ANNUAL REPORT 2018

MSC CRUISES

ANNUAL REPORT 2018

INDEX

AT A GLANCE: MSC CRUISES IN 2018	4
2018 DELIVERING THE GROWTH	6
2018 KEY FINANCIAL HIGHLIGHTS	8
2018: A YEAR OF STRONG FINANCIAL RESULTS	10
RECONNECTING OUR CUSTOMER BASE WITH THE OCEANS	14
POISED TO SET A COMMERCIAL GROWTH RECORD	16
CREATING NEW HOLIDAY EXPERIENCES	20
OFFERING A WIDE ARRAY OF THE WORLD'S MOST BEAUTIFUL DESTINATIONS	24
ENTERING NEW MARKET SEGMENTS	26
SIGNIFICANT GROWTH IN KEY ACCOLADES ACROSS ALL MARKETS	28
SUSTAINABLE GROWTH ACROSS THE GLOBE	30
NEW BUILDS PLAN	32
A COMPANY INSPIRED BY PEOPLE AND VALUES	34
CREATING A POSITIVE IMPACT FOR PEOPLE AND PLANET	36
NAVIGATING A SUSTAINABLE COURSE	38
MSC GROUP	42
BUSINESS REPORT	45
MANAGEMENT STRUCTURE AND CORPORATE GOVERNANCE	53
MSC CRUISES GROUP CONSOLIDATED FINANCIAL STATEMENTS	55
PARENT COMPANY MSC CRUISES SA FINANCIAL STATEMENTS	125

AT A GLANCE: MSC CRUISES IN 2018

NO. 1 CRUISE LINE

In terms of capacity in Europe, South America, South Africa and the Gulf.

EUR 11.4 BILLION INVESTMENT PLAN

16 next-generation cruise ships* to join our fleet between 2019 and 2027.

OUR SHIPS

15
ships

7.9 years
one of the youngest fleets at sea**

0
the number of single-use plastic straws on board our fleet at the end of 2018

OUR NETWORK

69
number of MSC Cruises sales offices around the world

81
countries in which MSC Cruises holidays are sold

OUR GUESTS

2.4 million
guests welcomed

180
nationalities welcomed on board

46
average age of our guests

OUR PEOPLE

30,523
employees*** on board and ashore

6,747
additional people hired in 2018

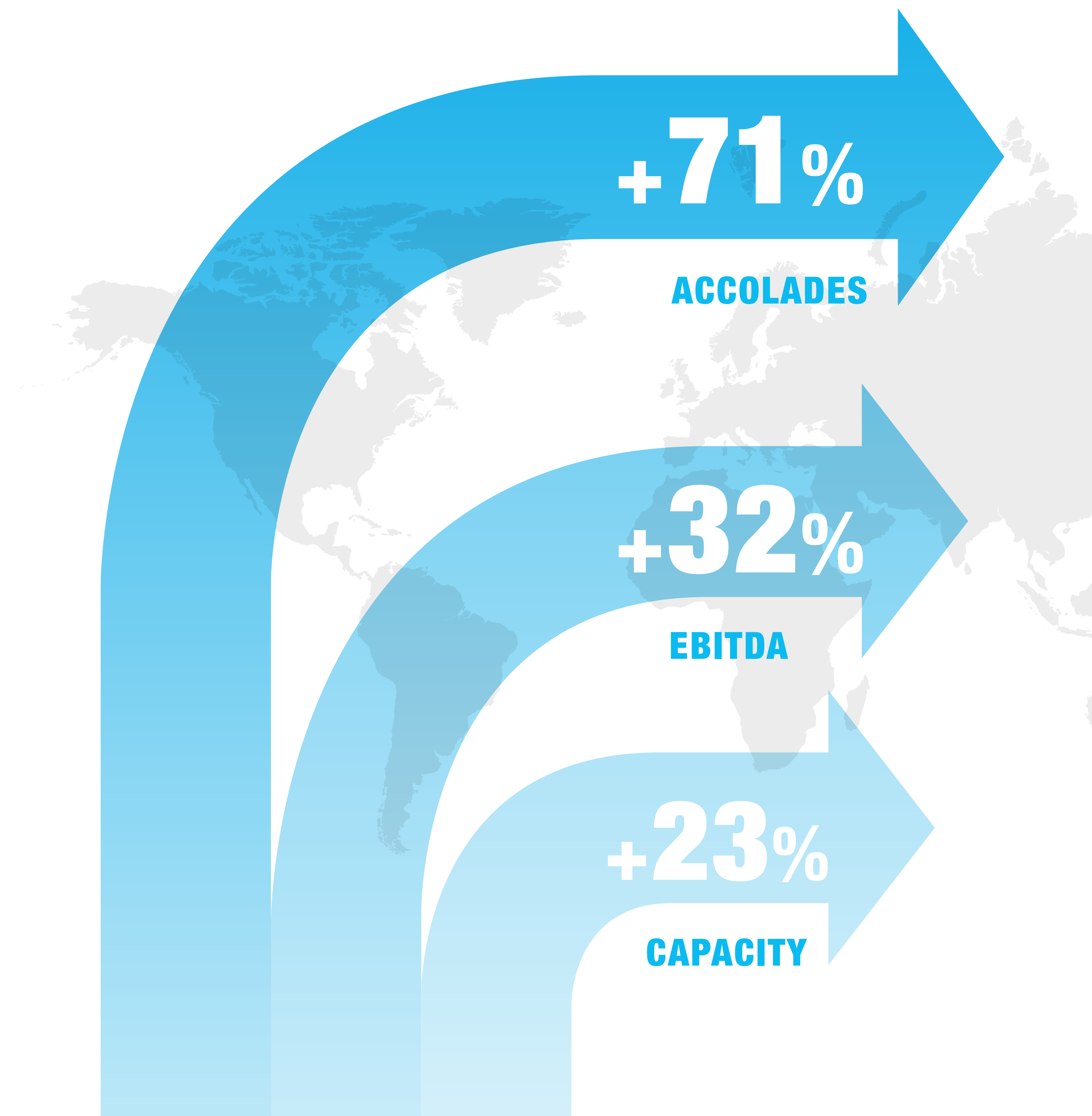
130
nationalities working on board

8
languages commonly spoken on board: English, Spanish, Italian, Portuguese, Chinese, French, German and Dutch

(*) including 4 option agreements.
(**) average age of fleet weighted by ALB.
(***) includes crew members and personnel in outsourced shared service centers.

2018

DELIVERING THE GROWTH



2018

KEY FINANCIAL HIGHLIGHTS

€ 2,751 million
TOTAL REVENUES

27%
EBITDA MARGIN

€ 348 million
NET PROFIT

21%
REVENUE GROWTH

€ 741 million
EBITDA

5,189
NUMBER OF OPERATING DAYS

15.2 million
ALBDS*

111.6%
OCCUPANCY RATE

20%
volume 2018 vs 2017
YEAR-ON-YEAR INCREASE IN PASSENGER BOOKINGS

*ALBDs (Available Lower Berth Days) is a standard measure of passenger capacity for the period, which we use to perform rate and capacity variance analyses to determine the main non-capacity driven factors that cause cruise revenues and expenses to vary. ALBDs assumes that each cabin we offer for sale accomodates two passengers and is computed by multiplying passenger capacity by revenue-producing ship operating days in the period.

2018: A YEAR OF STRONG FINANCIAL RESULTS, BREAKTHROUGH INNOVATIONS AND NEW ENVIRONMENTAL COMMITMENTS

In 2018 we delivered what we promised and continued to build great momentum in the cruise and travel industry.
Following the deployment of three new next-generation cruise ships between May 2017 and June 2018, we successfully added an extraordinary 12,700 lower berths to our global fleet.
MSC Seaview, which entered into service in June 2018, as well as MSC Meraviglia and MSC Seaside, delivered in May and November 2017 respectively, have all lived up to our expectations since they joined our fleet and have greatly increased our bottom line.

As a result of this expanded capacity, our year-on-year revenues increased by 21% compared to the previous financial year, reaching EUR 2,751 billion. This is the highest revenue increase ever recorded in the Company's history and significantly exceeds the market trend, which saw a steady 6% capacity increase in 2018.

As interest in our product continues to soar, we welcomed an additional 387,623 holidaymakers on board our ships in 2018, hitting a new landmark of 2.4 million guests. Our ongoing efforts to build a loyal customer base across the globe will ensure sustainable growth in the future.

Advance bookings continued to be robust across the fleet and by the end of 2018, MSC Bellissima – in the final phase of her construction at the time – already had 100,000 guests lined up for sailings. MSC Grandiosa enjoyed equally strong demand when bookings opened in March 2018 and a healthy consumer appetite for MSC Virtuosa – due to enter service in 2020 – also gives us confidence that we will be able to sustain this momentum through 2020 and beyond.

Delivering an unparalleled holiday and cruise experience has been our mission since day one and we continue to raise the bar and whet appetites for our product year on year. In this vein, MSC Cruises made further progress across the board, in terms of both guest experiences and marine operations.

We continued to invest in the latest marine technology to further strengthen our environmental credentials. Protecting the environment is a key area of focus for MSC Cruises and we are committed to reducing the impact of our ships and ensuring our business grows in a sustainable manner.

In 2018, our environmental efforts received global recognition when the international classification society Bureau Veritas awarded MSC Meraviglia '8 Golden Pearls', one of the highest notations any cruise ship can attain for sustainable environmental stewardship. Furthermore, MSC Seaside and MSC Seaview received the 'Green Star 3 Design' award from RINA in recognition of their outstanding environmental credentials.

In 2018, we made a commitment to effectively phase out an extensive number of single-use plastic items from all ship operations and ashore by April 2019.

By the end of 2018, we had already replaced all plastic straws with fully compostable and biodegradable substitutes.
In addition, drinks are no longer automatically served with a straw.

With a view to further diversify our fuel strategy, we laid the conceptual foundation stones for our upcoming LNG-powered ships by concluding contracts with the Chantiers de L'Atlantique (formerly STX France) shipyard in Saint-Nazaire, France, for the construction of three LNG-powered vessels with delivery dates between 2022 to 2024.

The shipyards in France and Italy were buzzing with activity during 2018. For the first time in history, three cruise ships belonging to a single cruise brand were under construction, at the same time, at Chantiers de L'Atlantique in Saint-Nazaire, France.
Thousands of staff worked – and continue to work – hard to put the finishing touches to MSC Bellissima, delivered in February 2019, and MSC Grandiosa which is scheduled for delivery in October 2019. Concurrently, in June 2018, we cut first steel of our 4th Meraviglia Class ship which will sail under the name of MSC Virtuosa.

Meanwhile, in Italy, Fincantieri shipyard in Monfalcone delivered the highlight of 2018 with the completion of MSC Seaview, our second Seaside Class ship. After a short break, construction activities resumed in November 2018 with the steel cutting of MSC Seashore, the first of two Seaside EVO ships.
MSC Seashore will be the first of its kind, further enriching our Seaside Class with new cutting-edge features, 200 additional cabins and even more spacious public areas.
Our diversified geographic focus yielded strong commercial results in established and emerging markets. While we consolidated our position as the brand market leader in Europe,

South America, South Africa and the Gulf, we also successfully tapped into the market potential of North America and Asia.

We further enriched our guests' experiences with new exciting itineraries and new ships. With MSC Seaview and MSC Meraviglia, we deployed our newest tonnage in Europe, sailing full steam ahead in the Mediterranean and Northern Europe. North America and the Caribbean saw five ships sail the region seasonally, including the brand-new MSC Seaside that continues making waves all year round-sailing out of her homeport in Miami.

After her inaugural season in the Mediterranean, MSC Seaview moved on to South America, elevating the cruise experience in the 2018-2019 winter season. This strategic deployment served to consolidate our superior product and market leadership in the South American region.

We deployed MSC Splendida in Asia, effectively raising guest capacity by an impressive 65% compared to 2017. MSC Splendida, completely refitted to deliver a state-of-the-art cruise experience in China, successfully delivered on our expectations and will continue to sail in Asia from June 2019 onwards.

New cruise itineraries and products performed exceptionally well. Our very first 2019 World Cruise, which commenced on January 5, 2019, fully sold out. Thanks to this success, we developed a follow-up product with our 2020 World Cruise, which had virtually sold out by end of 2018, and a steady stream of advance bookings is already coming in for the 2021 World Cruise.

As a result of relentless efforts on our part to innovate the cruise experience for our guests, we continue to raise the bar and create demand for our product. Among several innovations on

board our ships is the launch of artificial intelligence in the form of ZOE, a digital personal assistant, already implemented on MSC Bellissima. We also initiated new global partnerships, including another strategic collaboration with the two-Michelin-starred chef, Ramón Freixa, to further enrich our fine dining offering. In addition, new shows created with our strategic entertainment partner, Cirque du Soleil, were announced as well.

Moreover, we commenced the one-year countdown to completing Ocean Cay MSC Marine Reserve, our private island and exclusive beach destination in the Bahamas.

In addition to investing in our hardware and product offering, we announced further strategic investments in terminal development in key areas including Barcelona, Durban and Miami, to offer guests even richer itineraries and a seamless end-to-end cruise experience.

With a view to further diversifying our product offering and strengthening our position within the luxury segment, an announcement was made in October 2018 with regard to the signing of a memorandum of agreement with the Fincantieri shipyard for the construction of four dedicated luxury cruise ships. Pursuant to the memorandum of agreement, in March 2019, we signed the shipbuilding contracts with Fincantieri for the construction of four luxury cruise ships with expected yearly deliveries starting from spring 2023. The combined contract price of the four ships is approximately EUR 1,961 million. On the same date, we signed for an option agreement for two additional luxury cruise ships with targeted delivery date December 2026 and June 2027 for approximately EUR 494 million each.

2018 saw the MSC Group introduce the MSC Company Values. These values are the beating heart of our business and the cornerstone of our Company. They support our vision, shape our culture and set our future course, providing a guiding path for all employees and ensuring the Company continues to move forward in the right direction.

As our Company has grown, both in business and in headcount terms, we have also given back to society. 2018 saw us celebrate our long-standing partnership with UNICEF when we attained the EUR 9.2 million mark in support of children in need. Since the beginning of the partnership, the support provided has served to deliver life-saving treatment to more than 93,000 children in Africa.

In an attempt to consolidate the Company's philanthropic activities, the MSC Foundation was established in Switzerland with the aim of taking forward the MSC Group's charitable efforts. This foundation is due to become the main vehicle for the MSC Group to support social and environmental causes and will allow the Company to add further structure and coherence to its social endeavours.

RECONNECTING OUR CUSTOMER BASE WITH THE OCEANS

In June 4, 2018, we took delivery of MSC Seaview. Hot on the heels of MSC Seaside, which came into service at the end of 2017, MSC Seaview is the second ship in the iconic Seaside Class. She is our second vessel built by Fincantieri, and the 15th ship to join the global MSC Cruises fleet.

The Seaside Class ships are inspired by an elegant Miami beach condo and push the boundaries of modern cruising. An innovative design concept featuring the latest cutting-edge marine and guest-centric technology demonstrates the Company's continued commitment to putting the guest experience front and centre.

The ship has a number of distinctive and bold design features unlike any other cruise ship and every element on board is designed to bring guests closer to the sea. 76% of the cabins are positioned on the outside of the ship, one of the highest ratios at sea, offering guests outstanding panoramic sea views.

In addition to her unique design, the ship boasts a variety of accommodation with flexible modular cabins for groups of up to ten guests, with luxurious suites with their own outdoor whirlpool bath. MSC Seaview has a wealth of entertainment on board, featuring the most interactive aquapark and the longest zip line currently at sea.

MSC Seaview offers an extensive choice of indoor and outdoor dining venues with a wide range of international restaurants and exclusive partnerships with the renowned chefs Roy Yamaguchi and Ramón Freixa.

MSC Seaview is the identical sister ship of MSC Seaside – which won the "Best New Ship" award in the USA shortly after she came into service.

SHIP NAME	MSC Seaview
SHIP CLASS	Seaside Class
DELIVERY DATE	June 4, 2018
GROSS TONNAGE	153,516 GT
LOWER BERTH CAPACITY	4,132
TOTAL NUMBER OF PASSENGERS	5,331
CREW MEMBERS	1,413
NUMBER OF CABIN	2,066
LENGTH/BEAM/HEIGHT	323.3 m / 41 m / 72 m
MAXIMUM SPEED	21.3 knots
PERCENTAGE OF OCEAN VIEW/BALCONY CABINS	76%

POISED TO SET A COMMERCIAL GROWTH RECORD AND GENERATE STRONG YIELD IN 2019

The delivery of MSC Bellissima on February 2019 and MSC Grandiosa, which is scheduled for October 2019, will add 9,276 lower berths to our global capacity, the highest yearly capacity increase for the Company to date.

MSC Bellissima

Welcoming its first paying guests on March 2, 2019, MSC Bellissima is the second ship in the Meraviglia Class and the fourth next-generation ship by MSC Cruises to come into service in less than two years.

Due to her specific design and dimensions, she is capable of docking at virtually any cruise port around the world, expanding the choice of itineraries and destinations for our guests. The layout of internal and external areas makes the ship ideal for sailing in all seasons and all regions.

The ship will boasts some unique features, including the latest digital technology and artificial intelligence such as ZOE, the first-ever digital personal assistant, developed in partnership with HARMAN International – a wholly-owned subsidiary of Samsung Electronics.

The entertainment on board is rich and abundant, making sure every taste is catered for. Options include a fun park and a waterpark, areas offering breathtaking panoramic views, a Mediterranean-style promenade with an 80-metre LED sky screen and innovative venues like the Carousel Lounge where guests can enjoy two newly created original shows by Cirque du Soleil at Sea, exclusively developed for MSC Bellissima.

During her inaugural season, MSC Bellissima offers 7-night cruises and calling at some of the Mediterranean region's most popular ports before moving to the United Arab Emirates for the winter of 2019/2020. The ship will continue her journey in China and Asia in 2020, bringing a range of new and cutting-edge innovations to the region.

SHIP NAME	MSC Bellissima
SHIP CLASS	Meraviglia Class
DELIVERY DATE	February 27, 2019
GROSS TONNAGE	171,598 GT
LOWER BERTH CAPACITY	4,434
TOTAL NUMBER OF PASSENGERS	5,714
CREW MEMBERS	1,536
NUMBER OF CABIN	2,244
LENGTH/BEAM/HEIGHT	315.3 m / 43 m / 65 m
MAXIMUM SPEED	22.7 knots
PERCENTAGE OF OCEAN VIEW/BALCONY CABINS	69%

MSC Grandiosa

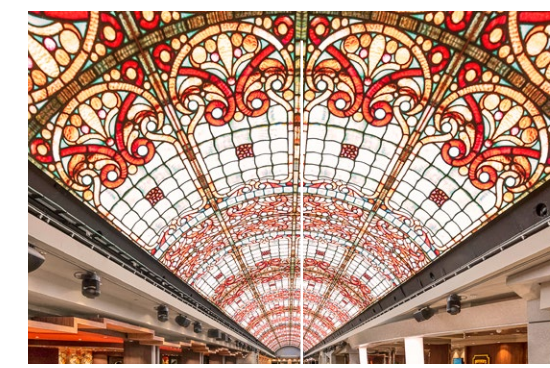
MSC Grandiosa is set to be delivered on October 31, 2019. She will be the first Meraviglia-Plus ship, representing a further evolution of the successful Meraviglia Class predecessor and boasting an additional 200 cabins.

With a total passenger capacity of 6,334 guests, MSC Grandiosa will be MSC Cruises' biggest ship and one of the biggest cruise ships in the world.

She will showcase an even more spacious Mediterranean-style promenade, hosting surprise performances, themed parties as well as the awe-inspiring projections on an even longer 98.5-metre LED Sky Screen.

The ship will offer new family activities and entertainment, further adding to the extensive and award-winning product offering. Restaurant options on board include a choice of at least 12 different dining venues, ranging from speciality restaurants to a further improved buffet, serving fresh, authentic food each and every day. In addition to a new restaurant concept on the Promenade, the new ship will also offer two brand new shows by Cirque du Soleil at Sea, created exclusively for MSC Grandiosa guests.

Furthermore, the ship will feature the latest environmental technology, such as the most advanced hybrid exhaust gas cleaning system, a selective catalytic reduction system, state-of-the-art waste management and recycling capabilities, energy and heat recovery systems as well as advanced wastewater treatment systems.



SHIP NAME	MSC Grandiosa
SHIP CLASS	Meraviglia-Plus Class
DELIVERY DATE	October 31, 2019
GROSS TONNAGE	181,000 GT
LOWER BERTH CAPACITY	4,842
TOTAL NUMBER OF PASSENGERS	6,334
CREW MEMBERS	1,704
NUMBER OF CABIN	2,440
LENGTH/BEAM/HEIGHT	331.43 m / 43 m / 65 m
MAXIMUM SPEED	22.3 knots
PERCENTAGE OF OCEAN VIEW/BALCONY CABINS	68%

CREATING NEW HOLIDAY EXPERIENCES TO EXCITE GUESTS AND INCREASE OPERATIONAL PERFORMANCE

Our mission is to create unparalleled holiday experiences for our guests in a world of choice, offering a holiday product that is richer and more attractive than any other travel option. We put our guests at the centre of all product development processes to create an experience that is tailored to suit their tastes and desires.

From pre-embarkation to post-disembarkation, we make sure guests enjoy every single aspect of their journey with us. All services, products, entertainment, gastronomic experiences and digital experiences are developed with today's and tomorrow's cruise clientele in mind.

In 2018, we continued to further innovate our product on various levels.

ENHANCED DIGITAL EXPERIENCES

Since we launched our digital transformation programme in 2017, we have successfully rolled out MSC for Me on four different vessels across our fleet. When MSC Bellissima and MSC Grandiosa come into service, 6 out of 17 ships will have MSC for Me.

MSC for Me is a multi-channel digital platform that uses cutting-edge technology to connect guests to their holiday experience, the ship and shipboard staff. It includes a mobile app, in-cabin connected television and interactive information screens around the ship, among other features.

As part of this programme, March 2018 saw us announcing ZOE, the world's first digital personal assistant on a cruise ship, developed in partnership with HARMAN International. Guests on board MSC Bellissima are the first to experience this assistant, which is available in seven languages and designed to answer the most commonly asked questions, in the comfort of their cabin. ZOE is a voice-activated artificial intelligence device fitted in every cabin and has been customised to ensure an even greater cruise experience.

NEW DINING EXPERIENCES

Great food experiences and fine dining have always been a key feature of our overall guest experience and MSC Cruises is renowned in the industry for its high standards and its wide range of fine dining options. Casual dining venues and speciality restaurants are available for all guests, up to 20 hours per day, offering a wide range of freshly prepared dishes. We also cater to families, offering family-friendly options and facilitating child-friendly sittings.

In 2018, in addition to existing culinary partnerships with award-winning international chefs such as Roy Yamaguchi, Jean-Philippe-Maury and Jereme Leung, we introduced new dining concepts and secured partnerships with renowned Michelin-starred chefs, including Spanish top-chef Ramón Freixa and the top German chef Harald Wohlfahrt.

AWARD-WINNING ENTERTAINMENT

MSC Cruises ships are destinations in themselves, with aquaparks, full-sized bowling alleys, F1 simulators, XD cinemas and much more. Renowned for its award-winning product features and entertainment across the fleet, the Company continuously innovates the space with new services, products and global partnerships. Our onboard entertainment teams deliver a full programme of West-end style and other theatre shows across the fleet each and every evening.

In 2013 we initiated a global partnership with Cirque du Soleil for the production of eight original shows that cannot be seen anywhere else in the world and that are staged only on MSC Cruises' Meraviglia Class ships. The new Cirque du Soleil at Sea concept premiered on MSC Meraviglia with the launch of two shows. In December 2018, we announced a further two new dedicated shows created for MSC Bellissima.
MSC Grandiosa and MSC Virtuosa are also due to receive their own dedicated Cirque du Soleil at Sea shows.

POWERED BY

STRATEGIC BRAND PARTNERSHIPS

In order to achieve consistent levels of quality and excellence, we maintain partnerships and agreements with the world's leading brands to ensure we can provide our guests with an even more enjoyable end-to-end holiday experience.
MSC Cruises has ongoing strategic partnerships with companies including Jean-Louis David (hairdressing), Samsung (onboard screens), Technogym (wellness experience), LEGO® (playrooms and entertainment for kids), CHICCO (purpose-built areas for infants and babies) and many others.
We also have global agreements with global airlines to offer exclusive services and greater flexibility for holidaymakers booking Fly & Cruise holiday packages.

OFFERING A WIDE ARRAY OF THE WORLD'S MOST BEAUTIFUL DESTINATIONS TO CATER TO AN INCREASINGLY DIVERSE CLIENTELE

212 ITINERARIES OFFERED WORLDWIDE

83 COUNTRIES VISITED

211 PORTS OF CALL

3,845 PORT CALLS

With more than 200 itineraries offered around the globe, holidaymakers are sure to find a dream vacation that caters to their taste. Whether cruise guests seek history and culture, beach and sun or sports and adventures, a myriad of choices awaits, with cruises available all around the world.

With regard to our destination management activities, we also continued to innovate and geared up for several new products in 2018. We not only further expanded our portfolio by offering our very first World Cruise, but also initiated the countdown to opening Ocean Cay MSC Marine Reserve.

World Cruise

With the 2019 World Cruise having successfully sold out in 2018, the experience began on January 5, 2019. The route takes guests around the world on a 119-day journey, crossing six continents and calling at 49 unique destinations in 32 countries. MSC Magnifica, one the industry's largest and most cutting-edge ships to offer this type of extended voyage, is perfectly poised to deliver this one-of-a-kind world cruise with all the comfort and elegance that guests have come to expect from MSC Cruises and its ships.The 2019 MSC World Cruise product fully sold out within months, a feat our 2020

MSC WORLD CRUISE

World Cruise, which is also virtually sold out, seems set to repeat. The 2020 MSC World Cruise will see guests embark MSC Magnifica to savour a 119-day journey around the globe departing on January 5, 2020. In view of the popularity enjoyed by these first two World Cruises, bookings are already being taken for the 2021 MSC World Cruise on MSC Poesia.

