.24%

^(*) Includes: (i) variable rate tranche subject to interest rate hedge (ca. 32% at 31.12.2017 & 36% at 31.12.2016);
(ii) Euro 60 million of EIB loans with specific bank guarantee.

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The total value of medium/long-term financial debt at December 31, 2017 amounts to Euro 562,003 thousand, almost unchanged when compared to December 31, 2016. This is due to the combined effect of the disbursement of Euro 20 million EIB lines at the end of June 2017, offset by the continuation of the repayment process of other loans for Euro 19,710 thousand.

The average cost of this debt was reduced by 7 basis points, reaching 2.17% at December 31, 2017. Also considering the hedging transactions against the interest rate risk and the cost of bank guarantees on EIB loans, the average cost of debt amounts to 2.78%, down from 2.83% at the end of December 2016 (-5 basis points).

Overall, the total medium/long-

term debt at a variable rate not hedged by the Company at December 31, 2017 was approx. 25.6% of total debt. There was therefore no excess coverage on future cash flows subject to hedging ("overhedging").

At December 31, 2017, SEA has the following bond issue with a total nominal value of Euro 300.000 thousand.

Description	Issuer	Listing market	ISIN Code	Term (Year)	Maturity	Par Value (in million of euro)	Coupon	Annual rate
SEA SpA 3 1/8 04/17/21	SEA SpA	Irish Stock Exchange	XS 1053334373	7	04/17/2021	300	Fixed annual	3.125%

The fair value of the overall bank and bond medium/long-term SEA debt at December 31, 2017 amounted to Euro 593,482 thousand (Euro 596,283 thousand at December 31, 2016) and 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 regu-

lated market, reference was made to the market value at December 31, 2017;

- 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, extrapo-

lated 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).

The fair value of the derivative financial instruments at December 31, 2017 and at December 31, 2016 was determined in accordance with IFRS 13.



INTEREST RATE HEDGES

(Euro thousands)	Notional at signing date	Residual Notional at December 31, 2017	Date of signing	Start	Maturity	Fair value at December 31, 2017	Fair value at December 31, 2016
	10,000	8,387	May 18, 2011	September 15, 2012	September 15, 2021	(1,020.4)	(1,351.4)
	5,000	4,194	May 18, 2011	September 15, 2012	September 15, 2021	(510.2)	(675.7)
	15,000	11,379	May 18, 2011	September 15, 2012	September 15, 2021	(1,342.3)	(1,793.5)
IRS	10,000	6,786	June 6, 2011	September 15, 2012	September 15, 2021	(751.5)	(1,014.2)
	11,000	7,207	June 6, 2011	September 15, 2012	September 15, 2021	(796.9)	(1,075.6)
	12,000	7,448	June 6, 2011	September 15, 2012	September 15, 2021	(811.7)	(1,099.9)
	12,000	7,448	June 6, 2011	September 15, 2012	September 15, 2021	(811.7)	(1,099.9)
Collar	10,000	6,786	June 6, 2011	September 15, 2011	September 15, 2021	(596.6)	(810.3)
	11,000	6,828	June 6, 2011	September 15, 2011	September 15, 2021	(586.8)	(800.3)
Total		66,463				(7,228.1)	(9,720.8)

"-" indicates cost for the SEA Group of any early closure of the operation

"+" indicates gain for the SEA Group of any early closure of the operation

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 (gas) utilised by SEA Energia for the procurement of the electricity, heating and air-condi-

tioning 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 are absorbed through formulas and indexations utilised in the pricing structures adopted in sales contracts.

In 2017, 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), which covers the financial commitments in the coming 12 months deriving from the investment plan and debt repayments;
- monitors the liquidity position, in relation to the business planning.

At December 31, 2017, SEA had irrevocable unutilised credit lines of Euro 180 million, of which Euro 120 million relating to a revolving line available until April 2020 and Euro 60 million relating to a EIB line, of which utilisation is

expected by December 2018, for duration until December 2037. At December 31, 2017, SEA also had a further Euro 158 million of uncommitted credit lines available for immediate cash requirements.

SEA 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 above 5 years, including the bond issued in 2014. If the bond loan is excluded, the remaining debt has a maturity of approximately 7 years (19% over 10 years).

Trade payables are guaranteed

by SEA through careful working capital management which largely concerns trade receivables and the relative contractual conditions established. We highlight that the indirect factoring operations, as previously described in detail, does not change the contractual payment conditions and therefore does not result in dilution effects on the working capital.

The tables below illustrate for SEA 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, 2017 and December 31, 2016:

LIABILITIES AT DECEMBER 31, 2017

(millions of Euro)	< 1 year	>1 year < 3 years	>3 years < 5 years	> 5 years	Total
Gross financial debt	35.4	75.0	368.0	169.1	647.5
Trade payables	146.8				146.8
Total payables	182.2	75.0	368.0	169.1	794.3

LIABILITIES AT DECEMBER 31, 2016

(millions of Euro)	< 1 year	>1 year < 3 years	>3 years < 5 years	> 5anni	Total
Gross financial debt	35.4	70.9	375.0	170.0	651.3
Trade payables	161.8				161.8
Total payables	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.

At the end of 2017 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 SEA funding to cover medium/long-term needs.

4.4 Sensitivity

In consideration of the fact that for the Company the currency risk is almost non-existent, the sensi-

tivity analysis refers to statement of financial position 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 2017 and 2016 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 inter-bank 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:

(Euro thousands)	December 31, 2017		December 31, 2016	
	-50 bp	+50 bp	-50 bp	+50 bp
Current accounts (interest income)	-8.72	302.27	-31.36	336.43
Cash pooling position (interest income)	-159.03	159.03	-200.09	200.09
Loans (interest charges) ⁽¹⁾	394.50	-1,039.74	677.69	-1,085.99
Cash pooling position (interest charges)		-11.66		-15.58
Fin. debt vs. subsidiaries (int. charges) ⁽¹⁾				
Derivative hedging instruments (flows) ⁽²⁾	-361.96	361.96	-439.92	439.92
Derivative hedging instruments (fair value) ⁽³⁾	-1,012.61	984.17	-1,398.54	1,342.50

⁽¹⁾ + = lower interest charges; - = higher interest charges

⁽²⁾ + = revenue from hedge; - = cost of hedge

⁽³⁾ amount entirely allocated to net equity given full efficacy of hedges

The results of the sensitivity analysis undertaken on some accounts of the previous tables are impacted by the low level of the market interest rates. By applying a variation of -50 basis points to the current market interest rate curve, the cash flow corresponding to current accounts and loans would be opposite to those provided for by the related types of contracts; in these cases, these cash flows are set at zero.

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 vio-

lations of any of the above-mentioned covenants.