4 Risk Management

The risk management strategy of the Group 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 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

The 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 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. 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

(Euro thousands)	at December 31, 2017	at December 31, 2016
Trade receivables - customers	203,516	159,619
- of which overdue	121,048	80,991
Doubtful debt provision - customers	(101,858)	(80,173)
Trade receivables - associates	9,815	7,612
Doubtful debt provision - associates	(396)	(90)
Total net trade receivables	**111,077**	**86,968**

The aging of the overdue receivables is as follows:

TRADE RECEIVABLES - CUSTOMERS

(Euro thousands)	at December 31, 2017	at December 31, 2016
less than 180 days	22,661	6,015
more than 180 days	98,387	74,976
Total trade receivables overdue	**121,048**	**80,991**

The table below illustrates the gross trade receivables at December 31, 2017 and 2016, as well as the breakdown of receivables from counterparties under administration and in dispute, with indication of the bank and insurance sureties and deposit guarantees provided.

TRADE RECEIVABLES

(Euro thousands)	at December 31, 2017	at December 31, 2016
Trade receivables - customers & associates	213,331	167,231
(i) receivables from parties subject to administration procedures	95,965	44,573
(ii) receivables subject to dispute	21,098	23,327
Total trade receivables, net of the receivables at points (i) and (ii)	**96,268**	**99,331**
Overdue receivables, other than at points (i) and (ii)	3,985	13,091
Sureties and deposits	74,177	74,274
% of receivables guaranteed by sureties and deposits vs total trade receivables, net of the receivables at points (i) and (ii)	77.1%	74.8%

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 2017, 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 the 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 the 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 purposes of hedging market rate volatility, are recorded through the cash flow hedge method.

At December 31, 2017 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 (exclusively 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 financial 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 hedging operations and any accessory guarantees):

MEDIUM/LONG TERM LOANS

		at December 31, 2017		at December 31, 2016	
(Euro thousands)	Maturity	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 80 million of EIB loans with specific bank guarantee

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).

At December 31, 2017 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	XS 1053334373	7	04/17/2021	300	Fixed annual	3.125%

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

The fair value of the derivative financial instruments at December 31, 2017 and at December 31, 2016 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 risk
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. In the SEA Group, these fluctuations are absorbed through formulas and indexations utilised in the pricing structures adopted in sales contracts.

In 2017, the SEA Group did not undertake any hedging of this risk, although not excluding the possibility in the future.

INTEREST RATE HEDGES

(Euro thousands)	Notional at signing date	Residual Notional at 12/31/2017	Date of signing	Start	Maturity	Fair value at 12/31/2017	Fair value at 12/31/2016
IRS	10,000	8,387	5/18/2011	9/15/2012	9/15/2021	(1,020.4)	(1,351.4)
	5,000	4,194	5/18/2011	9/15/2012	9/15/2021	(510.2)	(675.7)
	15.000	11,379	5/18/2011	9/15/2012	9/15/2021	(1,342.3)	(1,793.5)
	10,000	6,786	6/6/2011	9/15/2012	9/15/2021	(751.5)	(1,014.2)
	11,000	7,207	6/6/2011	9/15/2012	9/15/2021	(796.9)	(1,075.6)
	12,000	7,448	6/6/2011	9/15/2012	9/15/2021	(811.7)	(1,099.9)
	12,000	7,448	6/6/2011	9/15/2012	9/15/2021	(811.7)	(1,099.9)
Collar	10,000	6,786	6/6/2011	9/15/2011	9/15/2021	(596.6)	(810.3)
	11,000	6,828	6/6/2011	9/15/2011	9/15/2021	(586.8)	(800.3)
Total		**66,462**				**(7,228.0)**	**(9,720.7)**

"-" 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.

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) which covers the financial commitments of the Group 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, the SEA Group 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, the SEA Group also had a further Euro 158 million 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 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).

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, 2017 and December 31, 2016:

LIABILITIES AT DECEMBER 31, 2017

(Euro millions)	< 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	153.5				153.5
Total payables	**188.9**	**75.0**	**368.0**	**169.1**	**801.0**

LIABILITIES AT DECEMBER 31, 2016

(Euro millions)	< 1 year	>1 year < 3 years	>3 years < 5 years	> 5 years	Total
Gross financial debt	35.4	70.9	375.0	170.0	651.3
Trade payables	161.5				161.5
Total payables	**196.9**	**70.9**	**375.0**	**170.0**	**812.8**

At December 31, 2017, loans due within one year 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.

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 Statement of Financial Position 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 for 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 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:

	December 31, 2017		December 31, 2016	
(Euro thousands)	-50 bp	+50 bp	-50 bp	+50 bp
Current accounts (interest income)	-8.73	302.57	-31.37	336.79
Loans (interest charges)(1)	394.50	-1,039.74	677.69	-1,085.99
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.

In addition, 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. 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.