Ocean Cay MSC Marine Reserve

During 2018, progress also continued to be made on our Ocean Cay MSC Marine Reserve project, which involves transforming a former industrial sand extraction site into a flourishing marine reserve and private island destination. The island is designed to exist in harmony with the local ecosystem and will be exclusively available to MSC Cruises' guests.

In 2018, we made significant progress on the landscaping work and started planting the first of 75,000 native shrubs and plants as well as more than 60 types of indigenous Caribbean trees with the aim of creating a lush, tropical environment.
Work also began on more than 100 eco-friendly structures, which will include bars, restaurants and housing for staff who will live on the island. The construction of the lighthouse will begin soon. It is intended to become an iconic landmark on the island and a focal point of night-time entertainment for guests.

With the ambition of creating a protected paradise and restoring the natural coral around the island, MSC Cruises is working in close collaboration with environmental auditors, Bahamian environmental experts and other entities to ensure that best environmental practices are followed. Plans are underway for a marine laboratory to be situated on the island as well.
The facility will conduct research into climate-change-resistant coral that is hoped to provide insight that can be applied to similar island habitats.

Ocean Cay MSC Marine Reserve will welcome its first guests in November 2019.

ENTERING NEW MARKET SEGMENTS

**MSC Cruises has a strong history in luxury travel. More than a decade ago, MSC Cruises launched a revolutionary luxury concept on board our Fantasia Class ships:
the MSC Yacht Club. This separate section of the ship combines the high-end luxury of a private yacht with the convenience and wide range of choices of a modern cruise ship, providing an unparalleled holiday experience.**

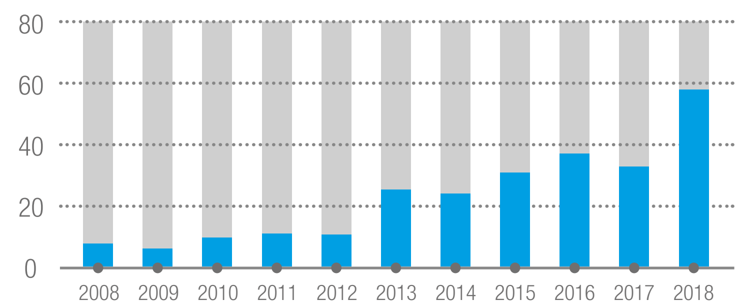
Guests of the MSC Yacht Club can enjoy benefits including superior cabins, a 24/7 butler and concierge service, access to exclusive dining options, a private pool, whirlpool baths and solarium facilities, private elevators and priority check-in privileges.
This award-winning high-end travel concept offers guests an unrivaled ship-within-a-ship experience and an incomparable opportunity to discover new levels of luxury.

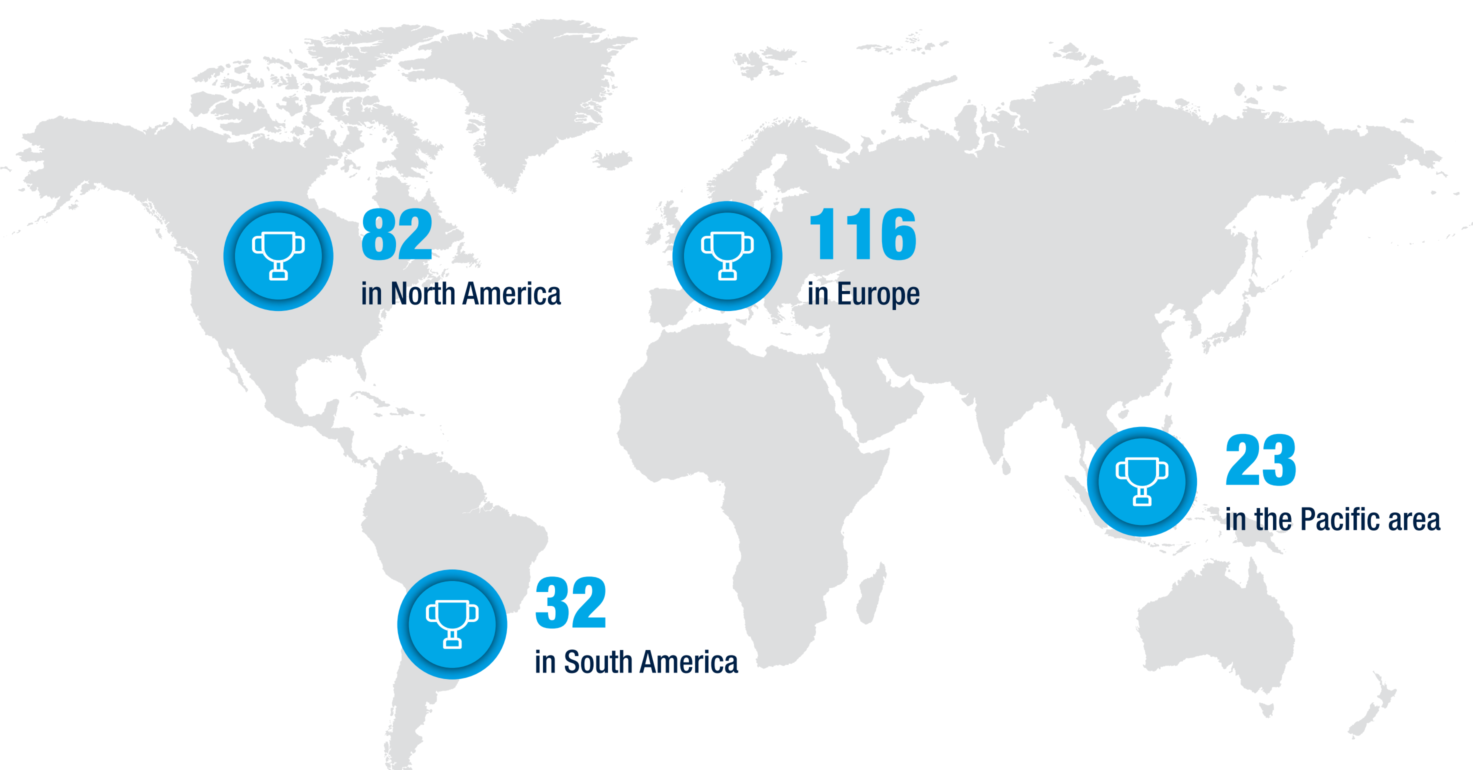
Having gained a wealth of experience in the luxury travel segment, we are now ready to take our top-notch cruise holidays to new, previously unscaled heights.
In this vein, October 2018 saw MSC Cruises and Fincantieri announce the signing of a memorandum of agreement for the construction of four new luxury cruise ships.
Pursuant to the memorandum of the agreement, in March 2019, we signed the shipbuilding contracts with Fincantieri for the construction of four luxury cruise ships with expected yearly deliveries starting from spring 2023. The combined contract price of the four ships is approximately EUR 1,961 million. On the same date, we signed for an option agreement for two additional luxury cruise ships with targeted delivery date December 2026 and June 2027 for approximately EUR 494 million each.
The first of these ships, due for delivery in spring 2023, will have gross tonnage of approximately 64,000 GT and will feature 500 cabins. Each of the next three years will see the remaining ships come into successive service.
Thanks to their size, these ships will be capable offering unique itineraries, with guest services being pushed to new levels of excellence. Next to featuring a highly innovative design, these vessels will introduce groundbreaking options for guest comfort and relaxation. This will go hand in hand with featuring the best and latest environmental technology and other cutting-edge maritime solutions at sea.

SIGNIFICANT GROWTH
IN KEY ACCOLADES ACROSS ALL MARKETS

2008 ▶ 2018

OVER **250** AWARDS
WON IN THE PAST 10 YEARS





KEY HIGHLIGHTS IN 2018

58 AWARDS WON GLOBALLY
OUR HIGHEST SCORE EVER

France

Best Cruise Company
for Les Victoires du Tourisme

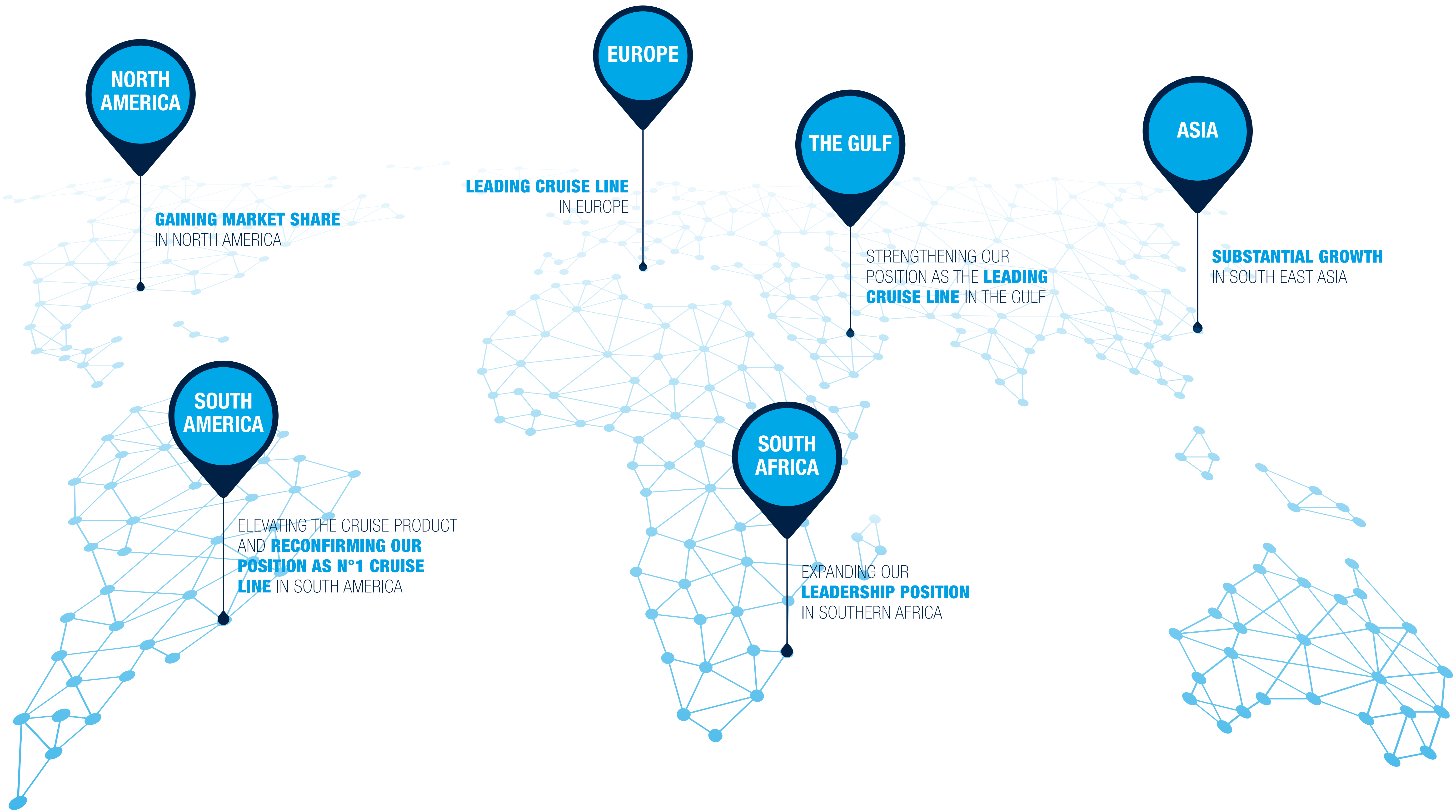
US

MSC Meraviglia and **MSC Seaside** won **gold** in the Travel Weekly's 2018 Magellan Awards

UK

World of Cruises recognised us the
Best for Families Award

SUSTAINABLE GROWTH
ACROSS THE GLOBE



NEW BUILDS PLAN THAT SECURES OUR LONG-TERM OPERATIONAL AND FINANCIAL GROWTH

In 2014, MSC Cruises launched an investment plan with a horizon of more than 10 years to support the Company's second phase of growth. Throughout the subsequent years, this overall investment plan was gradually raised to reach EUR 14.5 billion for a total of 19 ships to come into services by 2027.

At the end of 2018, three ships – MSC Meraviglia, MSC Seaside and MSC Seaview – had already been delivered.

On the heels of the first wave of fleet expension activities, 2019 saw the delivery of MSC Bellissima on February 27, and will see the delivery of MSC Grandiosa on October 31. In June 2018, we also cut the first steel of MSC Virtuosa, set to be delivered in November 2020, and MSC Seashore, scheduled to join the fleet in spring 2021.

In March 2018 we confirmed contracts for our first two LNG-powered World Class ships, tipped for delivery in 2022 and 2024, and secured options for a third and fourth vessel in the same ship class. In March 2019, we signed the shipbuilding contracts for the construction of four luxury cruise ships and an option agreement for two additional ones.

With an active order book of 12 ships plus 4 options at the end of 2018, MSC Cruises is currently the cruise brand with the highest number of cruise ships on order worldwide.

A COMPANY INSPIRED BY PEOPLE AND VALUES

In 2018, MSC Cruises crossed the threshold of 30,000 employees on board and ashore. In light of the rapid expansion, the Company has invested significantly in training, professional growth, exciting career paths and human resource excellence.

In order to foster continuous personal and professional development, we inaugurated a dedicated training facility in Sorrento, Italy, where specific training modules are provided to environmental, deck and engine officers, as well as senior hotel staff. The purpose of this training centre is to further build a culture of excellence across all levels of the Company.

In view of this significant growth in headcount, a clear path has been set for everyone to follow and with which all employees will be able to grow and evolve in the right direction in pursuit of success. To this end, our Company Values were launched in 2018 to provide guidance for all staff.

MSC Cruises identified five key values that form the cornerstones of our Company. These values support our vision, shape our culture and set our future course.

THE MSC CRUISES COMPANY VALUES

We are a Family Company
The commitment of the founding family serves to inspire dedication and trust in MSC Cruises' employees. Sharing the family's entrepreneurial spirit leads us to act in a proactive, courageous and responsible manner to safeguard the best interests of our guests and our Company.

We have Passion
MSC Cruises employees are passionate about what they do. We challenge ourselves to achieve excellence and we are tenacious in overcoming obstacles. Working together with passion and enthusiasm, we provide a unique experience for our guests.

We are in Continuous Evolution
Our tradition, expertise, professionalism and ambition drive the Company's fast and sustainable growth.
We strive for the most innovative solutions to embrace change, always respecting safety and the environment.

We believe in Equal Opportunities
MSC Cruises' mission is to provide its people with personal fulfilment and enrichment. We are committed to sharing our knowledge as well as delivering training and support to enable our people's professional growth. We ensure fair opportunities and provide long-term career development, we embrace diversity and value all cultures equally.

We Care for People
MSC Cruises believes that each person brings unique value. We develop authentic relationships built on ethics, respect and team spirit. We genuinely care about the satisfaction and loyalty of our guests and employees.

MSC | People

CREATING A POSITIVE IMPACT FOR PEOPLE AND PLANET

MSC Cruises believes that global leadership comes with a duty to be a responsible corporate citizen. As a family company, we believe the onus is on us to positively impact people, communities and the environment. We feel that the seas have made us who we are today as human beings and as a Company.
We are therefore committed to supporting non-profit organisations dedicated to making a positive difference to people and the planet.

MSC for UNICEF

MSC Cruises and UNICEF have worked in partnership since 2009. In 2013, the two organisations collaborated on establishing a global initiative to assist malnourished children in developing countries and those affected by crises. Across the fleet, the initiative encourages MSC Cruises' guests to make a contribution to UNICEF. By 2018, MSC Cruises had raised more than EUR 9.2 million for UNICEF thanks to the generous contributions of its guests. The funds raised are used to provide malnourished children with Ready-to-Use Therapeutic Food (RUTF) such as Plumpy'Nut®. To date, more than 2.5 million sachets of RUTF have been delivered to children in Ethiopia, South Sudan, Somalia and Malawi.

Since January 2018, our contributions have enabled UNICEF to provide supplies and life-saving treatment in Malawi for 11,613 under five-year-olds diagnosed with Severe Acute Malnutrition (SAM). Since the beginning of this partnership, 93,810 children have received treatment thanks to the support of MSC Cruises' guest donations.

MSC Cruises for ABF

In December 2017 MSC Cruises and the Andrea Bocelli Foundation joined forces for children in Haiti. The partnership is focused on the ABF's life-changing projects in Haiti, one of the poorest countries in the world. MSC Cruises has worked closely with the ABF to identify, design and implement a long-term alliance with the aim of improving conditions and providing an education for more than 2,550 children living in some of the most disadvantaged communities in the country.

MSC Cruises is likewise supporting the crucial work of the ABF's Mobile Clinic Project, which delivers a free healthcare assistance and prevention programme that benefits more than 8,000 people per year in the 5 poorest and most remote areas of the country. The medical team provides a comprehensive range of support services, including medical care, immunization for children aged 3 to 7, monitoring for malnutrition, screening for the most common systemic diseases, health education and family consultations.

MSC Cruises & MAREVIVO

Based on a shared passion for the sea, MSC Cruises and the Italian marine conservation association, Marevivo, joined forces in 2015 to inspire young people to develop a culture of sustainability with regard to our oceans – inside and outside the classroom.

With the support of MSC Cruises, Marevivo is developing activities that aim at raising awareness concerning the health of our oceans. Various educational modules that deal with marine biodiversity, sustainable development, restoration of marine protected areas, combating pollution and putting a stop to illegal fishing all appear on the syllabus.

MSC Foundation

In February 2018, as part of the broader MSC Group, MSC Cruises took forward its philanthropy initiatives by establishing a standalone non-profit foundation.

The 'MSC Foundation' will become the main vehicle for the MSC Group's charitable activities for the benefit of social and environmental causes.

MSC FOR unicef　　MSC FOR ABF ANDREA BOCELLI FOUNDATION　　MSCFOUNDATION

NAVIGATING A SUSTAINABLE COURSE

Environmental protection is a key area of focus for MSC Cruises and in 2018 we continued to make great progress. Our efforts are an ongoing journey and we keep exploring and developing new solutions that ensure a lower environmental impact for our future and existing ships. At the centre of our environmental strategy, a skilled team of Environmental Officers on board our fleet ensures all environmental management aspects and policies are consistently observed and effectively implemented. The team trains our crew and fosters a strong culture of environmental awareness on board our ships.

As part of a much broader approach to meet our environmental objectives and greatly limit sulphur and other emissions in ports and in specific operating areas, we are implementing a wide range of measures to achieve cleaner ship exhaust. To this end, we are installing Exhaust Gas Cleaning Systems (EGCS) on all our new-builds as well as on most of our existing fleet. EGCS ionically and mechanically remove up to 97% of the sulphur dioxide from the exhaust fumes, greatly reducing particulate matter.

Our latest ships – MSC Meraviglia, MSC Seaside and MSC Seaview – were all delivered with operational EGCS systems and on 11 November 2018, we finished retrofitting MSC Poesia. At the end of 2018, 50% of our ships and 63% of our total number of berths (i.e. capacity) were sailing with EGCS technology.

Moving forward, we will be equipping our new builds with Selective Catalytic Reduction (SCR) systems. SCR technology helps to reduce nitrogen oxide (NOx) by converting it into harmless nitrogen (N2) and water through advanced active emissions' control technology. MSC Grandiosa, entering into service in November 2019, will be our first ship to be equipped with an SCR system. We currently have three ships under construction that will be fitted with this technology and all following ships that are currently on order will also feature the system.

To achieve even cleaner ship emissions, we are also diversifying our fuel strategy. We are currently laying the conceptual building stones for five future ships which will be powered with Liquefied Natural Gas (LNG), arguably one of the most environmentally sound fuels for cruise ships today. Compared to standard marine fuels, LNG reduces SOx emissions by more than 99% and NOx emissions by up to 85%. It also virtually eliminates particulate matter from the exhaust and avoids clouds from forming as a result of air emissions during engine start up. MSC Cruises will be investing approximately EUR 5 billion in these five ships, the first of which is due to be commissioned in 2022, followed by the others in 2023, 2024, 2025 and 2027.

Another important aspect of shipboard environmental management is ensuring high-quality wastewater discharges. In 2008, when launching our Fantasia Class ships, we started to equip our ships with Advanced Water Treatment Systems. These advanced systems go well above and beyond regulatory standards and make for wastewater discharges that reach near tap water quality. Thanks to our systems, hazardous substances and pollutants are first filtered out, with the remaining purified wastewater being disinfected using UV light.
The system is preferable to the one involving chlorine or other chemicals that would harm marine life. Key indicators are constantly monitored to ensure a high quality effluent before it is discharged.

As a result of the treatment process, our discharges reach very high quality. The separated solid residue from black wastewater is removed from the cycle and this bio sludge is dried, compacted and compressed into high-grade pellets. These pellets can then be used as a source of fuel to satisfy certain onboard energy needs.

Every time MSC Cruises brings a new ship to sea, it complies with the highest international environmental standards. Our most recent ships, MSC Meraviglia, MSC Seaside and MSC Seaview have received the highest notations from independent global Classification Societies such as Bureau Veritas and RINA. These class notations acknowledge that these ships reach the highest levels of eco-compatibility thanks to various innovative onboard measures that help reduce their environmental footprint.

In 2018, MSC Cruises was the first cruise line to receive the prestigious '8 Golden Pearls' award from Bureau Veritas for outstanding sustainable and environmental stewardship, specifically regarding MSC Meraviglia.

For our solid waste and garbage management, we have strict policies on board and we have state of the art machines and procedures for each of the different main categories: organic food leftovers, paper and cardboard, plastics (dirty or recyclable), glass and aluminium. We attach great importance to the topic of recycling and maintain specific partnerships in this field across various countries.

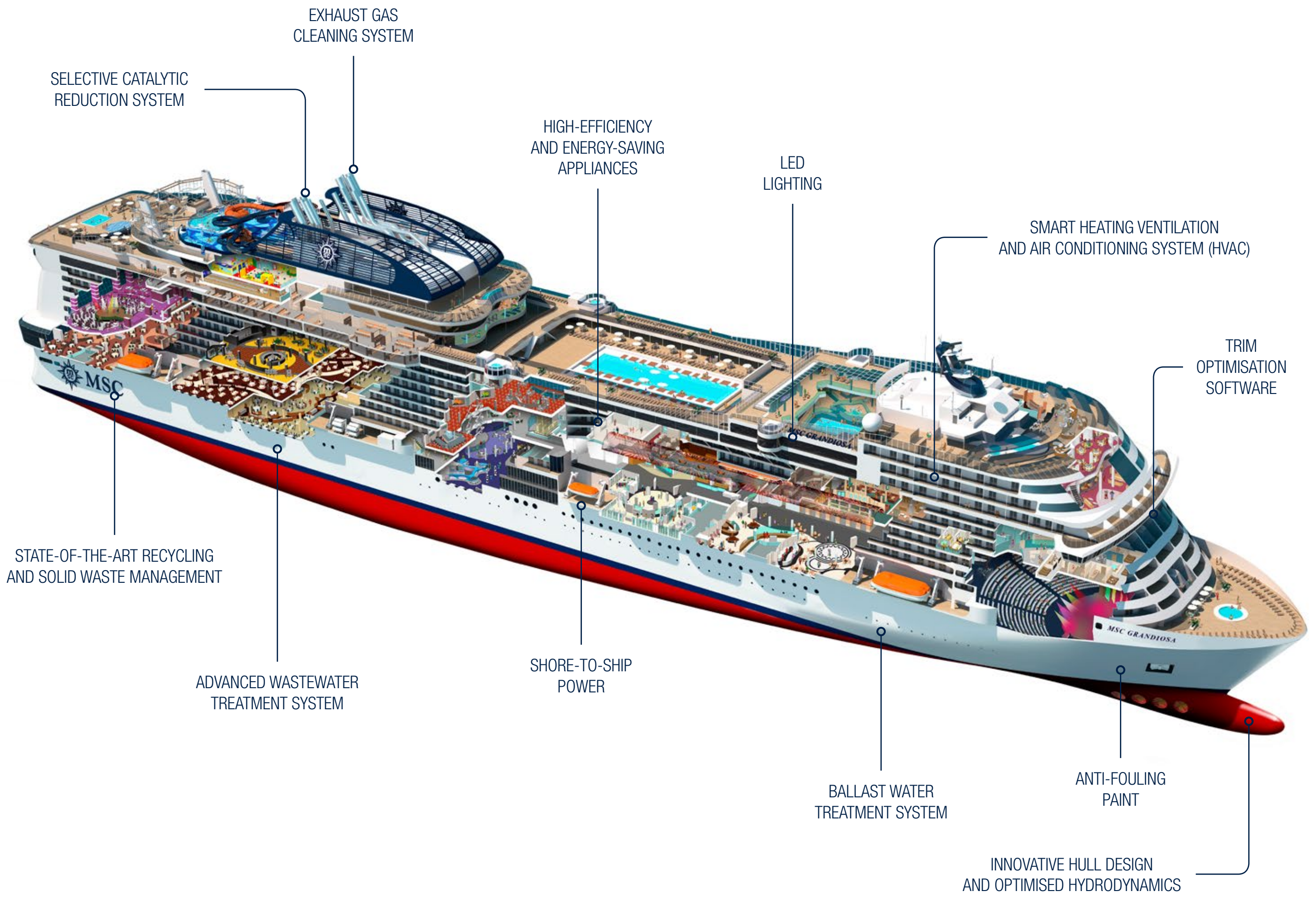
Our company policies in this field meet and exceed the mandatory standards set out by MARPOL Annex V and we provide training in a variety of subjects across the board and, specifically, for staff engaged in waste handling.

The introduction of our Plastics Reduction Programme marked another important milestone for MSC Cruises in 2018. By the end of the year, we had effectively phased out an extensive number of single-use plastic items from all our ships and ashore, with eco-friendly solutions taking their place. All single-use plastic straws, cutlery, bags and other items have now been replaced with 100% compostable and biodegradable substitutes.
By March 2019, all single-use plastic items for which substitution is available will be permanently replaced or phased out. Packaging has been removed from single-portion items such as butter, jams or yoghurts and processes have been optimised to provide guest-friendly and convenient solutions. Drinks are no longer automatically served with a straw, a measure which will see the overall consumption of straws reduce by 50%. As part of this programme, MSC Cruises is also in the process of identifying a global leader for inspection, verification, testing and certification purposes to ensure recycling activities can be audited and certified by an independent expert organisation.

WE SUPPORT THE SEA
THAT SUPPORTS OUR SHIPS
MSC PLASTICS REDUCTION PROGRAMME

MSC Cruises takes a holistic approach to environmental stewardship, in which the above initiatives, as well as a wide range of other features and technologies, contribute to lowering our environmental impact.

INCREASING OUR FLEET'S ENVIRONMENTAL PERFORMANCE



MSC Cruises aims to reduce the rate of carbon emissions across its fleet by 40% by 2030. The commitment to reduce the rate of our global fleet emissions by 40% is the outcome of a collaborative process among cruise lines globally. Progress towards the 40% target will be measured against a 2008 fleet baseline. Emission rates will be calculated based on the fleet's total carbon emissions, total ship berths and total distance travelled.

MSC Group

Headquartered in Geneva, Switzerland, the privately owned MSC Group is a global business that operates in the transport and logistics sector. The Group encompasses a Cargo Division with MSC Mediterranean Shipping Company (MSC), Terminal Investment Limited (TiL) and MEDLOG as well as a Passenger Division led by MSC Cruises and complemented by the Mediterranean passenger ferry companies Grandi Navi Veloci (GNV) and SNAV.

The MSC Group was founded in 1970 by Captain Gianluigi Aponte in Brussels, Belgium. Captain Aponte started the Company with one small conventional ship, the MV Patricia. With the advent of containerisation and an increasingly globalised world economy, MSC grew to become a leader in global container shipping.

Based on the success of the container shipping business, the Aponte family sought to diversify the MSC Group by launching a highly successful cruise company as well as by investing in port terminal infrastructure and passenger ferries. Today, the Group employs more than 70,000 people around the globe.

MSC MEDITERRANEAN SHIPPING COMPANY

- › The second largest container cargo business worldwide
- › 480 offices around the globe
- › 47,000 staff
- › Operations in 155 countries, covering all 5 continents
- › 510 vessels with a total intake capacity of 3.3 million TEU
- › Calling at 500 ports on 200 trade routes
- › 20 million TEU carried annually

TIL TERMINAL INVESTMENT LIMITED

- › The No. 6 among terminal portfolio companies worldwide
- › Investments in 54 container terminals
- › Over 34 million moves per year
- › Active in 29 countries on 5 continents
- › Present at 7 of the world's 25 busiest ports

MEDLOG TRANSPORT AND LOGISTICS

- › Presence in more than 60 countries
- › 5,000 trucks
- › 10,000 trailers
- › 4,000 rail carriages
- › 68 locomotives
- › 21 barges
- › Over 10 million TEUs handled annually

FERRIES

GNV
- › 14 ferry ships
- › Calling at 16 prime destinations across 18 major routes
- › Established in 1992

SNAV
- › 1 cruise ferry
- › 25 high-speed modern vessels including hydrofoils and catamarans
- › 11 major routes
- › Established in 1992

MSC CRUISES

- › The world's largest privately owned cruise line
- › 17 modern and technologically advanced ships by October 2019
- › 800% growth rate in the first 10 years of operation
- › 2.4 million guests welcomed on board in 2018
- › 30,523 employees on board and ashore at the end of 2018
- › Capacity to reach 5.5 million guests by 2027

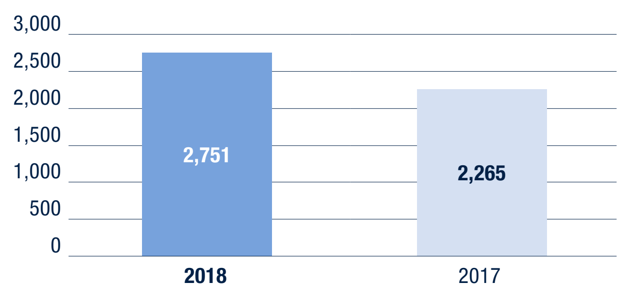
BUSINESS REPORT

FINANCIAL HIGHLIGHTS

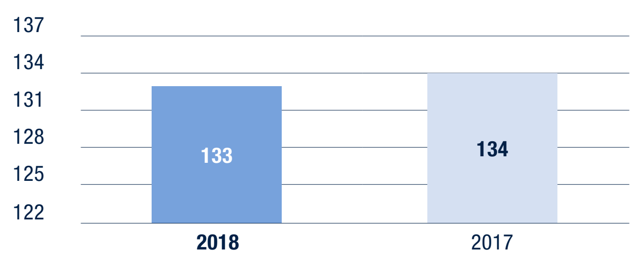
in MEUR*	For the years ended December 31, 2018	2017
Total revenues	2,751	2,265
Operating profit	484	367
Net profit	348	311

* Certain comparative figures have been affected by a reclassification of:
- the cost of insurance sold to passengers previously reported under Commission, transportation and other related expenses to deduction of Passenger tickets revenues;
- costs previously reported under Other operating expenses to Commission, transportation and other related expenses and to Selling, general and administrative expenses.
Refer to Note 5. Summary of significant accounting policies in the notes to the consolidated financial statements.

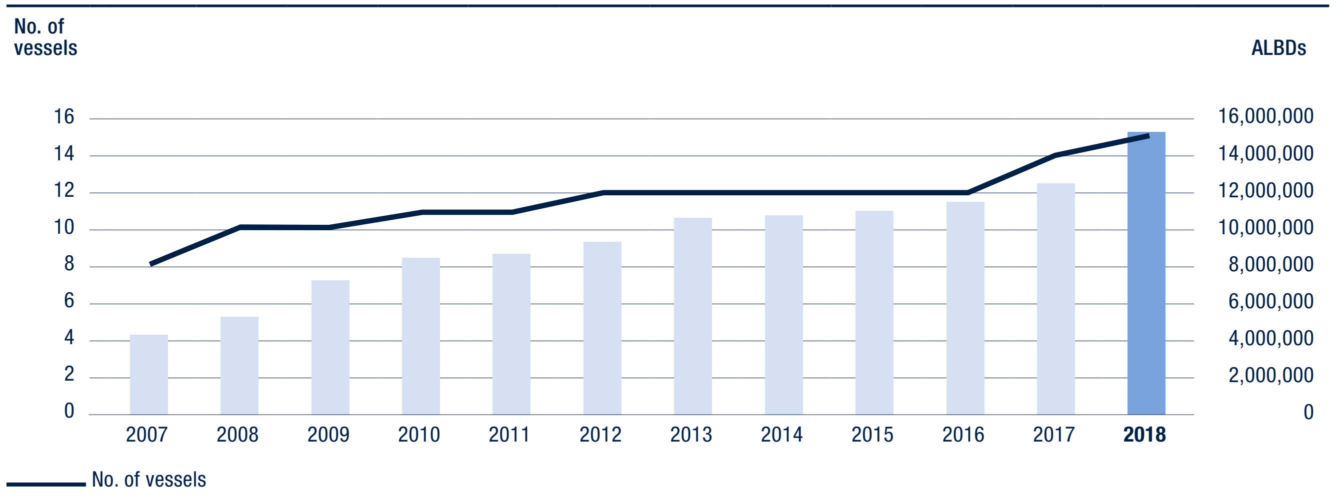
TOTAL REVENUES - in MEUR



NET REVENUES YIELD - in EUR

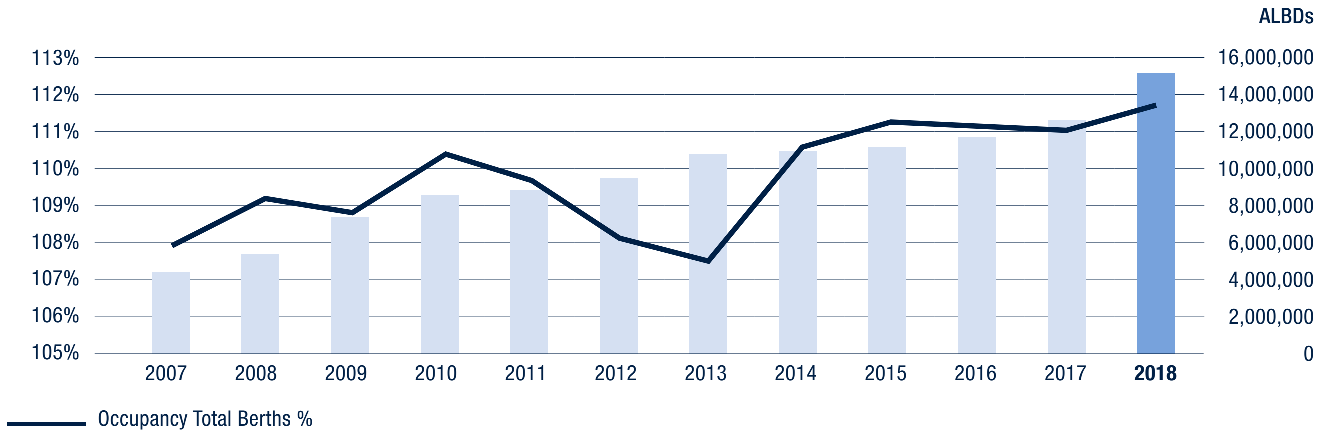


CAPACITY (ALBDs*)

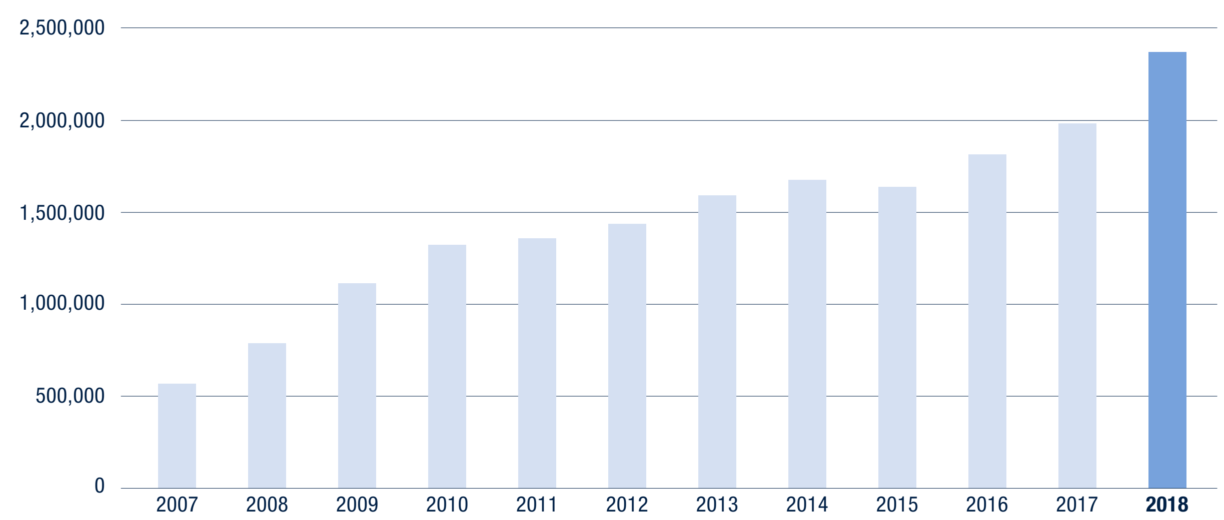


* ALBDs (Available Lower Berth Days) is a standard measure of passenger capacity for the period, which the Group uses to perform rate and capacity variance analyses to determine the main non-capacity-driven factors that cause cruise revenues and expenses to vary. ALBDs assumes that each cabin the Group offers for sale accommodates two passengers and is computed by multiplying passenger capacity by revenue-producing ship operating days in the period.

OCCUPANCY (%)



TOTAL PASSENGERS CARRIED



EXECUTIVE OVERVIEW

In 2018 we delivered what we promised and continued to build great momentum in the cruise and travel industry. It was a year in which we confirmed our ability to meet and exceed our targets in our ambitious growth plan, which is unprecedented in the cruise industry.

Following the deployment of three new next-generation cruise ships between May 2017 and June 2018, we successfully added an extraordinary 12,700 lower berths to our global fleet. MSC Seaview, which entered into service in June 2018, as well as MSC Meraviglia and MSC Seaside, delivered in May and November 2017, respectively, have all been living up to our expectations since they joined.

As a result of a year-over-year expansion in capacity of 23%, which represented the highest single-year step-up in our our ten-year new-build investment plan, our year-over-year EBITDA increased by 32% compared to the previous financial year, reaching EUR 741 million.

Advance bookings continued to be robust across the whole fleet. By the end of 2018, MSC Bellissima, delivered in February 2019, and MSC Grandiosa, which is scheduled for delivery in October 2019, already enjoyed a very strong demand.

A healthy consumer appetite for MSC Virtuosa – due to enter service in 2020 – also gives us confidence that we will be able to sustain this momentum through 2020 and beyond. We are proud to look to the future as a top player in the world's cruise industry, having consolidated our leadership in Europe, South America and South Africa and strenghtened our expansion in North America and Asia. Our presence is more and more global and very equally distributed in terms of destinations and passengers sourcing, thus allowing us to be flexible enough in our operations and strategies. We adapt our product to local tastes thanks to our in-house product operating model. We have built on the success of our innovation programme, investing in the latest technology at the service of hospitality. Among the several innovations onboard our ships is the launch of artificial intelligence in the form of ZOE, the world's first digital personal assistant on a cruise ship. This is not just a way to redefine the customer experience, but it also allows us to anticipate consumer behaviour for the years to come.

MSC Cruises has a strong history in luxury travel. More than a decade ago, we launched a revolutionary luxury concept on board our Fantasia Class ships: the MSC Yacht Club. Having gained a significant experience in the luxury travel segment, we are now ready to take our top-notch cruise holidays to new heights. In October 2018 MSC Cruises and Fincantieri announced the signing of a memorandum of agreement for the construction of four new luxury cruise ships. Pursuant to the memorandum of agreement, in March 2019, we signed the shipbuilding contracts with Fincantieri for the construction of four luxury cruise ships with expected yearly deliveries starting from spring 2023. On the same date, we signed an option agreement for two additional luxury cruise ships with targeted delivery date December 2026 and June 2027.

We continued to invest in the latest marine technology to further strengthen our environmental credentials. Protecting the environment is a key area of focus for MSC Cruises and we are committed to reducing the impact of our ships and ensuring our business grows in a sustainable manner.

While our ship construction was at an all-time high, we also made significant progress in destination investments and we announced further strategic port infrastructure investments in key areas including Barcelona, Durban and Miami, to offer guests even richer itineraries and a seamless end-to-end cruise experience.

In addition, we commenced the one-year countdown to complete Ocean Cay MSC Marine Reserve, our private island and exclusive beach destination in the Bahamas, which will welcome its first guests in November 2019.

We achieved strong performance, generating a net profit of EUR 348 million and we confirmed our fifth consecutive year of double-digit growth in operating profit.

Our unprecedented growth rests on a sound financial basis. In the course of 2018 we obtained ECA financing for all our ships on order further securing our incredible industrial plan.

Our strong achievements are a credit to the passionate and dedicated commitment of our 30,523 shore and ship-side team members, which are at the centre of our successful journey. In February 2019 we entered into a new revolving credit facility increasing the available commitment to EUR 600 million.

In view of the significant growth of our team, 2018 saw the MSC Group formally introduce the MSC Company Values. These values are the beating heart of our business and the cornerstone of our company. They support our vision, shape our culture and set our future course, providing a guiding path for all employees and ensuring the Company continues to move forward in the right direction.

BASIS OF PREPARATION AND FINANCIAL MEASUREMENTS

Revenues from our cruise and cruise-related activities are recognised as "passenger tickets" and "onboard and other revenues". Passenger ticket revenues as well as onboard revenues vary according to product offering, the size of the ship in operation, the length of cruises operated and the markets in which the ship operates. Our revenues are seasonal, based on the demand for cruises, which has historically been strongest in Europe during the summer months.

Passenger ticket revenues primarily consist of revenues for accommodation, meals, certain types of onboard entertainment, and include revenues for service charges, air and land transportation to and from the ship that guests choose to purchase from us. Onboard revenues primarily consist of revenues from beverage sales, retail sales, shore excursions, gaming, speciality dining, spa services and photo services. We record onboard revenues from onboard activities, which are all provided directly by us except for spa services, which are provided by an independent franchisee that pays us a share of their revenues.

Our cruise operating expenses are classified as follows:

- Commissions, transportation and other related expenses primarily consist of direct costs associated with passenger ticket revenues. These costs include travel agent commissions, passenger taxes, air and land transportation expenses;
- Onboard and other related expenses primarily consist of direct costs that are incurred in connection with onboard revenues. These include costs incurred in connection with beverage sales, retail sales, shore excursions, gaming and photo services;
- Crew payroll and related expenses consist of the cost of wages and benefits for shipboard employees;
- Fuel expenses include fuel costs, the impact of certain fuel hedges and fuel delivery costs;
- Food expenses consist of food costs for passengers and crew on our ships;
- Other expenses consist of repairs and maintenance, port expenses, ship insurance and other ship expenses.

Our consolidated financial statements have been prepared in accordance with IFRS. We use certain non-IFRS financial measurements such as Net passenger ticket revenues, Net onboard revenues, Net cruise costs and Net cruise costs excluding fuel expenses to enable us to analyse our performance. We utilise Net revenues and Net yield to manage our business on a day-to-day basis and believe that they are the most relevant measurements of our revenue performance because they reflect the revenues earned by us net of significant variable costs. In measuring our ability to control costs in a manner that positively impacts net income, we believe changes in Net cruise costs and Net cruise costs excluding fuel to be the most relevant indicators of our performance. We express our revenues and expense in yield which is a measurement of the main non-capacity-driven factors that cause our revenues and expenses to vary. Yield is calculated by dividing revenues and expenses by Available Lower Berth Days (capacity days), a standard measurement in the cruise industry which is obtained by multiplying an assumed two passengers per cabin by revenue-generating cruise days. Occupancy rates in excess of 100% indicate that three or more passengers occupied some passenger cabins.

Net yield consequently represents our net revenues per capacity days. We use Net revenues and Net yields to manage our business on a day-to-day basis, believing it to be the most relevant measurement of our pricing performance since it reflects the cruise revenues earned by us net of our most significant variable costs, such as Commissions, transportation and other tour-operating expenses, onboard and other expenses.

Selected statistical and financial data

In 2018, we operated fifteen ships as the Company took delivery of one cruise ships: MSC Seaview in June 2018.
Our overall capacity increased by 23%, from 12.4 million to 15.2 million Available Lower Berth Days, as a result of the delivery of MSC Seaview during 2018.
In 2018, we welcomed 2.4 million passengers, an increase of 20% compared to the previous year. Our ship occupancy achieved 111.6% remaining in line with the year before.

Total revenues increased by 21% to EUR 2,751 million from EUR 2,265 million. Operating profit increased by 32% to EUR 484 million from EUR 367 million. The growth of Net revenue yield was partially offset by fluctuations in exchange rates. Net profit increased by 12% to EUR 348 million from EUR 311 million. Net Cruise Costs excluding Fuel Yield decreased by 5% to EUR 72 from EUR 76.
Total assets increased by 16% to EUR 7,893 million from EUR 6,824 million. Financial debt increased by 15% to EUR 4,579 million from EUR 3,977 million. Total equity increased by 15% to EUR 1,995 million from EUR 1,731 million.

The following table presents selected statistical information:

in MEUR	2018	2017
	For the years ended December 31,	
Operating profit	484	367
Depreciation and amortisation	253	194
Impairment of non-current assets	4	-
EBITDA	**741**	**561**
Impairment of current assets	2	3
Provisions and other non cash items	5	4
Adjusted EBITDA	**748**	**568**

in MEUR EXCEPT YIELD*	2018	2017
	For the years ended December 31,	
Total revenues	2,751	2,265
Operating profit	484	367
Net profit	348	311
Net revenues yield	133	134
Net cruise costs excluding fuel yield	(72)	(76)
Total assets	7,893	6,824
Financial debt	4,579	3,977
Total equity	1,995	1,731

Our operating data as a percentage of total gross cruise revenues is as follows:

in %*	2018	2017
	For the years ended December 31,	
Passenger tickets	74.9	74.9
Onboard and other revenues	25.1	25.1
Gross cruise revenues	**100.0**	**100.0**
Commission, transportation and other related expenses	(18.1)	(18.6)
Onboard and other related expenses	(8.5)	(8.3)
Crew payroll and related expenses	(12.8)	(12.9)
Fuel expenses	(7.1)	(7.1)
Food expenses	(4.5)	(4.2)
Other operating expenses	(10.6)	(10.6)
Selling, general and administrative expenses	(11.7)	(13.6)
Depreciation and amortisation	(9.2)	(8.6)
Operating profit	**17.5**	**16.1**
Net interest expenses	(4.5)	(4.6)
Other financial items	(0.6)	0.7
Gain on derivatives	0.3	0.6
Profit before tax	**12.7**	**12.8**
Income taxes	(0.1)	0.8
Net profit	**12.6**	**13.6**

	2018	2017
	For the years ended December 31,	
No. of vessels	15	14
Operating days	5,189	4,515
Available Lower Berth Days (ALBDs)	**15,198,506**	**12,357,222**
Total passenger carried	**2,367,527**	**1,979,904**
% Occupancy Total Berths	111.6%	111.0%
Fuel consumption per ALBDs (kg)	36.8	37.7

The following table shows our operational revenues and costs details:

in MEUR EXCEPT ALBDs AND YIELD*	2018	2017
	For the years ended December 31,	
Passenger tickets	2,061	1,696
Onboard and other revenues	690	569
Gross cruise revenues	**2,751**	**2,265**
Less cruise costs		
Commission, transportation and other related expenses	(497)	(422)
Onboard and other related expenses	(234)	(187)
Net passenger ticket revenues	**1,564**	**1,274**
Net onboard and other revenues	**456**	**382**
Net cruise revenues	**2,020**	**1,656**
ALBDs	**15,198,506**	**12,357,222**
Gross cruise revenues yield	**181**	**183**
Net cruise revenues yield	**133**	**134**
Net passenger ticket revenues yield	**103**	**103**
Net onboard and other revenues yield	**30**	**31**
Cruise operating expenses	(1,693)	(1,395)
Cruise selling, general and administrative expenses	(321)	(309)
Gross cruise costs	**(2,014)**	**(1,704)**
Less cruise costs included in net cruise revenues		
Commission, transportation and other related expenses	(497)	(422)
Onboard and other related expenses	(234)	(187)
Net cruise costs	**(1,283)**	**(1,095)**
Less fuel	(196)	(160)
Net cruise costs excluding fuel	**(1,087)**	**(935)**
ALBDs	**15,198,506**	**12,357,222**
Gross cruise costs yield	**(133)**	**(138)**
Net cruise costs yield	**(84)**	**(89)**
Net cruise costs excluding fuel yield	**(72)**	**(76)**

*Certain comparative figures have been affected by a reclassification of:
- the cost of insurance sold to passengers previously reported under Commission, transportation and other related expenses to deduction of Passenger tickets revenues;
- costs previously reported under Other operating expenses to Commission, transportation and other related expenses and to Selling, general and administrative expenses.
Refer to Note 5. Summary of significant accounting policies in the notes to the consolidated financial statements.

MANAGEMENT STRUCTURE AND CORPORATE GOVERNANCE

Top Management

Pierfrancesco Vago (Executive Chairman)
Gianni Onorato (Chief Executive Officer)
Jean-Philippe Neau (Chief Financial Officer)

Board of Directors

Pierfrancesco Vago (Chairman)
Gianluigi Aponte (Vice Chairman)
Alexa Aponte Vago

Auditors

KPMG SA, Audit Western Switzerland

Corporate Governance

MSC Cruises is committed to the principles of modern corporate governance and aims to provide all stakeholders with the greatest possible transparency. We are proud to implement professional processes and responsible management of the highest standards. The MSC Cruises Board of Directors is made up of three members who are elected by the Annual General Meeting for a term of one year.

MSC CRUISES GROUP
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

MSC Cruises Group

INDEX

Audit opinion 59

Primary statements 65

Consolidated statement of comprehensive income 66
Consolidated statement of financial position 67
Consolidated statement of changes in equity 68
Consolidated statement of cash flows 69

Notes to the consolidated financial statements 71

01. Reporting entity 72
02. Activities of the Group 72
03. Significant events 72
04. Basis of preparation of the consolidated financial statements 74
05. Summary of significant accounting policies 74
Changes in accounting policies 74
Accounting policies 78
Consolidation principles and methods 78
Foreign currency 79
Employee benefits 79
Revenue recognition 80
Income taxes 81
Cash and cash equivalents 82
Inventories 82
Property, plant and equipment 82
Goodwill and other intangible assets 83
Concession rights 84
Financial instruments 84
Provisions 85
Impairment 85
Operating profit 85
Significant accounting judgements and estimates 86
Segment reporting 86
06. Employee benefits 87
07. Income taxes 90
08. Cash and cash equivalents 92
09. Trade and other receivables 92
10. Inventories 93
11. Prepaid expenses and other current assets 94
12. Property, plant and equipment 94
13. Goodwill and other intangible assets 96
14. Investments in associates and joint ventures 97
15. Other non-current assets 99
16. Trade and other payables 99
17. Customer deposits and time charter advances 100
18. Provisions 100
19. Contingent liabilities 100
20. Financial instruments and risk management 101
Category of financial instruments 101
Financial debt 102
Long-term receivables from related parties 104
Leases 104
Derivative financial instruments 105
Fair value measurement 110
Financial risk exposure and financial risk management 111
21. Future capital commitments and other contractual commitments 117
22. Off-balance sheet commitments 118
23. Share capital and reserves 119
24. Related parties 120
25. Subsequent events 121
26. List of group entities 122

Statutory Auditor's Report

To the General Meeting of MSC Cruises SA, Geneva

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of MSC Cruises SA and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 55 to 123) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Revenue recognition

Property, plant and equipment

Related party transactions

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Revenue recognition

Key Audit Matter

In 2018, the Group has revenue from passenger tickets amounting to EUR 2.061 million and onboard and other revenues amounting to EUR 690 million.

Revenue from the sale of passenger tickets for cruise voyages and from onboard services is recorded when the related service is provided, in proportion to the state of completion of the voyage. Revenue from onboard sales is recognized when the goods are delivered to the customers. Customer deposits represent unearned revenue from advance ticket sales for future voyages and are initially recorded as customer deposits liabilities when the right to the collection of the deposit arises.

We focused on the revenue recognition to address the risk that revenue is not recorded in the appropriate period relating to cruises that straddle the year-end and for revenue that has been received in advance of the cruise departure, which is deferred until the voyage has taken place.

Our response

We considered the appropriateness of the Group's revenue recognition accounting policies with particular emphasis on the risk identified opposite.

We assessed and tested the operating effectiveness of relevant internal controls over the recording of revenue. Furthermore, we evaluated the Group's cut-off adjustment for cruise voyages over year-end by comparing management's estimate to data such as cruise departure dates, duration, and related cruise voyages revenue and cost.

We also considered the appropriateness of the Group's disclosures in respect of revenue throughout the financial statements.

For further information on revenue recognition refer to the following:

— Note 5, Summary of significant accounting policies: Revenue recognition

— Note 5, Summary of significant accounting policies: Segment reporting

Property, plant and equipment

Key Audit Matter

The Group carries significant amounts of property, plant and equipment on the statement of financial position, mainly in the form of ships. As at 31 December 2018, the net book value of property, plant and equipment amounted to EUR 6.822 million.

Depreciation rates and the carrying value of ships and related equipment are reviewed by the Group annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on the depreciation charge for the year.

In determining whether the net book values of ships are appropriate or not, management is required to make judgements about the useful lives and residual values of the ships as well as their future performance.

We therefore identified these judgements as an area requiring special audit consideration.

Our response

We considered the appropriateness of the Group's depreciation policies, with reference to the estimated useful lives and residual values of ships and related equipment.

We further assessed the reasonableness of management's assertions and estimates using third-party valuations obtained by management and our knowledge of the industry.

We also considered the appropriateness of disclosures in relation to property, plant and equipment.

KPMG

For further information on property, plant and equipment refer to the following:

— Note 5, Summary of significant accounting policies: Property, plant and equipment

— Note 5, Summary of significant accounting policies: Significant accounting judgments and estimates

— Note 12, Property, plant and equipment

Related party transactions

Key Audit Matter

There have been numerous transactions with counterparties where the Group or key management personnel of the Group have interests and/or are directors, and the Group carries a number of balances with related parties.

There is a risk that not all related party transactions are disclosed in the financial statements, and therefore that insufficient information is provided in order to enable the reader to understand the nature and effect of the various related party relationships and transactions. Additionally, there is a risk that such transactions are not recognized in accordance with the relevant accounting requirements.

Our response

We compared the list of related parties provided by management with internal and external sources to evaluate whether all related party relationships and transactions have been appropriately identified, accounted for and disclosed.

For each class of related party transaction and balance we compared the financial statements disclosures against the underlying transactions and the related accounting requirements.

We also considered the appropriateness of disclosures regarding related parties.

For further information on related party transactions refer to the following:

— Note 20, Financial instruments and risk management: Long-term receivables from related parties

— Note 24, Related parties

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG SA

Peter Dauwalder
Licensed Audit Expert
Auditor in Charge

Carlos Alvarez
Licensed Audit Expert

Geneva, 4 April 2019

KPMG SA, 111 Rue de Lyon, P.O. Box 347, CH-1211 Geneva 13

PRIMARY STATEMENTS

December 31, 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in KEUR	Notes	For the years ended December 31, 2018	2017[2]
Passenger tickets		2,061,432	1,696,153
Onboard and other revenues [1]		689,686	568,704
Total revenues		**2,751,118**	**2,264,857**
Commission, transportation and other related expenses		(496,950)	(421,581)
Onboard and other related expenses		(233,828)	(187,098)
Fuel expenses		(196,163)	(160,121)
Crew payroll and related expenses	6	(351,969)	(291,762)
Food expenses		(123,337)	(96,163)
Other operating expenses		(291,503)	(238,955)
Selling, general and administrative expenses		(320,717)	(309,138)
Share of profit of associates and joint ventures	14	682	538
Depreciation and amortisation	12, 13	(252,871)	(193,728)
Total operating expenses		**(2,266,656)**	**(1,898,008)**
Operating profit		**484,462**	**366,849**
Interest income		3,425	2,596
Interest expenses		(126,949)	(106,389)
Foreign exchange (loss)/gain on non-operating items		(16,691)	11,080
Gain on derivatives	20	7,339	14,199
Other financial items		(621)	5,484
Total non-operating expenses		**(133,497)**	**(73,030)**
Profit before tax		**350,965**	**293,819**
Income taxes	7	(2,919)	17,304
Net profit		**348,046**	**311,123**
of which attributable to owners of the parent		347,836	311,016
of which attributable to non-controlling interests		210	107
Remeasurements of defined benefit obligations	6	102	(336)
Income tax effect	7	(6)	45
Total items that will never be reclassified to profit or loss		**96**	**(291)**
Cash flow hedges	20, 23	(79,500)	34,010
Currency translation difference		(4,723)	1,140
Total items that may be reclassified to profit or loss		**(84,223)**	**35,150**
Other comprehensive income for the year		**(84,127)**	**34,859**
Total comprehensive income for the year		**263,919**	**345,982**
of which attributable to owners of the parent		263,828	345,890
of which attributable to non-controlling interests		91	92

[1] The accounts Onboard revenue and Other revenues have been merged; consequently comparative figures were reclassified for an amount of KEUR 17,144.
[2] 2017 figures have been reclassified. Refer to Note 5. Summary of significant accounting policies.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in KEUR	Notes	At December 31, 2018	2017
Goodwill and other intangible assets	13	46,284	29,244
Property, plant and equipment	12	6,822,315	5,767,605
Investments in associates and joint ventures	14	14,396	10,670
Other non-current assets	15	109,023	63,778
Derivative financial instruments	20	-	12,739
Long-term receivables from related parties	20, 24	183,553	180,740
Deferred tax assets	7	4,767	4,923
Total non-current assets		**7,180,338**	**6,069,699**
Inventories, net	10	136,100	111,233
Trade and other receivables, net	9	226,619	179,082
Current income tax		2,326	2,445
Prepaid expenses and other current assets	11	129,178	89,498
Derivative financial instruments	20	7,473	27,591
Cash and cash equivalents	8	211,431	344,613
Total current assets		**713,127**	**754,462**
Total assets		**7,893,465**	**6,824,161**
Share capital	23	159	159
Retained earnings and reserves		1,994,398	1,731,354
Equity attributable to owners of the parent		**1,994,557**	**1,731,513**
Non-controlling interests		122	(35)
Total equity		**1,994,679**	**1,731,478**
Long-term financial debt	20	4,199,568	3,653,721
Non-current provisions	18	24,870	23,407
Employee benefits	6	12,672	11,044
Deferred tax liabilities	7	248,866	269,430
Derivative financial instruments	20	74,615	51,270
Other non-current liabilities		32,472	33,285
Total non-current liabilities		**4,593,063**	**4,042,157**
Customer deposits and time charter advances	17	527,388	398,699
Bank overdrafts and short-term borrowings	20	2,836	5,820
Current portion of long-term financial debt	20	379,816	323,212
Employee payables		34,029	31,922
Trade and other payables	16	336,778	282,886
Current income tax payable		2,055	2,301
Derivative financial instruments	20	16,399	442
Current provisions	18	6,422	5,244
Total current liabilities		**1,305,723**	**1,050,526**
Total liabilities		**5,898,786**	**5,092,683**
Total liabilities and equity		**7,893,465**	**6,824,161**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in KEUR	Notes	Share capital	Retained earnings	Hedging reserve	Cumulative losses on defined benefit obligations	Currency translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at December 31, 2016		**159**	**1,387,095**	**(2,065)**	**(2,795)**	**3,229**	**1,385,623**	**(127)**	**1,385,496**
Profit for the year		-	311,016	-	-	-	311,016	107	311,123
Other comprehensive income/ (loss) for the year	23	-	-	34,010	(291)	1,155	34,874	(15)	34,859
Total comprehensive income/ (loss) for the year		**-**	**311,016**	**34,010**	**(291)**	**1,155**	**345,890**	**92**	**345,982**
Balance at December 31, 2017	**23**	**159**	**1,698,111**	**31,945**	**(3,086)**	**4,384**	**1,731,513**	**(35)**	**1,731,478**
Profit for the year		-	347,836	-	-	-	347,836	210	348,046
Effects of the hyperinflation		-	(784)	-	-	-	(784)	66	(718)
Other comprehensive income/ (loss) for the year	23	-	-	(79,500)	96	(4,604)	(84,008)	(119)	(84,127)
Total comprehensive income/ (loss) for the year		**-**	**347,052**	**(79,500)**	**96**	**(4,604)**	**263,044**	**157**	**263,201**
Balance at December 31, 2018	**23**	**159**	**2,045,163**	**(47,555)**	**(2,990)**	**(220)**	**1,994,557**	**122**	**1,994,679**

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the years ended December 31,	
in KEUR	Notes	**2018**	2017
Total net profit for the year		**348,046**	**311,123**
Adjustments for:			
Impairment losses on trade receivables and inventories	9, 10	1,804	3,149
Depreciation and amortisation	12, 13	252,871	193,728
Provisions	18	5,356	3,980
Income taxes	7	2,919	(17,304)
Share of profit in associates and joint ventures	14	(682)	(538)
Gain on derivatives		(7,339)	(14,199)
Interest income		(3,425)	(2,596)
Interest expenses		126,949	106,389
Foreign exchange loss/(gain)		16,788	(12,765)
Other non-cash items included in the profit		615	(9,748)
Cash flow from operations before working capital changes		**743,902**	**561,219**
Change in trade and other receivables, net of allowance		(43,120)	(50,093)
Change in inventories, net of allowances for obsolete inventories		(25,119)	(27,969)
Change in prepaid expenses and other current assets		(39,991)	(26,619)
Change in trade and other payables		38,015	28,881
Change in customer deposits and time charter advances		128,126	96,713
Change in employee payables		2,256	4,178
Utilisation of provisions	18	(707)	(14)
Change in employee benefits		1,724	397
Change in other non-current liabilities		(699)	3,154
Cash generated from operating activities		**804,387**	**589,847**
Interest received		2,096	1,124
Income taxes paid		(18,478)	(30,026)
Net cash flow from operating activities		**788,005**	**560,945**
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	(1,258,304)	(1,299,095)
Acquisition of intangible assets	13	(29,163)	(12,686)
Acquisition of subsidiaries		(299)	-
Investments in associates	14	(3,434)	-
Proceeds from sale of subsidiaries		134	-
Change in other non-current assets		(3,835)	4,443
(Increase)/decrease in long-term receivables from related parties		(1,484)	878
Dividends from joint ventures	14	128	-
Net cash used in investing activities		**(1,296,257)**	**(1,306,460)**
Cash flows from financing activities			
Proceeds from financial debt		930,248	1,222,792
Repayment of financial debt		(457,149)	(325,038)
Bank overdrafts and short-term borrowings		(4,418)	(47,567)
Interest paid		(93,176)	(63,464)
Net cash from financing activities		**375,505**	**786,723**
Effect of exchange rate movements on cash and cash equivalents		(435)	(16,924)
Net change in cash and cash equivalents		**(133,182)**	**24,284**
Cash and cash equivalents beginning of year		344,613	320,329
Cash and cash equivalents end of year		**211,431**	**344,613**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

01. REPORTING ENTITY

MSC Cruises SA (hereinafter “the Company” or “MSC Cruises SA”) was incorporated on March 7, 2006, and is registered at Avenue Eugène-Pittard 40, 1206 Geneva, Switzerland. MSC Cruises SA is a wholly owned subsidiary of MSC MEDITERRANEAN SHIPPING COMPANY HOLDING SA. The ultimate controlling party is the Aponte family.

02. ACTIVITIES OF THE GROUP

MSC Cruises SA operates through its subsidiaries and joint ventures, including the subsidiaries owning or leasing the ships of its fleet (hereinafter “the Group”).
The purpose of the Group is to be a worldwide leading cruise operator.
The Group operates fifteen ships of five different ship classes with a capacity of approximately 15.2 million Available Lower Berth Days[1] calling at 211 ports worldwide. The Group plans to introduce eight additional ships by 2023 and has an option to build up to two additional World Class ships with delivery options in 2025 and 2027. In October 2018, the Group signed a memorandum of agreement for the construction of four luxury cruise ships set to be delivered between 2023 and 2026.

[1] ALBDs (Available Lower Berth Days) is a standard measure of passenger capacity for the period under review, which the Group uses to perform rate and capacity variance analyses to determine the main non-capacity-driven factors that cause cruise revenues and expenses to vary. ALBDs assumes that each cabin the Group offers for sale accommodates two passengers and are computed by multiplying passenger capacity by revenue-producing ship operating days within the period.

03. SIGNIFICANT EVENTS

Significant Events – 2018

Fleet development

In June 2018, the Group introduced MSC Seaview, the sister ship of MSC Seaside.

In March 2018, the Group confirmed contracts for the first two LNG-powered World Class ships, scheduled for delivery in 2022 and 2024, and secured the options for a third and fourth vessel in the same ship class. In June 2018, the Group also confirmed a contract with Chantiers de L’Atlantique (formerly STX France) for the construction of a fifth Meraviglia Class ship, which will be LNG-powered, to be delivered in 2023. In December 2018, the Group entered into a financing arrangement for the financing of the confirmed ships. Through the financing arrangement, the Group has the right, but not the obligation, to satisfy the obligations to be incurred upon delivery and acceptance of the vessels under the shipbuilding contracts by assuming, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of the ship.

In July 2018, the Group entered into an export credit financing arrangement for the financing of the two Seaside Evo ships that will come into service in May 2021 and February 2023 respectively.

Ocean Cay Financing

In 2018, the Group entered into two separate export credit financing agreements respectively of EUR 95.5 million guaranteed by Bpifrance Assurance Export and of EUR 55.5 million guaranteed by SACE, related to the development of Ocean Cay.

Luxury segment

In October 2018, the Group signed a memorandum of agreement with Fincantieri for the construction of four luxury cruise ships with expected yearly deliveries starting from spring 2023.

Release of Milestone Guarantee

Historically the Group had benefited from certain financial guarantees (hereinafter collectively the “Milestone Guarantee”) provided in favour of the lenders and other security parties. The Milestone Guarantee was provided by certain related entities, which are ultimately controlled by the same company as the Group (MSC MEDITERRANEAN SHIPPING COMPANY HOLDING SA) and effectively covered all of the Group’s ship financing debt and the main revolving credit facility.
Since December 31, 2016 all covenants have been satisfied and, after negotiations with the lenders and the export credit agencies supporting the relevant financings, the Milestone Guarantee release process was effectively completed for all debt agreements in the course of 2018.

Following the release of the Milestone Guarantee, substantially all of the Group’s debt agreements, including the main revolving credit facility, require the Group, on a consolidated basis, to be in compliance with certain covenants (refer to Note 20. Financial instruments and risk management).

Significant Events – 2017

Fleet development

During 2017 the Group introduced two next-generation mega-cruise ships: MSC Meraviglia and MSC Seaside, which entered into service respectively in May and in November 2017.

MSC Meraviglia, with a guest capacity of 5,714 guests, was the first prototype of a new class of ships, named the Meraviglia Class and was built by STX France (now Chantiers de l’Atlantique).

MSC Seaside, with a guest capacity of 5,331 guests, was the first of a completely new and innovative class of cruise ships and the first of MSC Cruise’s ships to be built by the Italian shipyard Fincantieri.

Seaside Evo

On November 29, 2017 the Group and Fincantieri entered into two shipbuilding contracts, one of which replaced the existing option agreement for a third Seaside class ship for delivery in 2021, for two Seaside Evo ships coming into service in May 2021 and February 2023 respectively. The Seaside Evo represents an upgrade of the Seaside ships, with an increased capacity of 213 cabins and a capacity to accommodate 527 more passengers.

World Class

Pursuant to the slot reservation agreement between the Group and STX France (now Chantier de l’Atlantique) for the construction of four World Class ships for delivery in 2022, 2024, 2025 and 2026, on May 31, 2017 the parties signed a letter of intent with a view of entering into shipbuilding contracts for the first two World Class ships to be delivered respectively on May 2022 and May 2024 and into an option agreement for two ships for delivery in 2025 and 2026.

Release of Milestone Guarantee

The Group was benefiting from certain financial guarantees (hereinafter collectively the “Milestone Guarantee”) provided in favour of the lenders and other security parties. The Milestone Guarantee was provided by certain related entities, which are ultimately controlled by the same company as the Group (MSC MEDITERRANEAN SHIPPING COMPANY HOLDING SA) and, up to December 31, 2016, effectively covered all of the Group’s ship financing debt and the main revolving credit facility.
Substantially all of the Group’s debt agreements, including the main revolving credit facility, provided for the Milestone Guarantee to be released, at the time the Group, on a consolidated basis, were in compliance with the following covenants:

1. Net Worth / Total Balance Sheet and
2. EBITDA / Financial Interest.

Since December 31, 2016 both covenants were satisfied and in the course of 2017 the Group engaged with the lenders and the export credit agencies supporting the relevant financing, with a view to obtain consent for the financing documentation to be amended to allow the ultimate release of the Milestone Guarantee. The Milestone Guarantee release process was effectively completed for certain debt agreements at December 31, 2017 and finalised for all remaining relevant financing agreements in the course of 2018.

04. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
The consolidated financial statements for the year ended December 31, 2018 were approved and authorised for issue by the Board of Directors on April 4, 2019.

All financial information contained in these consolidated financial statements are presented in Euro and have been rounded to the nearest thousands (KEUR), except when otherwise indicated.

05. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies policies adopted in the preparation of these consolidated financial statements have been applied consistently with those described in the annual financial statements for the year ended December 31, 2017 except as outlined in the paragraphs below.

Changes in accounting policies

Adoption of new and amended IFRS from January 1, 2018
IFRS 9 Financial Instruments
The standard changes the classification and measurement of financial instruments and changes the approach to hedging financial exposures and related documentation as well as the recognition of certain fair value changes. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The Group has reviewed its financial assets and liabilities. The financial assets previously classified as loans and receivables as well as the financial liabilities valued at amortised costs are now classified as financial instruments at amortised costs. The fair values of derivatives not used for hedge accounting are classified as financial instruments at fair value through profit and loss. The new hedge accounting requirements had no impact on the accounting of the existing hedging relationships. IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit losses” (ECL) model. The new impairment model applies to financial assets measured at amortised cost and contract assets but not to investments in equity instruments.

The standard was applied retrospectively as at January 1, 2018, but with no restatement of the comparative information for previous years.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities and financial assets as well as on the derivative financial instruments. As a result of the adoption of IFRS 9, the Group has adopted consequential amendments IFRS 7 Financial Instruments - Disclosure.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations. The principle establishes a new model of revenue recognition, which will apply to all contracts with customers; with the exception of those that fall within the scope of others principles such as leases, insurance contracts and financial instruments.
On January 1, 2018, the Group adopted IFRS 15 and the impact is not significant for the Group.

The following amendments and interpretation are effective for annual periods beginning on or after January 1, 2019 but with a limited impact on consolidated financial statements:
- Annual improvements 2014 – 2016 on IAS 28, “Investments in Associates and Joint Ventures”
- Transfers of Investment Property – Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.

Accounting standards early adopted
The Group has early adopted IFRS 16, with the date of the initial application being January 1, 2018. As a result, the Group has changed its accounting policy for lease contracts as detailed below. The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised at January 1, 2018. The details of the changes in accounting policies are disclosed below.

Definition of a lease
As a lessee
As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Classification and measurement of leases under IAS 17
In the comparative period, as a lessee, the Group classified leases that transfer substantially all the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group’s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

IFRS 16 Leases
IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.
IFRS 16 replaces the existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC 15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases, whereas contracts that were not or did not contain a lease under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2018.
At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1, 2018. Right-of-use assets were measured at an amount equal to the lease liability.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:
- Applied a discount rate appropriate to the duration of the lease;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

Policy applicable from January 1, 2018
At the inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control an identified asset, the Group assesses whether:
- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the Group at the end of the contract, the right-of-use asset is depreciated from the commencement date to the end of the useful life of the underlying asset. The estimated useful lives are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.
Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.
When the lease liability is remeasured, an adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in property, plant and equipment and lease liabilities in loans and borrowings in the statement of financial position.

Short-term leases

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases having a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Impact on financial statements

The Group elected to apply IFRS 16 using a modified retrospective approach, then it does not restate comparative information. Instead, the Group recognised the cumulative effect of initially applying the new standard as an adjustment to equity at the date of initial application. At January 1, 2018 the cumulative effect of initially applying the new standard is nil.

Under a modified retrospective approach, for leases that were previously classified as finance lessees, the Group recognised:

- a right-of-use the asset measured initially at the previous carrying amount of the finance lease asset under IAS 17; and
- a lease liability measured at the previous carrying amount of the lease liability under IAS 17.

Subsequently, the Group accounts for the right-of-use the asset and the lease liability in accordance with the general requirements of IFRS 16.
On transition to IFRS 16, the Group recognised an additional EUR 21.7 million of right-of-use assets and an equivalent lease liability.

When measuring the lease liability, the Group discounted lease payments using its incremental borrowing rate at January 1, 2018. The incremental borrowing rate used reflects the duration of the lease. The impact of adoption IFRS 16 at January 1, 2018 is summarised below:

in KEUR	**2018**
Operating lease commitment at December 31, 2017 as disclosed in the group's consolidated financial statements	14,870
Discounted using the incremental borrowing rate at January 1, 2018	14,112
Add: Finance lease liabilities recognised as at December 31, 2017	246,481
Lease liabilities from previous operating and finance leases	**260,593**
Recognition exemption for:	
short-term leases	(1,290)
new leases identified under IFRS 16	8,191
Extension and termination options reasonably certain to be exercised	687
Lease liabilities recognised at January 1, 2018	**268,181**

Accounting standards and amendments not yet adopted

The Group is currently assessing the impact of the accounting standards and amendments not yet adopted. Based on preliminary assessment, no material impact is expected.

Changes in presentation – income statement

The following main changes have been applied:

- The cost of insurance sold to passengers previously reported under Commission, transportation and other related expenses have been reclassified to deduction of Passenger tickets revenues.
- Some costs previously reported under Other operating expenses were also reclassified to Commission, transportation and other expenses, and to Selling, general and administrative expenses.

The changes have been made to better align with the function of the expenditure.
2017 comparatives have been reclassified with the following effect in the consolidated statement of comprehensive income:

in KEUR	December 31, 2017 as originally published	Reclassifications	December 31, 2017 reclassified
Passenger tickets	1,705,832	(9,679)	1,696,153
Onboard and other revenues	568,704	-	568,704
Total revenues	**2,274,536**	**(9,679)**	**2,264,857**
Commission, transportation and other related expenses	(410,070)	(11,511)	(421,581)
Onboard and other related expenses	(187,098)	-	(187,098)
Fuel expenses	(160,121)	-	(160,121)
Crew payroll and related expenses	(291,762)	-	(291,762)
Food expenses	(96,163)	-	(96,163)
Other operating expenses	(288,679)	49,724	(238,955)
Selling, general and administrative expenses	(280,604)	(28,534)	(309,138)
Share of profit of associates and joint ventures	538	-	538
Depreciation and amortisation	(193,728)	-	(193,728)
Total operating expenses	**(1,907,687)**	**9,679**	**(1,898,008)**
Operating profit	**366,849**	**-**	**366,849**

Accounting policies

Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Group.The Group re-assesses whether or not it controls an investee if facts and circumstances.

Goodwill is initially measured as the excess of the aggregate of the fair value of the consideration transferred, the amount recognised for non-controlling interest (NCI) and the fair value of any previously held interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, a bargain purchase gain is recognised on the acquisition date in the consolidated statement of comprehensive income.

Determination of the fair value of assets acquired and liabilities assumed and the resulting goodwill, if any, requires management to make estimates based on the information provided by the acquiree. Changes to the provisional values of assets acquired and liabilities assumed, deferred taxes and resulting goodwill, if any, will be adjusted when the final measurements are determined (within one year of the acquisition date).

Acquisition and disposal of non-controlling interests

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiary are accounted for as transactions with owners in their capacity as owners, as a result of which no goodwill is recognised. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and components of equity related to the subsidiary. Any surplus or deficit arising upon the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale asset depending on the level of influence retained.

Consolidation principles and methods

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that the control commenced until the date that the control ceases.

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Investments in joint ventures are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

A complete list of the subsidiaries, associated and joint ventures in the Group is provided in Note 26. List of group entities.

Foreign currency

MSC Cruises SA's functional currency and the Group's presentation currency is the Euro.

With regard to the translation to the presentation currency for entities whose functional currency differs from the Euro, the statement of comprehensive income is translated into Euro using monthly weighted-average exchange rates for the period and the statement of financial position is translated at the exchange rates prevailing at the end of the reporting period. Exchange differences arising from such translations are recognised in other comprehensive income.

Transactions in currencies other than the functional currency of the individual Group companies are recognised at the exchange rate prevailing on the date of the transaction. Monetary items denominated in foreign currencies not settled at December 31 are translated at the exchange rates on December 31. Foreign exchange gains and losses are included in the consolidated statement of comprehensive income as other costs for financing items and through other comprehensive income for derivatives.

The main foreign currencies are as follows:

	Closing rate at December 31,		Average rate at December 31,	
	2018	2017	**2018**	2017
USD	1.14495	1.19933	1.20663	1.12740
BRL	4.43577	3.96666	4.14710	3.59944
GBP	0.90119	0.88762	0.88281	0.87576
ZAR	16.53355	14.85656	15.08864	15.01161
CHF	1.12720	1.16863	1.16546	1.11015
ARS	43.15319	22.34948	27.34957	18.67689

Employee benefits

The Group operates post-employment benefit plans. The liability recognised on the balance sheet in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the then-net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

With defined contribution plans, the Group makes contributions to statutory or private pension insurance plans on the basis of a legal, contractual or voluntary obligation. The Group does not have any further payment obligations on top of the payment of the contributions. The contributions are recorded as personnel costs when they fall due.

Revenue recognition

Nature of Goods and Services
Revenue is measured based on consideration specified in the contracts with customers and is recognised when the related performance obligations are satisfied.
The majority of the Group's revenues are derived from passenger cruise contracts which are reported within Passenger ticket in the Group's consolidated statements of comprehensive income.
The Group's performance obligation under these contracts is to provide a cruise vacation in exchange for the ticket price.
The Group satisfies this performance obligation over the duration of each cruise and recognises revenue relating to the sale of cruise voyages in profit or loss in proportion to the state of completion of the cruise voyage, which is assessed by reference to the number of days completed as a proportion of total voyage days.
The Group offers to its customers different cruise fare options. Cruise ticket prices generally include cruise fare and a broad array of onboard activities and amenities, as well as meals and entertainment. In some instances, cruise ticket prices include round-trip airfare to and from the port of embarkation, complimentary beverages, free internet and pre-cruise hotel packages. Prices vary depending on the particular cruise itinerary, stateroom category selected and the time of year that the voyage takes place.

During the voyage, the Group generates onboard and other revenue for additional products and services which are not included in the cruise fare, including casino operations, certain food and beverage, gift shop purchases, shore excursions, spa services, photo services and other similar items. While some onboard goods and services may be prepaid prior to the voyage, revenue from onboard sales of goods is recognised when the control is transferred to the customers which is the point in time when the goods are delivered to the customers.

Passenger ticket revenue also includes time charter revenue as well as certain port fees and taxes when separately charged to the passengers. As a practical expedient, the Group has omitted disclosures on the remaining performance obligations as the duration of the contracts with customers is less than a year.

Customer deposits and contract liabilities
The Group payment terms generally require an upfront deposit to confirm a reservation, with the balance due prior to the cruise. Upfront deposits represent unearned revenues from advance ticket sales for future voyages and are initially recorded within Customer deposits and time charter advances when the right to the collection of the deposit arises. Customer deposits are subsequently recognised as cruise revenues together with all associated direct costs and expenses of on a pro-rata basis over the period of the voyage.

Deposits are generally cancellable and refundable prior to sailing, but may be subject to penalties, depending on the timing of cancellation. Penalties generally increase as the voyage sail date approaches. Cancellation fees are recognised in passenger ticket revenue in the month of the cancellation.

Customer deposits held for a future cruise are generally considered as a contract liability only when the final payment is due.

Deposits received on time charter voyages are deferred when received and included in Customer deposits and time charter advances. Deferred amounts are subsequently recognised as revenue ratably over the voyage sailing dates.

Contract receivables and contract assets
The Group generally requires full payment from customers prior to their cruise. The Group grants credit terms to a portion of its revenue source in selected markets. As a result, the Group has outstanding receivables from passenger cruise contracts in those markets. The Group also has receivables from credit card merchants for cruise ticket purchases and goods and services sold to guests during cruises that are collected before, during or after the cruise voyage. In addition, the Group has receivables due from concessionaires onboard the ships. These receivables are included within trade and other receivables, net.

Assets recognised from the costs to obtain a contract with a customer and other contract costs
Prepaid travel agent commissions are an incremental cost of obtaining contracts with customers that the Group recognises as an asset and includes within prepaid expenses and other assets in the consolidated statement of financial position. Prepaid travel agent commissions, as well as costs of air tickets and port taxes and fees that fulfil future performance obligations are considered recoverable and are initially recorded as assets and then recognised in profit or loss ratably over the voyage sailing dates, concurrent with associated revenue.

Income taxes

The Group is subject to income taxes as imposed by the jurisdictions in which it operates, in accordance with the relevant tax laws of such jurisdictions. The income taxes for the period comprises current and deferred income tax.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Current income taxes relating to items recognised directly in equity or in other comprehensive income is recognised in equity or in other comprehensive income and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Current tax assets and current tax liabilities are offset if, and only if, the entity has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred income taxes are recognised on temporary differences between the carrying amounts of existing assets and liabilities in the consolidated statement of financial position and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted, or substantively enacted, tax rates anticipated to apply to taxable income in the periods in which the temporary differences are expected to be recovered or settled.

Deferred taxes are charged or credited directly to equity or to other comprehensive income if the tax relates to items recognised directly in equity or other comprehensive income.
Deferred tax assets are recognised for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable income will be available at the level of the relevant tax authority against which they can be utilised. Deferred tax assets are evaluated at each reporting period and are reduced to the extent that it is no longer probable that future taxable income will be available against which they can be utilised.

Deferred tax assets and deferred tax liabilities are offset if, and only if, the entity has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities, which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank deposits and other financial investments with maturities of three months or less from the time of their investment.
Credit card receivables, net of processing fees, not yet credited to the bank accounts at the reporting date were considered as cash equivalents if the amount is expected to be credited within one week after the reporting date.

Inventories

Inventories consist principally of food and beverages, fuel, shop merchandise, lubrication oils and hotel consumables. Inventories are measured at the lower of cost or net realisable value. The cost of inventories is based on a weighted average cost method. The net realisable value is the estimated selling price in the ordinary course of business. Previous write-downs to net realisable value are reversed when there is a subsequent increase in the value of such inventories.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures directly attributable to the acquisition of the assets and to bringing them to a working condition intended for their use, including borrowing costs directly attributable to the acquisition, construction or production (in case of a qualifying asset) and government grants related to depreciable assets.

Liquidated damages received from shipyards as a result of the late delivery are recorded as reductions to the cost basis of the asset.

Subsequent expenditures are capitalised only when it is probable that the future economic benefits associated with the expenditures will flow to the Group while other costs of repairs and maintenance are expensed as incurred.
The estimated cost and accumulated depreciation of replaced or refurbished ship components are written off and any resulting losses are recognised in other operating expenses.

Depreciation is calculated using the straight-line method over the estimated useful asset life and is recognised in the income statement.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Ships	30 years
Ship improvements	3 - 30 years
Dry-dock costs	3 - 5 years
Buildings	30 years
Other equipments	2.5 - 10 years

Depreciation methods, useful lives, components and residual amounts are reviewed annually and adjusted if appropriate. Depreciation for ships is computed using the straight-line method over the estimated useful life of the asset net of a 15% projected residual value. Ship improvements are depreciated over the shorter of the improvements estimated useful lives or of the remaining estimated useful lives of the associated ship. The useful life of each ship is 30 years. In respect of the Renaissance program, the useful life of the new ship sections inserted in the four Lirica class ships follows the residual useful life of the related ship.

Dry-dock costs primarily represent planned major maintenance activities that are incurred when a ship is taken out of service for scheduled maintenance. At initial recognition of the ship, dry-dock costs are recognised as a separate component of the ship, measured at the estimated cost for the maintenance and depreciated over five years. At the time of the first dry-dock, maintenance costs incurred are recognised as a separate asset and are depreciated over three to five years until the next maintenance takes place.
The Group reviews long-lived assets, principally its ships, for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable.

The carrying value of each ship is reviewed at least annually with the support of a market value evaluation obtained from an independent shipbroker. Market value evaluations which are below the carrying value might be considered a triggering event for the assessment of a possible impairment, which is determined by considering the asset's estimated discounted future cash flows.

Goodwill and other intangible assets

Goodwill that arises on business combinations is presented with intangible assets. Goodwill is initially measured as the excess of aggregate of fair value of the consideration transferred, amount recognised for non-controlling interests and fair value of any previously held interest, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, a bargain purchase gain is recognised on the acquisition date in the consolidated statement of income.
After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets with finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis in the income statement over their estimated useful lives from the date that they are available for use.
The estimated useful lives of intangible assets with finite useful lives for current and comparative years are as follows:

Softwares and IT	3 - 5 years
Other intangibles	3 - 10 years

Concession rights

The Group applies IFRIC 12, Service Concession Arrangements if:
- the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price;
- the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group recognises port concession rights as intangible assets in accordance with IAS 38, Intangible Assets. The intangible asset model applies if the operator receives a right to charge users. During the construction phase, the operator recognises revenue in respect of construction activities with the corresponding entry increasing the amount recognised for the intangible asset. These assets are initially measured at fair value and subsequent to initial recognition, measured at cost less accumulated amortisation and accumulated impairment losses.

Financial instruments

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI ("Fair value through other comprehensive income") and FVTPL ("Fair value through profit or loss"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables.

Financial assets at amortised cost

These assets are measured at amortised cost using the effective interest method less any allowances for doubtful receivables. An allowance for doubtful debts is made in compliance with the simplified approach using a provision matrix (expected credit loss model). This provision matrix has been developed to reflect the country risk, the credit risk profile, as well as available historical data. In addition, an allowance for doubtful debts is made when the collection of the amount is no longer probable.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR (Effective Interest Rate). The EIR amortisation is included in interest expenses in the consolidated statement of income.

Derivatives

The Group uses derivative financial instruments to hedge its exposure to commodity price fluctuation, foreign exchange rate and interest rate risks arising from operational, financing and investment activities.

The Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently remeasured to fair value at the end of each reporting period.

The Group designates and documents certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency or interest rate risks of firm commitments ('cash flow hedges'). The portion of gains or losses relating to changes in the fair value of derivatives that are designated and qualify as effective cash flow hedges is recognised in other comprehensive income; gains or losses relating to any ineffective portion are recognised immediately in the income statement. When the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

When hedge accounting is discontinued, any gain or loss recognised in other comprehensive income at that time remains in equity and is recognised in the income statement when the hedged transaction is ultimately recognised in the income statement. If a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the profit or loss.

Derivative instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e. the underlying contractual cash flows).

Provisions

Provisions are recognised for all present legal or constructive obligations resulting from a past event insofar as it is probable that an outflow of economic benefits will be required to settle the obligation and their amount can be reliably estimated. The amounts recognised represent the best estimate of the expenses that are expected to be incurred to fulfil the obligation at the end of the reporting period.
Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in interest expenses.

Impairment

Property, plant and equipment and intangible assets with finite useful lives are reviewed for indications of impairment at the end of each reporting period. If an indicator of impairment exists, the asset's recoverable amount is estimated. The recoverable amount of a Cash Generating Unit ("CGU") is determined as the higher of the value-in-use and fair value less cost to sell. A value-in-use is determined based on cash flow projections which are reviewed and amended by management annually. An impairment loss is recognised when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss for the period.

Goodwill and intangible assets with indefinite useful lives are allocated to CGU and tested for impairment on this basis at least once a year. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Key assumptions used to determine value-in-use relate to the discount rates, growth rates and expected changes in volume during the period. Growth rates are based on management growth forecasts. For all CGUs a value-in-use is determined based on the most recent financial forecast approved by management.

An impairment loss is recognised if the recoverable amount is lower than the cash-generating unit's carrying amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.
An impairment loss in respect of goodwill is not reversed. For other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net financial costs and income taxes.

Significant accounting judgements and estimates

The preparation of consolidated financial statements requires management to make judgements and estimates that affect the application of accounting policies, the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.
Management relies on historical experience and on various other assumptions that are believed to be reasonable under the circumstances to make these estimates and judgements.
Where applicable management corroborates estimates using valuations provided by counterparties. Actual results could differ from those estimates.

In the process of applying the entity's accounting policies described above, Management has made the following judgements that have a significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation at the balance sheet date that have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial years are discussed below.

Significant areas requiring the use of estimates and assumptions relate to:

- performance obligations (refer to Note 5. Summary of significant accounting policies – Revenue recognition)
- provisions for doubtful receivables (refer to Note 9. Trade and other receivables) and inventories obsolescence (refer to Note 10. Inventories);
- the definition of the useful life of property, plant and equipment and the related depreciation (refer to Note 12. Property, plant and equipment);
- impairment of intangible assets (refer to Note 13. Goodwill and other intangible assets) and property, plant and equipment;
- derivatives fair value calculation, including the CVA (Credit Value Adjustment) and DVA (Debit Value Adjustment) in compliance with the requirements of IFRS 13 (refer to Note 20. Financial instruments and risk management under the category fair value measurement).

Estimates and assumptions are revised periodically and the effects of each change are reflected in the Statement of comprehensive income in the period when the change took place.

The Group's ships represent the most significant assets and are stated at cost less accumulated depreciation. Depreciation of ships is generally computed net of a 15% projected residual value using the straight-line method over the estimated useful life of the asset, which is 30 years. The useful life and the residual value are reviewed every year and take into consideration the impact of anticipated technological changes, long-term cruise and vacation market conditions and historical useful lives of similarly built ships.

Segment reporting

The Group operates a single cruise brand, "MSC Cruises". The brand MSC Cruises constitutes the only business for which discrete financial information is available and management regularly reviews the operating result for the Group as a whole and, therefore, the Group has concluded that it has a single reportable segment.
The Group sells cruises on an international basis and the passenger ticket revenues are primarily attributed to passengers who make reservations from the following area:

	For the years ended December 31,	
	2018	2017
Western Europe	59%	60%
South America	14%	15%
North America	12%	9%
South Africa	3%	3%
Other	12%	13%

06. EMPLOYEE BENEFITS

Employee benefit expenses

Employee benefit expenses consisted of the following:

	For the years ended December 31,	
in KEUR	**2018**	2017
Crew payroll and related expenses	(351,969)	(291,762)
Administrative staff payroll and related expenses (included in SG&A)	(104,153)	(93,008)
Administrative staff defined benefit pension expenses (included in SG&A)	(4,007)	(2,847)
Administrative staff defined contribution pension expenses (included in SG&A)	(1,808)	(2,294)
Total	**(461,937)**	**(389,911)**

Defined benefit pension plan

The Group operates a defined benefit pension plan in Switzerland that covers the employees of MSC Cruises SA.

MSC Cruises SA is affiliated with the Swiss Life collective BVG pension fund, a collective foundation administrating the pension plans of various unrelated employers. MSC Cruises SA's pension plan is fully segregated from the ones of other participating employers and is governed by the rules of the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG). The retirement benefits can be drawn as a life-long pension or as a lump-sum payment and are determined by the final retirement savings (resulting from the yearly savings contributions by both employer and employee until retirement and interest thereon) and the conversion rate. The collective pension foundation has fully reinsured the risks of disability, death and longevity with an insurance company. Swiss Life provides a 100% capital and interest guarantee. However, the collective pension foundation is able to withdraw from the contract with MSC Cruises SA at any time and the risk premiums may be adjusted by the insurance company periodically.

The above-mentioned plan, which from a legal standpoint is structured as a defined contribution plan, is accounted for as a defined benefit plan in accordance with IAS 19 due to the underlying benefits guarantees.

The amount recognised in the consolidated financial statements arising from the Group's obligation in respect of its defined benefit plan and from other long-term employee benefits was as follows:

	For the years ended December 31,	
in KEUR	**2018**	2017
Defined benefit obligation	25,950	20,646
Fair value of plan assets	(16,500)	(12,496)
Net defined benefit liability	**9,450**	**8,150**
Other employee benefits	3,222	2,894
Employee benefits	**12,672**	**11,044**

The movement in the defined benefit obligation was as follows:

in KEUR	2018	2017
	For the years ended December 31,	
At January 1	**20,646**	**18,288**
Current service cost (employer)	3,950	2,804
Interest expenses on defined benefit obligation	146	106
Employee contributions	2,384	2,077
Actuarial (gain) / losses	(117)	514
Benefits paid	(1,906)	(1,460)
Exchange differences	847	(1,683)
At December 31	**25,950**	**20,646**

in KEUR	2018	2017
	For the years ended December 31,	
At January 1	**(12,496)**	**(10,785)**
Return on plan assets excluding interest income	15	(178)
Interest income on plan assets	(89)	(63)
Ordinary contributions paid by employer	(2,909)	(1,857)
Employee contributions	(2,384)	(2,077)
Benefits paid	1,906	1,460
Exchange differences	(543)	1,004
At December 31	**(16,500)**	**(12,496)**

The amounts recognised in the consolidated statement of income were as follows:

in KEUR	2018	2017
	For the years ended December 31,	
Current service cost (employer)	3,950	2,804
Interest expenses on defined benefit obligation	146	106
Interest income on plan assets	(89)	(63)
Total	**4,007**	**2,847**

The amounts recognised in other comprehensive income were as follows:

in KEUR	2018	2017
	For the years ended December 31,	
Return on plan assets excluding interest income	(15)	178
Actuarial gain/(losses)	117	(514)
Total	**102**	**(336)**

The principal actuarial assumptions were as follows:

	For the years ended December 31, 2018	2017
Discount rate (end of period)	0.9%	0.7%
Salary increase (end of period)	2.5%	2.5%
Retirement age	M65/W64	M65/W64
Mortality [1]	BVG 2015 GT	BVG 2015 GT

[1] Generational tables

The sensitivity analysis below was based on one change in an assumption while holding all other assumptions constant. A change in the following assumptions would have had the following effects on the defined benefit obligation:

	For the years ended December 31, 2018	2017
Sensitivity to discount rate assumptions:		
- Increase discount rate + 0.50%	(8.8%)	(9.0%)
- Decrease discount rate - 0.50%	10.2%	10.5%
Sensitivity to salary increase rate assumptions:		
- Increase salary rate + 0.50%	1.2%	1.2%
- Decrease salary rate - 0.50%	(1.1%)	(1.2%)
Sensitivity to mortality assumptions - 1 year life expectancy:		
- Increase life expectancy +1 year	0.9%	1.1%
- Decrease life expectancy -1 year	(1.0%)	(1.1%)

Plan assets were comprised as follows:

	For the years ended December 31, 2018	2017
Assets from insurance contracts	100.0%	100.0%
Cash and cash equivalents	0.0%	0.0%
Total	**100.0%**	**100.0%**

Expected contributions to defined benefit plans for 2019 amounted to EUR 2.6 million (EUR 1.9 million in 2018). The expected duration of the defined benefit obligation was 18.4 years in 2018 (19.1 years in 2017).

07. INCOME TAXES

Major components of income taxes included the following:

in KEUR	For the years ended December 31, 2018	2017
Current tax on profit for the year	(22,960)	(19,830)
Adjustments in respect of prior years	(916)	(136)
Deferred taxes	20,957	37,270
Total	**(2,919)**	**17,304**

Tax rate reconciliation

The Group derives its income from the international operation of ships and is subject to corporate income taxes in countries where the Group has operations and subsidiaries.

Certain Group entities involved in ship management and ship-owning activities have elected to enter into the UK tonnage tax regime. Companies to which the tonnage tax regime applies pay corporation tax on profit calculated by reference to the net tonnage of qualifying vessels. For a company to qualify for the regime, it must be subject to UK corporation tax and, among other matters, operate qualifying ships that are strategically and commercially managed in the UK and fulfil a seafarer training requirement to which UK tonnage tax companies are subject.

Group entities which are involved in the sale of cruises, marketing activities or in the provision of ship-related activities are subject to the taxation applicable in the specific country in which they operate.

Since the Group has operations in various countries that have different tax laws and rates, the effective tax rate on the consolidated statement of income may vary from year to year.

The reconciliation between the reported income tax expense and the amount that would have arisen applying the domestic tax rate applicable to MSC Cruises SA (11.86%) was as follows:

in KEUR	For the years ended December 31, 2018	2017
Profit before tax	**350,965**	**293,819**
Tax using MSC Cruises SA's domestic tax rate	(41,624)	(34,847)
Tax effect of non deductable/non taxable items	44,285	39,144
Impact of different tax rates in foreign tax jurisdictions	(12,534)	(13,051)
Impact of the tonnage tax regime [1]	27,091	16,034
Impact of changes in the local tax rates [2]	-	21,330
Impact of deferred taxes	(19,221)	(11,170)
Others including adjustments in respect of prior years	(916)	(136)
Income Taxes	**(2,919)**	**17,304**

[1] Tonnage tax charge is included in Other operating expenses.
[2] Mainly due to the reduction of the corporate income tax rate in France in 2017.

The Group does not expect to incur income taxes on future distributions of undistributed earnings of foreign subsidiaries and, accordingly, no deferred income taxes have been provided for the distribution of these earnings.
In addition to or in place of income taxes, virtually all jurisdictions where the Group's ships call impose taxes, fees and other charges based on passenger counts, ship tonnage, passenger capacity or some other measure, and these taxes, fees and other charges were included in commissions, transportation and other related costs and other ship operating expenses.

Components of recognised deferred income tax balances

The movement of the deferred tax assets was as follows:

in KEUR	Employee benefit obligation	Other liabilities	Total
At December 31, 2016	**760**	**3,546**	**4,306**
Credited to profit or loss	160	963	1,123
Credited to other comprehensive income	45	-	45
Currency translation adjustment	-	(551)	(551)
At December 31, 2017	**965**	**3,958**	**4,923**
Credited to profit or loss	195	304	499
Credited to other comprehensive income	9	-	9
Reclassification	-	(222)	(222)
Currency translation adjustment	-	(442)	(442)
At December 31, 2018	**1,169**	**3,598**	**4,767**

The movement of deferred tax liabilities was as follows:

in KEUR	Unwinding[1]	Revenue recognition[2]	Other	Total
At December 31, 2016	**302,449**	**2,801**	**314**	**305,564**
Charged /(credited) to the statement of income	(17,543)	(501)	3,538	(14,506)
Adjustments in respect of prior years	(103)	-	-	(103)
Gain French tax rate	(21,539)	-	-	(21,539)
Currency translation adjustment	-	-	14	14
At December 31, 2017	**263,264**	**2,300**	**3,866**	**269,430**
Charged /(credited) to the statement of income	(19,221)	767	(2,004)	(20,458)
Charged /(credited) to other comprehensive income	-	-	15	15
Reclassification	-	-	(222)	(222)
Currency translation adjustment	-	1	100	101
At December 31, 2018	**244,043**	**3,068**	**1,755**	**248,866**

[1] Related to the unwinding of MSC Fantasia and MSC Splendida performed respectively in 2015 and in 2016.
[2] Different revenue recognition principle between IFRS and Swiss Law (Code of Obligations).

08. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the year ended December 31, 2018 were as follows:

	At December 31,	
in KEUR	**2018**	2017
Cash on hand and balances with banks	162,888	318,972
Short-term investments	38,676	12,484
Credit card receivables	9,867	13,157
Total	**211,431**	**344,613**

09. TRADE AND OTHER RECEIVABLES

Trade and other receivables for the year ended December 31, 2018 were as follows:

	At December 31,	
in KEUR	**2018**	2017
Trade receivables - third parties	74,476	71,974
Trade receivables - related parties (Note 24)	36,107	17,880
Credit cards receivable	92,342	78,037
Trade receivables	**202,925**	**167,891**
Allowance for doubtful receivables	(3,244)	(2,852)
Trade receivables, net	**199,681**	**165,039**
Other receivables - third parties	9,058	4,489
Other receivables - related parties (Note 24)	19	7
VAT and other tax receivables	17,861	9,547
Other receivables	**26,938**	**14,043**
Total trade and other receivables, net	**226,619**	**179,082**

The movement in the allowance for doubtful receivables was as follows:

	At December 31,	
in KEUR	**2018**	2017
At January 1	**(2,852)**	**(2,565)**
Net increase in allowance for doubtful receivables	(1,552)	(2,218)
Amounts written off as uncollectable	1,160	1,931
At December 31	**(3,244)**	**(2,852)**

10. INVENTORIES

At December 31, 2018 inventories consisted of the following:

	At December 31,	
in KEUR	**2018**	2017
Fuel	16,714	10,588
Hotel consumables, food & beverages, shops & merchandise	118,948	100,737
Other inventories	4,508	4,982
Inventories - gross value	**140,170**	**116,307**
Allowance for obsolete inventories	(4,070)	(5,074)
Total - inventories, net	**136,100**	**111,233**

The movement in the allowance for obsolete inventories was as follows:

	At December 31,	
in KEUR	**2018**	2017
At January 1	**(5,074)**	**(5,322)**
Net increase in allowance for obsolete inventories	(252)	(931)
Amounts written off	1,256	1,179
At December 31	**(4,070)**	**(5,074)**

11. PREPAID EXPENSES AND OTHER CURRENT ASSETS

At December 31, 2018 prepaid expenses and other current assets consisted of the following:

	At December 31,	
in KEUR	**2018**	2017
Deposits	316	199
Prepaid expenses	85,947	62,991
Prepayments to suppliers - third parties	28,776	11,034
Prepayments to suppliers - related parties (Note 24)	11,512	15,216
Other current assets	2,627	58
Total	**129,178**	**89,498**

12. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment was as follows:

in KEUR	Buildings	Ships	Ships under construction	Other equipments	Total
Cost	38,756	4,390,906	650,312	48,439	5,128,413
Accumulated depreciation	(3,659)	(466,706)	-	(23,872)	(494,237)
Net book value at December 31, 2016	**35,097**	**3,924,200**	**650,312**	**24,567**	**4,634,176**
Balance at January 1, 2017	**35,097**	**3,924,200**	**650,312**	**24,567**	**4,634,176**
Additions	1,866	26,567	1,214,970	75,761	1,319,164
Depreciation	(1,363)	(177,826)	-	(6,546)	(185,735)
Reclassification	-	1,456,115	(1,456,115)	-	-
Balance at December 31, 2017	**35,600**	**5,229,056**	**409,167**	**93,782**	**5,767,605**
Cost	40,622	5,873,588	409,167	124,200	6,447,577
Accumulated depreciation	(5,022)	(644,532)	-	(30,418)	(679,972)
Net book value at December 31, 2017	**35,600**	**5,229,056**	**409,167**	**93,782**	**5,767,605**
Balance at January 1, 2018	**35,600**	**5,229,056**	**409,167**	**93,782**	**5,767,605**
Additions	22,678	6,535	1,169,581	101,007	1,299,801
Impairment	-	(4,160)	-	-	(4,160)
Depreciation	(6,645)	(224,544)	-	(9,595)	(240,784)
Decrease in scope	(402)	-	-	(47)	(449)
Reclassification	-	762,338	(762,338)	302	302
Balance at December 31, 2018	**51,231**	**5,769,225**	**816,410**	**185,449**	**6,822,315**
Cost	62,898	6,638,301	816,410	225,462	7,743,071
Accumulated depreciation	(11,667)	(869,076)	-	(40,013)	(920,756)
Net book value at December 31, 2018	**51,231**	**5,769,225**	**816,410**	**185,449**	**6,822,315**

Property, plant and equipment included the following right-of-use assets:

in KEUR	Buildings	Ships	Other equipments	Total
Net book value at December 31, 2017	**6,052**	**909,844**	**6,766**	**922,662**
Balance at January 1, 2018	**6,052**	**909,844**	**6,766**	**922,662**
IFRS 16 - First time adoption	15,693	-	5,964	21,657
Additions	4,921	-	1,477	6,398
Depreciation	(4,926)	(35,304)	(3,320)	(43,550)
Balance at December 31, 2018	**21,740**	**874,540**	**10,887**	**907,167**
Cost	28,506	1,216,545	14,207	1,259,258
Accumulated depreciation	(6,766)	(342,005)	(3,320)	(352,091)
Net book value at December 31, 2018	**21,740**	**874,540**	**10,887**	**907,167**

At the initial implementation of IFRS 16, the Group recognised an additional EUR 21.7 million of right-of-use assets and an equivalent lease liability.

At December 31, 2018 the Group operated fifteen cruise ships, which were constructed between 2001 and 2018.
Ships under construction include progress payments for the construction of new ships, as well as design and engineering fees, capitalised interest, construction oversight costs and various owner supplies items.

Capital expenditures incurred in the period totalled EUR 1,300 million, with a relevant cash disbursement of EUR 1,258 million, and were primarily related to progress payments made to shipyards for the vessel MSC Seaview (EUR 563 million) delivered in June 2018 and for MSC Bellissima, MSC Grandiosa and MSC Virtuosa (EUR 534 million), currently under construction for delivery respectively in February 2019, October 2019 and September 2020.

Capitalised ship improvements and planned major maintenance activities, including dry-docks, amounted to EUR 60.3 million (EUR 57.5 million in 2017).

In 2018, the amount of borrowing costs capitalised in property, plant and equipment was equal to EUR 6.7 million (EUR 11.9 million in 2017).

The increase in other equipments was primarily due to the capital expenditures related to the development of the Ocean Cay resort, which was under construction at December 31, 2018 (refer to Note 21. Future capital commitments and other contractual commitments).

13. GOODWILL AND OTHER INTANGIBLE ASSETS

The movement of intangible assets was as follows:

in KEUR	Goodwill	Port concession rights	Softwares	Other intangible assets	Intangible assets under development	Total
Cost	5,165	1,136	30,645	903	-	37,849
Accumulated amortisation	-	(214)	(21,285)	(512)	-	(22,011)
Net book value at December 31, 2016	**5,165**	**922**	**9,360**	**391**	**-**	**15,838**
Balance at January 1, 2017	**5,165**	**922**	**9,360**	**391**	**-**	**15,838**
Additions	-	-	12,014	6,575	82	18,671
Amortisation	-	(278)	(7,236)	(479)	-	(7,993)
Reclassification	-	-	2,759	-	-	2,759
Currency translation effects	(243)	212	-	-	-	(31)
Balance at December 31, 2017	**4,922**	**856**	**16,897**	**6,487**	**82**	**29,244**
Cost	4,922	1,348	45,418	7,478	82	59,248
Accumulated amortisation	-	(492)	(28,521)	(991)	-	(30,004)
Net book value at December 31, 2017	**4,922**	**856**	**16,897**	**6,487**	**82**	**29,244**
Balance at January 1, 2018	**4,922**	**856**	**16,897**	**6,487**	**82**	**29,244**
Additions	-	-	14,656	1,725	12,589	28,970
Decrease in scope	(183)	-	(3)	-	-	(186)
Increase in scope	65	-	162	-	-	227
Amortisation	-	(47)	(9,804)	(2,236)	-	(12,087)
Reclassification	-	(302)	104	2,539	(2,643)	(302)
Currency translation effects	(146)	47	3	514	-	418
Balance at December 31, 2018	**4,658**	**554**	**22,015**	**9,029**	**10,028**	**46,284**
Cost	4,658	1,093	60,340	12,256	10,028	88,375
Accumulated amortisation	-	(539)	(38,325)	(3,227)	-	(42,091)
Balance at December 31, 2018	**4,658**	**554**	**22,015**	**9,029**	**10,028**	**46,284**

No significant disposals or impairments to intangible assets occurred during any of the periods presented.

Goodwill

Goodwill was allocated to the following cash generating units:

	Carrying values at December 31,	
in KEUR	**2018**	2017
Europe	743	749
United States	587	565
South America	735	830
South Africa	1,634	1,802
Other	959	976
Total	**4,658**	**4,922**

Impairment tests were based on the estimated value in use from five-year cash flow projections approved by the Group's management and a terminal value based on estimated growth rates.

14. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures were accounted for using the equity method (refer to Note 26. List of group entities).

The movement of investments in associates and joint ventures was as follows:

	For the years ended December 31,	
in KEUR	**2018**	2017
Investment in associates	3,428	-
Investment in joint ventures	10,968	10,670
Total investment in associates and joint ventures	**14,396**	**10,670**

in KEUR	Associates	Joint ventures	Total
Balance at January 1, 2017	**-**	**10,120**	**10,120**
Share of profit	-	538	538
Incorporation costs	-	109	109
Cumulative translation adjustment	-	(97)	(97)
Balance at December 31, 2017	**-**	**10,670**	**10,670**
Balance at January 1, 2018	**-**	**10,670**	**10,670**
Constitution/Additions	3,434	-	3,434
Share of profit	(6)	688	682
Dividends declared	-	(128)	(128)
Change in scope	-	(244)	(244)
Cumulative translation adjustment	-	(18)	(18)
Balance at December 31, 2018	**3,428**	**10,968**	**14,396**

On February 14, 2018, MSC Cruises SA acquired the residual 50% shares of MSC Kruvaziyer Turizm AS for an amount of KUSD 369 (KEUR 300). MSC Kruvaziyer Turizm AS is the Group's general sales agent for the Turkish market.

On August 29, 2018 MSC Cruises SA acquired 36.68% of the shares of Trieste Adriatic Maritime Initiative S.R.L., a strategic holding company of the cruise terminal Trieste Terminal Passeggeri (TTP) in Trieste, for an amount of EUR 3.4 million. This acquisition supports the Group's long-standing objective of securing suitable berthing facilities for its fleet, and to provide new or enhanced cruise destinations for its guests.

The tables below summarise the associates and joint ventures financial statements:

in KEUR	Associates	Joint ventures	Total
2018			
Total sales	**-**	**16,441**	**16,441**
Current assets	1,388	28,632	30,020
Non-current assets	4,393	35,972	40,365
Total assets	**5,781**	**64,604**	**70,385**
Total equity	5,732	38,807	44,539
Current liabilities	49	25,797	25,846
Total equity and liabilities	**5,781**	**64,604**	**70,385**

in KEUR	Associates	Joint ventures	Total
2017			
Total Sales	**-**	**18,054**	**18,054**
Current assets	-	25,441	25,441
Non current assets	-	36,425	36,425
Total Assets	**-**	**61,866**	**61,866**
Total equity	-	37,515	37,515
Current liabilities	-	24,351	24,351
Total Equity and Liabilities	**-**	**61,866**	**61,866**

	For the years ended December 31,	
in KEUR	**2018**	2017
Profit for the year	2,167	1,076
Associates	(15)	-
Joint ventures	2,182	1,076
Profit for the year attributable to MSC Cruises shares	682	538
Associates	(6)	-
Joint ventures	**688**	**538**

15. OTHER NON-CURRENT ASSETS

At December 31, 2018 other non-current assets consisted of the following:

	At December 31,	
in KEUR	**2018**	2017
Long-term deposits	19,419	24,747
Long-term VAT receivables	9,688	17,193
Leases	60,721	13,433
Other non-current assets	19,195	8,405
Total	**109,023**	**63,778**

Long-term deposits mainly included EUR 19.4 million paid (in 2017 EUR 18.1 million) as a judicial deposit held by the Brazilian Tax Administration with reference to a pending tax litigation (refer to Note 18. Provisions).

Long-term VAT receivables consisted entirely of Italian VAT reimbursement claims which are not expected to be collected in the next twelve-month period due to the timeframe of the recovery process. In 2018, this receivable has been partially transferred to other receivable for EUR 8 million (refer to Note 9. Trade and other receivables).

Leases refer to amounts due from the lessors of the vessels MSC Musica and MSC Orchestra.

Other assets included EUR 6.7 million of prepaid financing fees related to the structuring of the undrawn ships financing (EUR 2.8 million in 2017).

16. TRADE AND OTHER PAYABLES

At December 31, 2018 trade and other payables consisted of the following:

	At December 31,	
in KEUR	**2018**	2017
Trade payables to third parties	240,900	189,948
Trade payables to related parties (Note 24)	39,461	56,806
Capital expenditure payable to third parties	31,315	20,644
Other payables to third parties	24,416	15,233
Other payables to related parties (Note 24)	686	255
Total	**336,778**	**282,886**

17. CUSTOMER DEPOSITS AND TIME CHARTER ADVANCES

Customer deposits and time charter advances consisted of the following:

	At December 31,	
in KEUR	**2018**	2017
Customer deposits	514,645	382,154
Time charter advances	12,743	16,545
Total	**527,388**	**398,699**

18. PROVISIONS

The movement of the provisions was as follows:

	At December 31,	
in KEUR	**2018**	2017
Balance at January 1	**28,651**	**24,315**
Additional provisions	5,356	3,980
Used during the year	(707)	(14)
Reclassification during the year	-	3,183
Currency translation effects	(2,008)	(2,813)
Balance at December 31	**31,292**	**28,651**
Current liabilities	6,422	5,244
Non-current liabilities	24,870	23,407
Balance at December 31	**31,292**	**28,651**

The provisions are mainly related to a provision for tax litigations, mainly related to a Brazilian tax claim in which the local subsidiary is a party to an injunction on a matter of importation of services. At December 31, 2018 the provision amounted to EUR 19.4 million (EUR 18.2 million in 2017) and the sums already paid to the Brazilian Tax Authorities were included in other non-current assets (refer to Note 15. Other non-current assets).

19. CONTINGENT LIABILITIES

From time to time the Group is involved in legal proceedings. These encompass a range of topics, such as disputes with foreign tax authorities, claims asserted by passengers or ports and disputes arising from contractual relationships with agents and suppliers. Naturally, the outcome of such legal disputes cannot be predicted with any certainty. Provisions for pending and imminent proceedings are recorded if a payment obligation is probable and its amount can be reliably determined. It is possible that the outcome of individual proceedings for which no provisions were recorded may result in payment obligations whose amounts could not have been foreseen with sufficient accuracy at December 31, 2018. Such payment obligations are not expected to have any significant impact on the Group's net assets and earnings positions.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Category of financial instruments

The carrying and fair values of Group financial instruments by category were as follows:

In KEUR	Financial assets at amortised cost	Financial liabilities at amortised cost	Mandatorily at FVTPL - derivatives	Fair value - hedging instruments	Carrying value	Fair value
Financial assets						
Trade and other receivables [1]	208,758	-	-	-	208,758	208,758
Other non-current assets [2]	99,335	-	-	-	99,335	90,113
Long-term receivables from related parties	183,553	-	-	-	183,553	183,553
Derivatives financial instruments - on fuel price	-	-	-	5,233	5,233	5,233
Derivatives financial instruments - on foreign exchange rate	-	-	2,240	-	2,240	2,240
Deposits [3]	316	-	-	-	316	316
Cash and cash equivalents	211,431	-	-	-	211,431	211,431
Balance at December 31, 2018	**703,393**	**-**	**2,240**	**5,233**	**710,866**	**701,644**
Financial liabilities						
Trade and other payables (including employee payables)	-	370,807	-	-	370,807	370,807
Bank overdraft and other short-term borrowings	-	2,836	-	-	2,836	2,836
Derivatives financial instruments - on interest rates	-	-	-	61,337	61,337	61,337
Derivatives financial instruments - on fuel price	-	-	-	29,529	29,529	29,529
Derivatives financial instruments - on foreign exchange rate	-	-	148	-	148	148
Financial debt	-	4,579,384	-	-	4,579,384	4,332,491
Balance at December 31, 2018	**-**	**4,953,027**	**148**	**90,866**	**5,044,041**	**4,797,148**
Financial assets						
Trade and other receivables [1]	169,536	-	-	-	169,536	169,536
Other non-current assets [2]	46,585	-	-	-	46,585	42,233
Long-term receivables from related parties	180,740	-	-	-	180,740	180,740
Derivatives financial instruments - on fuel price	-	-	-	40,330	40,330	40,330
Deposits [3]	199	-	-	-	199	199
Cash and cash equivalents	344,613	-	-	-	344,613	344,613
Balance at December 31, 2017	**741,673**	**-**	**-**	**40,330**	**782,003**	**777,651**
Financial liabilities						
Trade and other payables (including employee payables)	-	314,808	-	-	314,808	314,808
Bank overdraft and other short-term borrowings	-	5,820	-	-	5,820	5,820
Derivatives financial instruments - on interest rates	-	-	-	51,712	51,712	51,712
Financial debt	-	3,976,933	-	-	3,976,933	3,771,819
Balance at December 31, 2017	**-**	**4,297,561**	**-**	**51,712**	**4,349,273**	**4,144,159**

[1] Excluding VAT and other tax receivables.
[2] Excluding long-term VAT receivables.
[3] Deposits are included in prepaid expenses and other current assets.

The fair value of trade and other receivables, cash and cash equivalents, trade and other payables, bank overdrafts and short-term borrowings and short-term financial debt approximated their carrying amounts largely due to the short-term maturities of these instruments. The fair value of financial debt, excluding the bond evaluated at market price, was estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Financial debt

Financial debt included loans, the financing structures leases liabilities and bonds as follows:

in KEUR	At December 31, 2018	2017
Loans	3,858,136	3,267,709
GIE financing structures	-	7,685
Leases	248,881	246,481
Bonds	472,367	455,058
Total	**4,579,384**	**3,976,933**

The reconciliation of liabilities arising from financing activities for the year ended December 31, 2018 was as follow:

in KEUR	Value at December 31, 2017	Net financing cash flow[1]	Foreign exchange movements	IFRS 16 - first time adoption	Changes in fair value	Other changes	Value at December 31, 2018
Loans	3,267,709	553,888	4	-	9,098	27,437	3,858,136
GIE financing structures	7,685	(7,823)	-	-	-	138	-
Leases	246,481	(25,678)	(6)	21,657	-	6,427	248,881
Bonds	455,058	-	16,572	-	-	737	472,367
Total Financial Debt	**3,976,933**	**520,387**	**16,570**	**21,657**	**9,098**	**34,739**	**4,579,384**
Bank overdraft and short-term borrowings	5,820	(2,984)	-	-	-	-	2,836
Total Financial Debt	**3,982,753**	**517,403**	**16,570**	**21,657**	**9,098**	**34,739**	**4,582,220**

[1] Net financing cash flow excludes cash flows related to the payment made under leases that are presented in other non-current asset for an amount of KEUR 47,288. Refer to note 15. Other non-current assets.

The reconciliation of liabilities arising from financing activities for the year ended December 31, 2017 was as follow:

in KEUR	Value at December 31, 2016	Net financing cash flow[1]	Foreign exchange movements	Changes in fair value	Other changes	Value at December 31, 2017
Loans	2,541,916	683,312	(560)	17,492	25,549	3,267,709
GIE financing structures	71,260	(54,820)	-	-	(8,755)	7,685
Leases	260,043	(18,260)	-	-	4,698	246,481
Bonds	180,679	300,956	(30,949)	-	4,372	455,058
Total Financial Debt	**3,053,898**	**911,188**	**(31,509)**	**17,492**	**25,864**	**3,976,933**
Bank overdraft and short-term borrowings	51,143	(47,567)	-	-	2,244	5,820
Total Financial Debt	**3,105,041**	**863,621**	**(31,509)**	**17,492**	**28,108**	**3,982,753**

[1] Net financing cash flow excludes cash flows related to the payment made under leases that are presented in other non-current asset for an amount of KEUR 13,433. Refer to note 15. Other non-current assets.

The Group financial debt comprised variable and fixed-rate instruments as follows:

in KEUR	At December 31, 2018	2017
Variable rate	2,697,355	2,661,324
Fixed rate	1,882,029	1,315,609
Total	**4,579,384**	**3,976,933**

The Group uses interest rate swap agreements to modify its exposure to interest rate movements and to manage its interest expenses. At December 31, 2018 the Group maintained interest rate swap agreements on EUR 2,550.8 million (EUR 2,333.7 million in 2017) of its variable rate financial debt that effectively converted the floating interest rates to fixed ones. Accordingly, the Group's exposure to the risk of a potential increase in interest expense from an increase in interest rates is limited to 3% (8% in 2017) of its financial debt.

Details of the financial debt categorised by the different financing structures and by type of asset financed at December 31, 2018 and 2017 were as follows:

In million EUR	Maturities through	Interest rate	Original value in MEUR	Value at December 31, 2018	Value at December 31, 2017
Facility A -tranche 1	2025	Euribor 3 m + 1.13% [1]	855.1	423.7	480.7
Facility A -tranche 2	2025	Euribor 3 m + 2.00% [2]	285.0	141.2	160.2
Facility B	2024	Euribor 3 m + 1.50%	458.8	238.9	275.6
Renaissance Project	2027	Euribor 3 m + 1.90%	118.9	81.0	90.1
Renaissance Project (MSC Opera)	2027	2.75%	38.0	27.0	30.0
MSC Fantasia					
Senior Tranche	2020	Euribor 6 m + 0.65%	474.9	66.4	97.4
Junior Tranche A	2023	Euribor 6 m + 1.00%	68.7	60.6	60.7
Junior Tranche B	2023	Euribor 6 m + 1.00%	73.0	59.4	53.4
MSC Splendida [4]					
Senior Tranche	2021	Euribor 6 m + 0.65%	474.9	86.4	118.5
Junior Tranche A	2024	Euribor 6 m + 1.00%	67.6	59.7	59.7
Junior Tranche B	2024	Euribor 6 m + 1.00%	73.0	57.1	51.1
MSC Bellissima	2031	Euribor 3 m + 1.00%	496.4	479.1	144.5
MSC Meraviglia	2029	Euribor 3 m + 1.00%	574.0	517.3	558.0
MSC Seaside	2029	2.35%	575.2	529.8	569.8
MSC Seaview	2030	2.35%	575.2	542.8	92.9
MSC Preziosa	2029	Euribor 6 m + 0.94%	435.4	377.6	404.0
MSC Poesia - EGCS [3]	2027	1.44%	7.2	6.9	-
MSC Divina - EGCS [3]	2029	1.70%	1.6	0.5	-
MSC Orchestra - EGCS [3]	2027	1.44%	10.2	10.0	6.5
MSC Splendida - EGCS [3]	2027	1.30%	9.9	9.0	-
MSC Preziosa - EGCS [3]	2023	1.03%	8.7	8.4	-
UK Building (13,5 MGBP)	2021	Libor 3M+1.60%	17.9	13.3	14.4
Ocean Cay - SACE	2026	Euribor 6 m + 1.30%	40.5	35.6	-
Ocean Cay - BPI	2025	1.18% - 1.28%	26.7	24.1	-
Other loans [5]			-	2.3	0.1
Total Loans				**3,858.1**	**3,267.6**
MSC Orchestra [4]	2022	4.04% - 4.52%	392.6	-	7.7
Total GIE Financing				**-**	**7.7**
MSC Magnifica	2029	2.81%	410.0	223.4	239.7
Other leases			-	25.5	6.8
Total Leases				**248.9**	**246.5**
Bond 2016 (195 MCHF)	2021	coupon 3.00%	181.3	172.7	166.3
Bond 2017 (335 MCHF)	2023	coupon 3.00%	303.8	299.7	288.8
Total Bond				**472.4**	**455.1**
Total Financial debt				**4,579.4**	**3,976.9**

[1] Bpifrance tranche - 75% of total loan.
[2] Commercial tranche - 25% of total loan.
[3] Exhaust Gas Cleaning Systems (EGCS).
[4] Refer to senior tranche and commercial tranche (85% of the total liability).
[5] Other loans include the first drawdown of the two Seaside Evo ships.

The Group's debt agreements, including the Group's main credit revolving facility, for which the Milestone Guarantee has been released (refer to Note 3. Significant events) are subject to compliance with financial covenants that require the Group to maintain a minimum shareholders' equity, a minimum level of liquidity and net worth to total balance sheet and EBITDA over financial interest ratios. In addition, certain of the Group's non ship-financing debt agreements include customary financial covenants. The Group was in excess of all financial covenant requirements at December 31, 2018.

Long-term receivables from related parties

The long-term receivables from related parties were composed as follows:

	At December 31,	
in KEUR	**2018**	2017
Maritime Holding Limited	133,827	132,498
Bluvacanze	49,726	48,242
Total	**183,553**	**180,740**

The long-term receivable from Maritime Holding Limited has been classified as non-current since it is not expected to be collected within the next twelve month period. The long-term receivable carries an annual interest rate of 1%.

Leases

Future minimum lease payments were as follow:

	At December 31,					
	2018			2017		
in KEUR	Minimum lease payments	Finance charges	Present value of minimum lease payments	Minimum lease payments	Finance charges	Present value of minimum lease payments
Less than 1 year	34,051	7,525	26,526	27,823	7,200	20,623
1 to 5 years	115,447	28,880	86,567	103,604	29,261	74,343
Later than five years	151,884	16,096	135,788	171,860	20,345	151,515
Total minimum lease payments	**301,382**	**52,501**	**248,881**	**303,287**	**56,806**	**246,481**

Derivative financial instruments

Interest rate swaps

At December 31, 2018 the Group had interest rate swap agreements to hedge its exposure to interest rate movements and to manage its interest expenses by effectively converting a portion of its floating-rate financial debt to a fixed-rate basis.

The notional amount of the interest rate swap agreements was EUR 2,546 million at December 31, 2018 including forward starting swaps, and EUR 2,812 million at December 31, 2018.

At December 31, 2018 interest rate swap agreements consisted of:

In KEUR	Derivative notional at December 31, 2018	Fixing date	Variable rate	Fixed rate	From	To
MSC Fantasia	126,842	2015	Euribor 6 m	0.690%	2016	2023
MSC Splendida	145,203	2015	Euribor 6 m	0.740%	2016	2024
MSC Divina	240,949	2010	Euribor 3 m	3.150%	2012	2024
Armonia lenghtening	28,629	2014	Euribor 3 m	2.67% (1)	2014	2026
Sinfonia lenghtening	26,125	2015	Euribor 3 m	2.40% (1)	2015	2027
Lirica lenghtening	28,500	2015	Euribor 3 m	2.60% (1)	2015	2027
Facility A	367,624	2015	Euribor 3 m	0.570%	2016	2025
Facility A - Swap 2	95,398	2017	Euribor 3 m	-0.080%	2017	2021
MSC Meraviglia	525,270	2016	Euribor 6 m	0.550%	2017	2023
MSC Bellissima	579,076	2016	Euribor 6 m	0.850%	2019	2025
MSC Preziosa	382,622	2017	Euribor 6 m	0.275%	2017	2023
Total of notional	**2,546,238**					

(1) Swap rates include an embedded senior margin of 1.90%.

At December 31, 2017 interest rate swap agreements consisted of:

In KEUR	Derivative notional at December 31, 2017	Fixing date	Variable rate	Fixed rate	From	To
MSC Musica (2)	22,495	2013	Euribor 6 m	2.691%	2013	2018
MSC Fantasia	158,013	2015	Euribor 6 m	0.690%	2016	2023
MSC Splendida	177,129	2015	Euribor 6 m	0.740%	2016	2024
MSC Divina	278,706	2010	Euribor 3 m	3.150%	2012	2024
Armonia lenghtening	32,208	2014	Euribor 3 m	2.67% (1)	2014	2026
Sinfonia lenghtening	29,292	2015	Euribor 3 m	2.40% (1)	2015	2027
Lirica lenghtening	31,667	2015	Euribor 3 m	2.60% (1)	2015	2027
Facility A	417,417	2015	Euribor 3 m	0.570%	2016	2025
Facility A - Swap 2	108,319	2017	Euribor 3 m	-0.080%	2017	2021
MSC Meraviglia	568,032	2016	Euribor 6 m	0.550%	2017	2023
MSC Bellissima	579,076	2016	Euribor 6 m	0.850%	2019	2025
MSC Preziosa	409,650	2017	Euribor 6 m	0.275%	2017	2023
Total of notional	**2,812,004**					

(1) Swap rates include an embedded senior margin of 1.90%.
(2) MSC Musica terminated in 2018.

For the year ended December 31, 2018, the effects on the consolidated financial statements of the changes in the fair value of the interest rates swaps were as follows:

	in KEUR	At December 31, 2017	Gain / (Loss) OCI	Gain / (Loss) P&L	Gain / (Loss) P&L (FV at inception)	At December 31, 2018
MSC Spendida	Assets	-	-	-	-	-
	Liabilities	(3,069)	(106)	-	390	(2,785)
MSC Fantasia	Assets	-	-	-	-	-
	Liabilities	(2,517)	(30)	-	340	(2,207)
MSC Divina	Assets	-	-	-	-	-
	Liabilities	(28,833)	1,210	5,450	-	(22,173)
MSC Musica	Assets	-	-	-	-	-
	Liabilities	(308)	-	308	-	-
MSC Seaview [1]	Assets	-	-	-	-	-
	Liabilities	(134)	-	134	-	-
Armonia Lengthening	Assets	-	-	-	-	-
	Liabilities	(618)	(41)	1	-	(658)
Sinfonia Lengthening	Assets	-	-	-	-	-
	Liabilities	(183)	(160)	-	35	(308)
Lirica Lengthening	Assets	-	-	-	-	-
	Liabilities	(442)	(135)	(12)	51	(538)
Facility A	Assets	-	-	-	-	-
	Liabilities	(5,668)	(1,193)	(41)	653	6,249
Facility A - Swap 2	Assets	7	(7)	-	-	-
	Liabilities	-	(356)	-	84	272
MSC Meraviglia	Assets	-	-	-	-	-
	Liabilities	(6,289)	(4,681)	(426)	2,274	9,122
MSC Bellissima	Assets	-	-	-	-	-
	Liabilities	(3,651)	(9,339)	(1,058)	-	(14,048)
MSC Preziosa	Assets	55	(55)	-	-	-
	Liabilities	-	(3,322)	-	345	(2,977)
Total amounts	**Assets**	**62**	**(62)**	**-**	**-**	**-**
	Liabilities	**(51,712)**	**(18,153)**	**4,356**	**4,172**	**(61,337)**

[1] Represent the embedded deriviative (Floor) in the financing contract.

	in KEUR	At December 31, 2016	Gain / (Loss) OCI	Gain / (Loss) P&L	Gain / (Loss) P&L (FV at inception)	At December 31, 2017
MSC Splendida	Assets	-	-	-	-	-
	Liabilities	(4,784)	1,252	-	463	(3,069)
MSC Fantasia	Assets	-	-	-	-	-
	Liabilities	(3,840)	911	-	412	(2,517)
MSC Divina	Assets	-	-	-	-	-
	Liabilities	(38,141)	-	9,308	-	(28,833)
MSC Musica	Assets	-	-	-	-	-
	Liabilities	(1,626)	-	1,318	-	(308)
MSC Seaside [1]	Assets	-	-	-	-	-
	Liabilities	(194)	-	194	-	-
MSC Seaview [1]	Assets	-	-	-	-	-
	Liabilities	(213)	-	79	-	(134)
Armonia Lengthening	Assets	-	-	-	-	-
	Liabilities	(1,028)	410	-	-	(618)
Sinfonia Lengthening	Assets	-	-	-	-	-
	Liabilities	(491)	268	-	40	(183)
Lirica Lengthening	Assets	-	-	-	-	-
	Liabilities	(826)	327	-	57	(442)
Facility A	Assets	-	-	-	-	-
	Liabilities	(10,203)	3,802	-	733	(5,668)
MSC Poesia	Assets	-	-	-	-	-
	Liabilities	(257)	-	257	-	-
Facility A - Swap 2	Assets	-	224	-	(217)	7
	Liabilities	-	-	-	-	-
MSC Meraviglia	Assets	-	-	-	-	-
	Liabilities	(8,722)	-	2,433	-	(6,289)
MSC Bellissima	Assets	-	-	-	-	-
	Liabilities	(4,179)	-	528	-	(3,651)
MSC Preziosa	Assets	-	1,460	-	(1,405)	55
	Liabilities	-	-	-	-	-
Total amounts	**Assets**	**-**	**1,684**	**-**	**(1,622)**	**62**
	Liabilities	**(74,504)**	**6,970**	**14,117**	**1,705**	**(51,712)**

[1] Represent the embedded deriviative (Floor) in the financing contract.

A reasonably possible change of 100 basis points in the zero-coupon curves of market interest rates at balance sheet date would have had the following impacts on the fair value of derivatives. This analysis assumes that all other variables remain constant.

in KEUR	Derivative type	Pay Leg	Receive Leg	Shift -100 bps	Balance sheet FV at December 31,2018	Shift +100 bps
MSC Divina	Interest rate swap	Fix	Floating	(26,196)	(22,173)	(18,322)
MSC Meraviglia	Interest rate swap	Fix	Floating	(29,279)	(9,122)	9,538
MSC Bellissima	Interest rate swap	Fix	Floating	(46,020)	(14,048)	14,665
MSC Splendida	Interest rate swap	Fix	Floating	(6,898)	(2,785)	1,020
MSC Fantasia	Interest rate swap	Fix	Floating	(5,262)	(2,207)	622
MSC Armonia Lengthening	Interest rate swap	Fix	Floating	(1,848)	(658)	452
MSC Sinfonia Lengthening	Interest rate swap	Fix	Floating	(1,421)	(308)	744
MSC Lirica Lengthening	Interest rate swap	Fix	Floating	(1,866)	(538)	702
Facility A	Interest rate swap	Fix	Floating	(18,662)	(6,249)	5,565
Facility A - Swap 2	Interest rate swap	Fix	Floating	(1,904)	(272)	1,344
MSC Preziosa	Interest rate swap	Fix	Floating	(17,857)	(2,977)	10,983
Total				**(157,213)**	**(61,337)**	**27,313**

in KEUR	Derivative type	Pay Leg	Receive Leg	Shift -100 bps	Balance sheet FV at December 31, 2017	Shift +100 bps
MSC Divina	Interest rate swap	Fix	Floating	(39,795)	(28,833)	(20,462)
MSC Musica	Interest rate swap	Fix	Floating	(339)	(308)	(336)
MSC Seaview	Interest rate swap	Fix	Floating	(134)	(134)	(134)
MSC Meraviglia	Interest rate swap	Fix	Floating	(32,660)	(6,289)	17,343
MSC Bellissima	Interest rate swap	Fix	Floating	(35,986)	(3,651)	25,097
MSC Splendida	Interest rate swap	Fix	Floating	(8,952)	(3,069)	2,277
MSC Fantasia	Interest rate swap	Fix	Floating	(7,463)	(2,517)	2,020
MSC Armonia Lengthening	Interest rate swap	Fix	Floating	(2,144)	(618)	783
MSC Sinfonia Lengthening	Interest rate swap	Fix	Floating	(1,575)	(183)	1,167
MSC Lirica Lengthening	Interest rate swap	Fix	Floating	(2,115)	(442)	1,082
Facility A	Interest rate swap	Fix	Floating	(22,596)	(5,668)	9,716
Facility A - Swap 2	Interest rate swap	Fix	Floating	(2,842)	7	2,751
MSC Preziosa	Interest rate swap	Fix	Floating	(19,613)	55	17,131
Total				**(176,214)**	**(51,650)**	**58,435**

Derivatives on fuel price

The Group is exposed to fuel price fluctuations and enters into derivative contracts to mitigate the financial impact of fuel price volatility.

At December 31, 2018 commodity swap agreements consisted of:

Maturities through	Product	Metric tons - in thousand	Weighted average fixed price in USD	Percentage of coverage
2019	Intermediate sulfur fuel oil	345	275	69%
	Low sulfur fuel oil	74	391	
	Gasoil	61	644	
2020	Intermediate sulfur fuel oil	41	298	20%
	Gasoil	103	654	
2021	Gasoil	6	579	1%
Total		**630**		

At December 31, 2017 commodity swap agreements consisted of:

Maturities through	Product	Metric tons - in thousand	Weighted average fixed price in USD	Percentage of coverage
2018	Brent oil	109	337	60%
	Low sulfur fuel oil	75	290	
	Intermediate sulfur fuel oil	160	251	
2019	Intermediate sulfur fuel oil	264	259	39%
Total		**608**		

The effect on the consolidated financial statements of the fuel hedging instruments was a loss of EUR 61.3 million (EUR 25.4 million in 2017), (refer to Note 23. Share capital and reserves).

The fair value of swaps was included in assets for an amount of EUR 5.2 million (2017: EUR 40.3 million) and in liabilities for an amount of EUR 29.5 million (2017: nil).

Derivatives on foreign exchange rate

The Group operates internationally and is exposed to foreign exchange risk. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity.
The risk is measured through a forecast of highly probable revenues and expenditures. At December 31, 2018 the Group had foreign currency derivatives to hedge the exposure to volatility in foreign currency exchange rates.

For the year ended December 31, 2018, the effects on the consolidated financial statements were as follows:

	At December 31,	
in KEUR	**2018**	2017
Current assets	2,240	-
Current liabilities	(148)	-
Total	**2,092**	**-**

The fair values of the forward contracts are determined based on observable inputs and utilise the income valuation approach. These valuation models take into account the contract terms, such as maturity and other inputs, such as foreign exchange rates and curves and interest yield curves.

Fair value measurement

IFRS 13 requires financial instruments to be classified at fair value determined on the basis of the quality of the inputs used to measure them. This classification under IFRS 13 involves a “fair value hierarchy” comprising three levels which prioritise, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability at the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1: Determination of fair value based on unadjusted prices quoted in active markets for identical assets or liabilities.
- Level 2: Determination of fair value based on inputs that are observable on active markets (other than the quoted prices included in Level 1) that are observable both directly and indirectly.
- Level 3: Determination of fair value in accordance with valuation models not based on directly or indirectly observable inputs from any active market.

The only financial instruments held by the Group measured at fair value are derivatives. On the basis of what is explained above, the derivatives fair values can be allocated to Level 2 at December 31, 2018 and December 31, 2017.

IFRS 13 requires fair value to be measured based on market participants' assumptions, which would consider counterparty credit risk in derivative valuations. Furthermore, the standard states that the fair value of a liability should reflect the effect of non-performance risk, including, but not limited to, an entity's own credit risk. As a result, IFRS 13 requires entities to consider the effects of credit risk when determining a fair value measurement, e.g. by calculating a debit valuation adjustment (DVA) or a credit valuation adjustment (CVA) on their derivatives.

The valuation method used to determine the fair value of financial liabilities measured at amortised costs is described in Note 20. Financial instruments and risk management (under category of financial instruments).
The Bonds, for which there is a price in an active market was allocated as a Level 1. For the other financial instruments, since there are no unobservable inputs into the model, fair values were allocated to Level 2.

Financial assets and liabilities measured at fair value	Valuation techniques
Interest rate swaps	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects self credit risk.
Foreign currency forward	Discounted cash flows. Future cash flows are estimated based on rates and yield curves derived from quoted interest rates matching maturities of the contract.
Commodities derivatives	Discounted cash flows. Future cash flows are estimated based on forecast expectations of several variables, including the contract strike price, the forward price calendar 2019, 2020 and 2021 and the timing of the contract, discounted at a rate that reflects self credit risk.

Financial risk exposure and financial risk management

The risk management activity carried out by the Group responds to the need of monitoring the various risks to which the Group is exposed and to take appropriate action from a non-speculative perspective to limit such exposure by equipping the Group with procedures and instruments able to represent the risks in a transparent way.

Given that the Group operates on world markets, its activity is exposed to various kinds of financial risks, including fluctuations, up or down, of interest and exchange rates, and liquidity risks. In order to minimize these risks, the Group uses derivatives as part of its risk management activities, whereas it does not use or hold derivatives or similar instruments purely for trading purposes. The Board of Directors approves and monitors the risk management process.

The following paragraphs describe the policies and principles that the Group uses to manage and control the various risks to which it is potentially exposed, giving the main qualitative and quantitative information on the nature of the risks to which the Group is exposed and the ways in which they can be mitigated. Risks were reduced by entering into hedging contracts, matching sales and by taking out insurance policies.

The main risks identified, monitored and managed by the Group are as follows:

- market risks (fuel price risk, interest rate risk and foreign currency risk),
- credit risks, and
- liquidity risks.

Market risks

Significant market-related risks to which the Group is exposed consist of fuel price risk, interest rate risk and foreign currency risk.

Fuel price risk

The Group is exposed to fuel price fluctuation risk that affects the costs incurred to buy fuel for ship operations. Since fuel prices have historically fluctuated significantly and are affected by numerous factors outside the Group's control, the Group entered into derivative contracts to mitigate the financial impact of fuel price volatility (refer to Note 20. Financial instruments and risk management under the category Interest rate swaps and derivatives on fuel price).

Interest rate risk

Interest rate risk denotes the risk that the fair value (fair value interest rate risk) or future cash flows (cash flow interest rate risk) of a financial instrument may fluctuate because of changes in market rates. Changes in market interest rates can compromise the Group's financial stability and its capital adequacy. Interest rate risk relates mainly to the portion of the Group's financial debt which is exposed to changes in the Euribor maturity curve since the interest-bearing liabilities are almost all denominated in Euro and are linked to the Euribor index. The exposure mainly arises from financial debts that bear interest at variable rates and the interest rate swap agreements that convert floating-rate debt into a fixed rate.

Market risk associated with the Group's long-term floating-rate debt is the potential increase in interest expense from an increase in interest rates. The Group uses interest rate swap agreements that effectively convert a portion of its floating-rate debt to a fixed-rate basis to manage this risk.

Market risk associated with the Group's interest rate swap agreements is the potential decrease in fair value resulting from a decrease in interest rates.
A possible change of 100 basis points in actual interest rates at balance sheet date would have increased/(decreased) 2018 and 2017 equity and the income statement by the amounts shown below.

This analysis assumes that all other variables remain constant:

	Profit or loss		Equity, net of tax	
in KEUR - At December 31, 2018	100 bps decrease	100 bps increase	100 bps decrease	100 bps increase
Variable-rate instruments	13,542	(17,331)	13,542	(17,331)
Interest rate swaps	(23,478)	22,931	(111,446)	104,202
Net impact	**(9,936)**	**5,600**	**(97,904)**	**86,871**

	Profit or loss		Equity, net of tax	
in KEUR - At December 31, 2017	100 bps decrease	100 bps increase	100 bps decrease	100 bps increase
Variable-rate instruments	11,481	(17,041)	11,481	(17,041)
Interest rate swaps	(85,203)	76,227	(140,067)	125,589
Net impact	**(73,722)**	**59,186**	**(128,586)**	**108,548**

Foreign currency risk

As it operates at an international level, the Group is exposed to the risk that changes in exchange rates could have an impact on the carrying amount of some of its financial assets or financial liabilities. In addition, certain sales and purchases are denominated in currencies that differ from the functional currencies of the Group entities, which is primarily the Euro.
Specifically, fluctuations in exchange rates can have a considerable impact:

- on income, as a result of the different significance of costs and revenues denominated in foreign currency compared to the time when the price conditions were defined (economic risk);
- on income, as a result of the translation of trade or financial receivables/payables denominated in a foreign currency (transaction risk);
- on the consolidated financial statements (income and shareholders' equity) by effect of the translation of assets and liabilities of companies that prepare their financial statements in another currency (translation risk).

The Group seeks to reduce foreign currency exposures arising from transactions in various currencies through a policy of matching, to the extent possible, receipts and payments in each individual currency in order to create a natural hedge. The Group may also enter into foreign currency forward contracts, collar options and cross-currency swap agreements to manage portions of the exposure to movements in foreign currency exchange rates.

The Group's net investments in subsidiaries and joint ventures operating in foreign countries also expose it to foreign currency risk as a result of foreign currency movements. However, these investments are long-term investments and the value of the net assets of such investments is deemed insignificant, therefore net investments in foreign subsidiaries are not hedged.

The table below shows the Group's exposure to currency risk with reference to the main foreign currencies at December 31, 2018 and 2017:

	At December 31, 2018					
in KEUR	USD	BRL	GBP	ZAR	CHF	ARS
Trade receivables	11,591	98,839	129,843	12,177	136	-
Cash and cash equivalents	48,048	40,410	13,005	12,337	5,905	2,235
Financial debt	-	-	(13,301)	-	(472,367)	-
Trade payables	(3,023)	(8,056)	(8,869)	(8)	(369)	(2)
Net exposure	**56,616**	**131,193**	**120,678**	**24,506**	**(466,695)**	**2,233**

	At December 31, 2017					
in KEUR	USD	BRL	GBP	ZAR	CHF	ARS
Trade receivables	2,531	84,854	25,418	10,777	21	-
Cash and cash equivalents	37,999	13,737	9,029	5,021	151,262	3,321
Financial debt	-	-	(14,408)	-	(455,058)	-
Trade payables	(65,187)	(30,529)	(2,927)	(1,576)	(655)	(188)
Net exposure	**(24,657)**	**68,062**	**17,112**	**14,222**	**(304,430)**	**3,133**

The significant exchange rates are disclosed in Note 5. Summary significant accounting policies.

A reasonably possible strengthening/(weakening) of the main foreign currencies at the end of the reporting period would have affected the measurement of financial instruments denominated in a foreign currency and would have affected the profit or loss by the amounts shown below. This analysis assumes that all the variables remain constant and ignores any impact of forecast sales and purchases:

	For the year ended December 31, 2018	
in KEUR	Strengthening	Weakening
USD (5% movement)	2,831	(2,831)
BRL (5% movement)	6,560	(6,560)
ZAR (5% movement)	1,225	(1,225)
CHF (5% movement)	(23,335)	23,335
GBP (5% movement)	6,034	(6,034)
ARS (5% movement)	112	(112)

	For the year ended December 31, 2017	
in KEUR	Strengthening	Weakening
USD (5% movement)	(1,233)	1,233
BRL (5% movement)	3,403	(3,403)
ZAR (5% movement)	711	(711)
CHF (5% movement)	(15,221)	15,221
GBP (5% movement)	856	(856)
ARS (5% movement)	157	(157)

Credit risks

Credit risk refers to the risk of the Group suffering financial loss due to a counterparty defaulting on its contractual obligations. Credit risk arises on non-current financial assets, derivative assets, trade and other receivables and cash and cash equivalents.

From a commercial point of view, the Group has no particular concentration of or is significantly dependent on any specific customers. Procedures are in place to evaluate the creditworthiness of any potential significant customers and payment terms are based on any given customer's credit standing and rating thus mitigating the Group's credit exposure for its trade receivables.
The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Long-term receivables from related parties are granted to two companies ultimately controlled by the same company as the Group (MSC MEDITERRANEAN SHIPPING COMPANY HOLDING SA). Credit risk is dependent on the financial situation of the whole "MSC Group" which is considered adequate. However, the Group continuously monitors the outstanding balances.
The maximum credit risk equals the carrying amount of loans and receivables and derivative assets as disclosed in Note 20. Financial instruments and risk management under category of financial instruments.

Liquidity risks

Liquidity risk arises when a company encounters difficulties to meet commitments associated with both short and medium/long-term commercial and financial liabilities and other payment obligations.
The consequences may consist of a deterioration of the Group's financial standing and of the consequent difficulties in accessing credit, of a negative impact on profit in terms of increased costs, interest expenses and, as an extreme consequence, of an insolvency situation that jeopardises the entity's viability as a going concern.
The Group ensures that there is an adequate coverage of its financial requirements through cash flow generation and the

availability of diversified financing sources in order to meet business requirements.
The Group generates significant cash from operations since its business model is based on the ability to pre-sell tickets, receive passenger deposits and sell onboard activities in advance with long lead times ahead of sailing.
Specifically, at December 31, 2018 the Group had a working capital deficit (current liabilities less current assets) of EUR 592.6 million (EUR 296.1 million at December 31, 2017). This deficit included EUR 527.4 million of customer deposits and time charter advances (EUR 398.7 million at December 31, 2017), which represent unearned revenues from advance ticket sales for future voyages and are initially recorded within Customer deposits and time charter advances when the right to the collection of the deposit arises.
After excluding cash and cash equivalents, the current portions of derivatives and of the current portion of long-term financial debt and bank overdrafts, the adjusted operating working capital deficit at December 31, 2018 was EUR 412.4 million (EUR 338.8 million at December 31, 2017).
The liquidity position of the Group is influenced by the pattern of ticket sales and collections. As a result, liquidity is at its lowest in the winter months and at its highest in the summer months. Starting from November 2015 the Group has managed the seasonal nature of its liquidity by making use of a EUR 160 million revolving credit facility (EUR 160 million at December 31, 2017), unused at December 31, 2018 and other facilities. The facility bears interest at Euribor 3 m/6 m plus a spread, which may vary from 175 basis points (bps) to 300 bps depending on specific conditions.

The Group's business model, along with the revolving credit facility, allows it to operate with a working capital deficit and to still meet its operating, investing and financing needs. The Group expects to continue having working capital deficits for the foreseeable future and does not expect to encounter any refinancing issues.

The following table summarises the remaining contractual maturities, which represent cash flows including interests, of the Group's financial liabilities at December 31, 2018 and 2017:

in KEUR	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Trade and other payables (including employee payables)	370,807	-	-	370,807
Bank overdraft and other short-term borrowings	2,836	-	-	2,836
Financial debt	462,261	2,595,970	2,059,647	5,117,878
Derivatives on interest rates [1]	23,609	44,085	(1,051)	66,643
At December 31, 2018	**859,513**	**2,640,055**	**2,058,596**	**5,558,164**

[1] Including only derivatives classified as liabilities.

in KEUR	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Trade and other payables (including employee payables)	314,808	-	-	314,808
Bank overdraft and other short-term borrowings	5,820	-	-	5,820
Financial debt	384,831	1,858,106	2,248,958	4,491,895
Derivatives on interest rates[1]	19,305	36,330	(3,924)	51,711
At December 31, 2017	**724,764**	**1,894,436**	**2,245,034**	**4,864,234**

[1] Including only derivatives classified as liabilities.

Contractual maturities refer only to the outstanding financial debt at December 31, 2018 and do not include future capital commitments.
A reasonably possible change of 100 basis points in the zero-coupon curves of market interest rates at balance sheet date would have had the following impacts on the future cash outflows related to the derivatives instruments (amounts un-discounted). This analysis assumes that all other variables remain constant:

in KEUR - At December 31, 2018	Shift -100 bps	Future Cash-Out	Shift +100 bps
MSC Divina	(30,534)	(23,233)	(15,933)
MSC Meraviglia	(30,285)	(10,425)	9,435
MSC Bellissima	(43,229)	(15,193)	12,842
MSC Armonia	(1,908)	(711)	486
MSC Sinfonia	(1,466)	(340)	786
MSC Lirica	(1,925)	(588)	750
Facility A	(19,438)	(6,781)	5,876
Facility A - Swap 2	(2,174)	(306)	1,562
MSC Fantasia	(5,625)	(2,383)	860
MSC Splendida	(7,165)	(3,022)	1,121
MSC Preziosa	(18,402)	(3,662)	11,078
Total	**(162,151)**	**(66,644)**	**28,863**

in KEUR - At December 31, 2017	Shift -100 bps	Future Cash-Out	Shift +100 bps
MSC Divina	(40,083)	(30,098)	(20,114)
MSC Meraviglia	(33,204)	(7,692)	17,819
MSC Bellissima	(32,340)	(4,303)	23,733
MSC Musica	(451)	(337)	(223)
MSC Armonia	(2,181)	(669)	842
MSC Sinfonia	(1,624)	(214)	1,196
MSC Lirica	(2,132)	(486)	1,161
Facility A	(22,862)	(6,161)	10,541
Facility A - Swap 2	(2,937)	(19)	2,898
MSC Fantasia	(7,535)	(2,763)	2,009
MSC Splendida	(9,261)	(3,395)	2,471
MSC Preziosa	(19,197)	(372)	18,452
Total	**(173,807)**	**(56,509)**	**60,785**

A reasonably possible change of 100 basis points in the zero-coupon curves of market interest rates at the end of the reporting period would have had the following impacts on the future cash outflows related to the financial liabilities (amounts undiscounted). This analysis assumes that all other variables remain constant:

in KEUR - At December 31, 2018	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Shift -100bps	446,105	2,528,504	2,025,888	**5,000,497**
Interest rates curve at December 31, 2018	462,261	2,595,970	2,059,647	**5,117,878**
Shift +100bps	485,805	2,655,065	2,091,278	**5,232,148**

in KEUR - At December 31, 2017	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Shift -100bps	369,378	1,798,681	2,212,956	**4,381,015**
Interest rates curve at December 31, 2017	384,831	1,858,106	2,248,958	**4,491,895**
Shift +100bps	407,829	1,934,203	2,285,185	**4,627,217**

Capital management

The Group defines capital as debt plus equity, including non-controlling interests.
The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for its owners and to maintain an optimal capital structure to minimise the cost of capital.

The Group seeks to maintain a balance between continuity of funding and flexibility of its sources through the use of different financing structures.
All of the Group's ship financing is either directly or indirectly guaranteed by the export credit agencies in the respective country in which the ship is constructed, notably Bpifrance Assurance Export and SACE, the official export credit agencies in France and Italy, respectively. Export credit facilities usually cover 80% of the ships' contract price.
In addition, necessary financial resources are maintained to allow the Group to mitigate risks and unforeseen events.

The Group monitors capital mainly using a ratio of total equity to total assets. The Group's target ratio is 25%. The Board considered prudent not to pay a dividend for the year ended December 31, 2018.

21. FUTURE CAPITAL COMMITMENTS AND OTHER CONTRACTUAL COMMITMENTS

Future capital commitments consisted of contracted commitments, including ship construction contracts and future expected capital expenditures necessary for operations.

The table below details anticipated capital expenditures and other contractual commitments at December 31, 2018:

in KEUR	At December 31, 2018	2017
Ship construction contracts [(1)]	6,488,766	4,486,920
Commitments related to Ocean Cay MSC Marine Reserve	79,100	110,426
Port facilities	131,393	67,621
Other commitments given	2,327	3,066

[(1)] Ship construction contracts commitments include only commitments related to contracts signed at December 31. Options and other non-binding arrangements are not included in capital commitments.

The Group anticipates payments related to the ship construction contracts for EUR 977.4 million in 2019, EUR 926.1 million in 2020 and EUR 918.9 million in 2021.

Ship construction contracts

The Group has two Seaside Evo ships on order from Fincantieri for delivery in 2021 and 2023. The contract price of those ships is approximately EUR 1,780 million, of which EUR 8.9 million had been advanced at December 31, 2018.

The Group has orders from Chantiers de l'Atlantique (formerly STX France) for:
- MSC Bellissima to be delivered in February 2019,
- three Meraviglia-Plus ships for delivery in 2019, 2020 and 2023,
- two World Class ships for delivery in 2022 and 2024.

The Group has an option for two additional World Class ships for delivery 2025 and 2027.

The Group has signed a memorandum of agreement with Fincantieri for the construction of four luxury cruise ships set to be delivered between 2023 and 2026.

In December 2018, the Group entered into a financing arrangement for the financing of the two World Class ship and the fifth Meraviglia Class ship. Through the financing arrangement the Group has the right, but not the obligation, to satisfy the obligations to be incurred upon delivery and acceptance of the vessels under the shipbuilding contracts by assuming, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of the ship. The amount assumed under this arrangement is not to exceed EUR 2,750 million. The loan, if the Group was to elect assumption at the date of actual delivery, will amortise semi-annually and will mature 12 years following delivery of the ship.
At December 31, 2018 the Group has export credit financing in place that provides financing for 80% of the ships' contract price for all ships in order.

Ocean Cay

In December 2015 the Group entered into an agreement with the Government of the Commonwealth of the Bahamas to develop a private marine reserve on an island in the Bahamas called Ocean Cay with a view to open the facilities in November 2019.

Port facilities

Amounts primarily represent future commitments to pay for the usage of certain port facilities.

Other commitments

Other commitments given mainly included marketing commitments (sponsorships) resulting from contracts which may cover several periods/seasons.

22. OFF-BALANCE SHEET COMMITMENTS

Pledged assets

Substantially all of the group ships and buildings are pledged as collateral for their respective financial debt.

Guarantees

At December 31, 2018 the following guarantees were in place:

	At December 31,	
in KEUR	**2018**	2017
Guarantees given to consumer protection authorities	52,128	46,132
Guarantees given to suppliers	1,040	1,438
Guarantees received from travel agencies	(860)	(4,220)

The Group is required to establish financial responsibility by several of the jurisdictions in which it operates to meet its liabilities in the event of non-performance of its obligations to passengers from those jurisdictions.

In the United States, the Group is required to obtain a certificate from the Federal Maritime Commission relating to its ability to satisfy its liabilities in cases of non-performance of the obligations to passengers and, to that end, is required to maintain a USD 29.4 million (USD 29.4 at December 31, 2017) third-party performance guarantee.

In addition, the Group has a legal requirement to maintain a security guarantee based on cruise business originated from the U.K. The Group has established a GBP 4.6 million (GBP 8.2 and EUR 0.2 at December 31, 2017) bonds with the Association of British Travel Agents as security guarantee.

23. SHARE CAPITAL AND RESERVES

Share capital

The authorised, issued and fully paid-up share capital is comprised of 250 registered shares of CHF 1,000 par value each and amounts to KEUR 159. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Company meetings.

Currency translation reserves

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign entities included in the consolidation.

Accumulated losses on defined benefit plans

This reserve comprises the accumulated effects from the remeasurement of the defined benefit liability since January 1, 2011 (date of transition to IFRS of MSC Cruises SA's parent company).

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges, pending subsequent recognition as either profit or loss.

The movement of the other comprehensive income was as follows:

	At December 31,	
in KEUR	**2018**	2017
Derivatives on fuel	(61,285)	25,356
Interest rate swap	(18,215)	8,654
Total other comprehensive (loss)/income	**(79,500)**	**34,010**
Derivatives on fuel - gain/(loss)	27,591	(5,543)
Interest rate swap - (loss)/gain	(8,854)	8,700
Reclassified from other comprehensive income to profit or loss	**18,737**	**3,157**

24. RELATED PARTIES

Account balances and transactions between the consolidated entities have been eliminated upon combination and are not disclosed in this note. Transactions involving key management personnel and other related parties are disclosed below.

Key management personnel

The Group's key management personnel comprises the Directors of the Group. The remuneration of Directors is covered by the ultimate parent company, therefore no costs are incurred by the Group.

Other related party transactions

The following transactions were carried out with related parties, mainly including the agencies of the MSC Group:

	At December 31,	
in KEUR	**2018**	2017
Sales of services		
Sale of services to related parties	579	1,172
Sale of services to joint ventures	1,670	1,353
Total	**2,249**	**2,525**
Financial Income		
Interest income from related parties	1,329	1,471
Total	**1,329**	**1,471**
Purchases of services		
Purchases of services from related parties	(51,311)	(51,155)
Purchases of services from associates and joint ventures	(987)	(5,008)
Total	**(52,298)**	**(56,163)**

At December 31, 2018 the balances arising from sales and purchases of services with related parties were as follows:

	At December 31,	
in KEUR	**2018**	2017
Long-term receivables from related parties	183,553	180,740
Long-term receivables from related parties (Note 20)	**183,553**	**180,740**
Receivables from related parties	25,866	8,358
Receivables from associates and joint ventures	10,260	9,529
Trade and other receivables from related parties (Note 9)	**36,126**	**17,887**
Prepayments to related parties	11,512	15,216
Prepayments to related parties (Note 11)	**11,512**	**15,216**
Total	**231,191**	**213,843**
Payables to related parties	34,738	51,417
Payables to associates and joint ventures	5,409	5,644
Trade and other payables to related parties (Note 16)	**40,147**	**57,061**
Total	**40,147**	**57,061**

25. SUBSEQUENT EVENTS

On January 10, 2019 in an effort to secure suitable berthing facilities for its ships, the Group entered into a non-binding letter of intent with Miami-Dade County for the development of a new cruise terminal project capable of simultaneously berthing two cruise vessels with a capacity of up to 7,000 passengers each.

On February 22, 2019, the Group entered into a new revolving credit facility effectively increasing the available commitment to EUR 600 million from the EUR 160 million one available under the previous facility which was terminated on the same date. The facility bears interest at Euribor plus a spread of 250 basis points.

On February 27, 2019, the Group received the delivery of MSC Bellissima.

On March 11, 2019, the Group signed the shipbuilding contracts with Fincantieri for the construction of four luxury cruise ships with expected yearly deliveries starting from spring 2023. The combined contract price of the four ships is approximately EUR 1.961 million. On the same date, the Group signed for an option agreement for two additional luxury cruise ships with targeted delivery date December 2026 and June 2027 for approximately EUR 494 million each.

No other events took place between December 31, 2018 and the date of the approval of these consolidated financial statements that would require adjustments or would need to be disclosed under this heading.

26. LIST OF GROUP ENTITIES

	Country	At December 31, 2018 Interest held	2018 Consolidation method	2017 Interest held	2017 Consolidation method
MSC ACCADEMIA DELLE SCIENZE INFORMATICHE SRL	Italy	0%	-	100%	I
MARSEILLE PROVENCE CRUISE TERMINAL SAS	France	50%	E	50%	E
MSC MEDIAGRAFICA SRL	Italy	100%	I	100%	I
MSC CRUISES (AUSTRALIA) PTY LTD	Australia	100%	I	100%	I
MSC CRUCEROS SA	Argentina	95%	I	95%	I
MSC CRUCEROS SA	Spain	100%	I	100%	I
MEDITERRANEAN CRUISES TRAVEL AGENCY (SHANGHAI) CO LTD	China	50%	E	50%	E
MSC KREUZFAHRTEN AG	Switzerland	100%	I	100%	I
MSC CRUISES ASIA COMPANY LTD	China	100%	I	100%	I
MSC CRUISES BELGIUM NV	Belgium	100%	I	100%	I
MSC KRSTARENJA DOO	Croatia	100%	I	100%	I
MSC CRUISES LIMITED	UK	100%	I	100%	I
KWAZULU CRUISE TERMINAL (PTY) LTD	South Africa	70%	I	70%	I
MSC CRUISES SCANDINAVIA AB	Sweden	100%	I	100%	I
MSC CRUISES (USA) INC	United States	100%	I	100%	I
MSC CRUZEIROS DO BRASIL LTDA	Brazil	99%	I	99%	I
MSC ITALCATERING DO BRASIL LTDA	Brazil	99%	I	99%	I
MSC CRUZEIROS SA	Portugal	98%	I	98%	I
MSC FOOD & BEVERAGE DIVISION SPA	Italy	100%	I	100%	I
MSC CRUISES JAPAN LTD	Japan	100%	I	100%	I
MSC KREUZFAHRTEN (AUSTRIA) GMBH	Austria	100%	I	100%	I
MSC KREUZFAHRTEN GMBH	Germany	100%	I	100%	I
MSC KRUVAZIYER TURIZM AS	Turkey	100%	I	50%	E
MSC LOGISTICS (MOZAMBIQUE) LTD	Mozambique	100%	I	100%	I
MSC STARLIGHT CRUISES PTY LTD	South Africa	100%	I	100%	I
MSC CRUISES THE NETHERLANDS BV	Netherlands	100%	I	100%	I
TERMINAL DE CRUCEROS PUNTA DEL ESTE SA	Uruguay	80%	I	80%	I
VENEZIA INVESTIMENTI SRL	Italy	25%	E	25%	E
MSC OCEAN CAY LTD	Bahamas	100%	I	100%	I
HOSPEDAGM DE POMENE (MOZAMBIQUE) LDA	Mozambique	100%	I	100%	I
MSC CRUISES SHIP MANAGEMENT (SHANGHAI) LTD	China	99.95%	I	99.95%	I
MSC CRUISES SHIPPING SERVICE (SHANGHAI) LTD	China	100%	I	100%	I
MSC CRUISES BARCELONA TERMINAL SL	Spain	100%	I	100%	I
TRIESTE ADRIATIC MARITIME INITIATIVES SRL	Italy	35.50%	E	-	-
MSC MALTA SEAFARERS COMPANY LTD	Malta	100%	I	100%	I

	Country	At December 31, 2018 Interest held	2018 Consolidation method	2017 Interest held	2017 Consolidation method
MSC CRUISES LTD	Cyprus	100%	I	100%	I
CRUISE CONGLOMERATE MARITIME LTD	Guernsey	100%	I	100%	I
MSC CRUISE MANAGEMENT (UK) LTD	UK	100%	I	100%	I
COMPAÑIA NAVIERA FANTASIA SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA MERAVIGLIA SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA SERENATA SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA PREZIOSA SA	Panama	100%	I	100%	I
NEW CO ARMONIA SA	Panama	100%	I	100%	I
NEW CO LIRICA SA	Panama	100%	I	100%	I
NEW CO OPERA SA	Panama	100%	I	100%	I
NEW CO S32 SA	Panama	100%	I	100%	I
NEW CO SINFONIA SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA MUSICA SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA ORCHESTRA SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA VISTA 1 SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA VISTA 2 SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA VISTA 3 SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA VISTA 4 SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA VISTA 5 SA	Panama	100%	I	-	-
CNS COMPAÑIA NAVIERA SEASIDE 1 SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA SEASIDE 2 SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA EVO 1 SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA EVO 2 SA	Panama	100%	I	100%	I
COMPAÑIA NAVIERA WORLD CLASS 1 S.A.	Panama	100%	I	-	-
COMPAÑIA NAVIERA WORLD CLASS 2 S.A.	Panama	100%	I	-	-
SNC FANTASIA BAIL	France	100%	I	100%	I
SNC SPLENDIDA BAIL	France	100%	I	100%	I
PREZIOSA CRUISE LIMITED	UK	100%	I	100%	I
NUALY INVESTMENTS INC	Panama	100%	I	100%	I

I: Full consolidation method	E: Equity method

Loss of the control of MSC Accademia delle Scienze Informatiche SRL

On July 5, 2018, MSC Cruises SA sold the entire participation in the company's equity of MSC Accademia delle Scienze informatiche SRL to MSC Crociere Spa at a selling price of KEUR 360.

PARENT COMPANY MSC CRUISES SA FINANCIAL STATEMENTS

December 31, 2018

INDEX

Audit opinion 128

Primary statements 133
Balance sheet at December 31 - Assets 134
Balance sheet at December 31 - Liabilities and shareholders' equity 135
Income statement for the year ended December 31 136

Notes to the parent company financial statements 137
01. Company affiliation and activity 138
02. Accounting principles applied in the preparation of the financial statements 138
Inventories 138
Revenue recognition 138
Cash and cash equivalents 138
Financial assets 139
Property, plant and equipment 139
Intangible assets 139
Trade receivables 139
Interest-bearing financial debt 139
Derivatives 139
Leases 140
Foreign currency translation 140
03. Trade receivables 140
04. Derivatives 141
05. Inventories 142
06. Long-term receivables from related parties 142
07. Other non-current assets 143
08. Investments 143
09. Property, plant and equipment and intangible assets 145
10. Bank overdrafts and interest-bearing short-term borrowings 146
11. Interest-bearing financial debt 146
12. Other current liabilities 146
13. Non-current provisions 146
14. Shareholders' equity 146
15. Income from operations 147
16. Vessel hire and related operating expenses 147
17. Selling, general and administrative expenses 147
18. Financial income and expenses 148
19. Extraordinary, non-recurring or prior-period income and expenses 148
20. Claims and litigations 148
21. Commitments and guarantees 149
22. Significant events after the balance sheet date 149

Proposed appropriation of available earnings 151

KPMG

Statutory Auditor's Report

To the General Meeting of MSC Cruises SA, Geneva

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MSC Cruises SA, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 125 to 152) for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Revenue recognition

Related party transactions

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Revenue recognition

Key Audit Matter	Our response
In 2018, the entity has revenues from passenger tickets amounting to EUR 1.923 million and onboard revenue amounting to EUR 678 million. Revenue from the sale of passenger tickets for cruise voyages and from onboard services is recorded at the end of each cruise. Revenue from onboard sales is recognized when the goods are delivered to the customers. Customer deposits represent unearned revenues from advance ticket sales for future voyages and are initially recorded as customer deposit liabilities when the right to the collection of the deposit arises. We focused on the revenue recognition to address the risk that revenue is not recorded in the appropriate period relating to cruises that straddle the year-end and for revenue that has been received in advance of the cruise departure, which is deferred until the voyage has taken place.	We considered the appropriateness of the entity's revenue recognition accounting policies with particular emphasis on the risk identified opposite. We assessed and tested the operating effectiveness of relevant internal controls over the recording of revenue. Furthermore, we evaluated the entity's cut-off for cruise voyages over year-end by comparing management's estimate to data such as cruise departure dates, duration, and related cruise voyages revenue and cost. We also considered the appropriateness of the entity's disclosures in respect of revenue throughout the financial statements.

For further information on revenue recognition refer to the following:

— Note 2, Accounting principles applied in the preparation of the financial statements: Revenue recognition

— Note 15, Income from operations

Related party transactions

Key Audit Matter	Our response
There have been numerous transactions with counterparties where the entity or key management personnel of the entity have interests and/or are directors, and the entity carries a number of balances with related parties. There is a risk that not all related party receivables and payables are separately presented or disclosed in the financial statements in accordance with the requirements of Swiss accounting law, and therefore that insufficient information is provided in order to enable the reader to understand the nature of these related party balances. Additionally, there is a risk that such transactions are not recognized in accordance with the requirements of Swiss accounting law.	We compared the list of related parties provided by management with internal and external sources to evaluate whether all related party relationships and transactions have been appropriately identified, accounted for and disclosed. For each class of related party balance we compared the financial statements presentation and disclosures against the underlying transactions and the related accounting requirements. We also considered the appropriateness of disclosures regarding related parties.

KPMG

For further information on related party transactions refer to the following:

— Note 3, Trade receivables
— Note 6, Long-term receivables from related parties

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG SA

Peter Dauwalder Licensed Audit Expert Auditor in Charge	Carlos Alvarez Licensed Audit Expert

Geneva, 4 April 2019

KPMG SA, 111 Rue de Lyon, P.O. Box 347, CH-1211 Geneva 13

PRIMARY STATEMENTS

December 31, 2018

BALANCE SHEET

Assets	Notes	KEUR - At December 31, 2018	KEUR - At December 31, 2017	KCHF - At December 31, 2018	KCHF - At December 31, 2017
Current assets					
Cash and cash equivalents		117,166	274,760	132,072	321,092
Trade receivables, net					
- Third parties	3	55,832	62,286	62,935	72,789
- Related parties	3	145,249	97,663	163,725	114,131
Other current assets					
- Third parties		17,429	7,739	19,644	9,044
- Related parties		56,557	14,922	63,752	17,438
Derivatives	4	23,724	27,591	26,741	32,244
Inventories, net	5	68,622	63,032	77,347	73,658
Prepaid expenses and accrued income					
- Third parties		77,956	54,982	87,867	64,253
- Related parties		19,799	19,147	22,318	22,374
Total current assets		**582,334**	**622,122**	**656,401**	**727,023**
Non-current assets					
Financial assets					
- Guarantee deposits		8,786	4,469	9,903	5,223
- Long-term receivables from related parties	6	672,686	462,731	758,255	540,760
Other non-current assets	7	14,349	22,765	16,175	26,604
Derivatives	4	44,198	29,528	49,821	34,507
Investments	8	24,095	20,277	27,159	23,697
Property, plant and equipment	9	139,436	67,719	157,171	79,135
Intangible assets	9	38,630	21,761	43,544	25,429
Total non-current assets		**942,180**	**629,250**	**1,062,028**	**735,355**
Total assets		**1,524,514**	**1,251,372**	**1,718,429**	**1,462,378**

BALANCE SHEET

Liabilities and shareholders' equity	Notes	KEUR - At December 31, 2018	KEUR - At December 31, 2017	KCHF - At December 31, 2018	KCHF - At December 31, 2017
Current liabilities					
Trade payables					
- Third parties		46,828	43,367	52,775	50,680
- Related parties		173,489	98,171	195,558	114,724
Bank overdrafts and interest-bearing short-term borrowings	10	2,804	5,812	3,160	6,793
Current portion of interest-bearing long-term financial debt	11	20,796	16,642	23,442	19,449
Other current liabilities	12	14,178	7,650	15,981	8,940
Derivatives	4	21,632	27,591	24,383	32,244
Current provisions		6,249	4,821	7,044	5,634
Customer deposits and time charter advances		413,349	310,402	465,928	362,743
Accrued expenses and deferred income					
- Third parties		100,857	100,484	113,686	117,426
- Related parties		31,264	21,331	35,242	24,930
Total current liabilities		**831,446**	**636,271**	**937,199**	**743,563**
Non-current liabilities					
Interest-bearing long-term financial debt	11	619,277	558,891	698,052	653,135
Other non-current liabilities		2,911	3,667	3,282	4,285
Non-current provisions	13	4,650	3,799	5,241	4,440
Derivatives	4	44,198	29,528	49,821	34,507
Total non-current liabilities		**671,036**	**595,885**	**756,396**	**696,367**
Total liabilities		**1,502,482**	**1,232,156**	**1,693,595**	**1,439,930**
Shareholders' equity					
Share capital	14	159	159	250	250
Legal retained earnings					
- General legal retained earnings	14	42	42	60	60
Voluntary retained earnings					
- Results carried forward		19,015	15,238	22,138	16,273
- Profit for the year		2,816	3,777	3,282	4,193
- Currency translation reserve		-	-	(896)	1,672
Total shareholders' equity		**22,032**	**19,216**	**24,834**	**22,448**
Total liabilities and shareholders' equity		**1,524,514**	**1,251,372**	**1,718,429**	**1,462,378**

INCOME STATEMENT

	Notes	KEUR - For the years ended December 31, 2018	KEUR 2017	KCHF - For the years ended December 31, 2018	KCHF 2017
Operating income					
Income from operations	15	2,664,606	2,186,820	3,105,497	2,427,694
Other operating income		5,956	9,979	6,942	11,078
Total operating income		**2,670,562**	**2,196,799**	**3,112,439**	**2,438,772**
Operating expenses					
Vessels hire and related operating expenses	16	(2,463,674)	(1,994,134)	(2,871,329)	(2,213,789)
Selling, general and administrative expenses	17	(188,959)	(166,610)	(220,210)	(184,957)
Total operating expenses		**(2,652,633)**	**(2,160,744)**	**(3,091,539)**	**(2,398,746)**
Operating result		**17,929**	**36,055**	**20,900**	**40,026**
Financial income	18	7,693	4,811	8,966	5,341
Financial expenses	18	(20,756)	(35,175)	(24,192)	(39,049)
Non-operating income		-	166	-	184
Non-operating expenses		(44)	-	(52)	-
Extraordinary, non-recurring or prior period income	19	91	104	106	116
Extraordinary, non-recurring or prior period expenses	19	(1,350)	(1,715)	(1,574)	(1,904)
Profit for the year before taxes		**3,563**	**4,246**	**4,154**	**4,714**
Direct taxes		(747)	(469)	(872)	(521)
Profit for the year		**2,816**	**3,777**	**3,282**	**4,193**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

December 31, 2018

01. COMPANY AFFILIATION AND ACTIVITY

MSC Cruises SA (hereinafter “the Company” or “MSC Cruises SA”) was incorporated on March 7, 2006 and is registered at Avenue Eugène-Pittard 40, 1206 Geneva, Switzerland. The purpose of the Company is the operation of ship-owners companies, mainly cruise ships fitting out for its own use, and to organise and sell cruise voyages. The Company may carry any activities relating directly or indirectly to its main activity. The Company may provide financial assistance to its affiliated companies.

02. ACCOUNTING PRINCIPLES APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are prepared in accordance with the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations).

To ensure the Company remains a going concern, the Company’s financial statements may be influenced by the creation and release of hidden reserves.

Inventories

Inventories consist principally of food and beverage and shops merchandise. Inventories are measured at the lower of cost or net realisable value. The cost of inventories is based on a weighted average cost method. The net realisable value is the estimated selling price in the ordinary course of business. Previous write-downs to net realisable value are reversed when there is a subsequent increase in the value of such inventories.

The Company has furthermore accrued a general allowance without economic reason, which is admissible under Swiss law.

Revenue recognition

Revenue relating to the sale of cruise voyages, including onboard sales of services and all associated direct costs including travel agencies’ commissions, are recognised in profit or loss at the end of each cruise.
Revenue from onboard sales of goods is recognised when the significant risks and rewards of ownership are transferred to the customers, that is when the goods are delivered to the customers.
Upfront deposits represent unearned revenues from advance ticket sales for future voyages and are initially recorded within customer deposits and time charter advances when the right to the collection of the deposit arises. Customer deposits are subsequently recognised as cruises revenue together with all associated direct costs and expenses at the end of each cruise.
Dividends are recorded when the legal claim to them has arisen.
Interest income and expenses are recognised on a pro-rata basis using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank deposits and credit card receivables. Credit card receivables, net of processing fees, not yet credited to the bank accounts at the reporting date, are considered as cash equivalents if they are expected to be credited within one week after the reporting date.

Financial assets

Financial assets include guarantee deposits and long-term receivables from related parties, recognised at their acquisition cost and are subsequently adjusted for any impairment losses.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Costs include expenditures directly attributable to the acquisition of the assets and to bringing the assets to a working condition intended for their use. Subsequent expenditures are capitalised only when it is probable that the related future economic benefits will flow to the Company. PP&E are depreciated over their estimated useful lives using the straight-line method.

Intangible assets

Intangible assets are recorded at acquisition cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their estimated useful lives using the straight-line method.

Trade receivables

Trade receivables are recognised on the balance sheet based on the applied revenue recognition principle.
Trade receivables are recorded at their original net invoice amount. The allowance for doubtful receivables represents the Company’s estimate of incurred and projected losses that arise from the failure or inability of customers to make payments when due. These estimates are based on the ageing of customers’ balances, specific credit circumstances and the Company’s historical bad receivables experience.

Interest-bearing financial debt

Interest-bearing financial debt includes loans received from financial institutions and bonds. It is classified as current and non-current depending on whether related payments are expected to be incurred within twelve months from the balance sheet date or beyond.

Derivatives

All derivatives are recognised in the balance sheet at fair value and changes therein are recognised in profit or loss within financial income and expenses.

Leases

Leasing and rental contracts are recognised based on legal ownership. Any leasing or rental costs are recognised as expenses in the period they are incurred.

Foreign currency translation

The functional currency for the Company is the Euro. Accordingly, throughout the year, all commercial transactions not denominated in Euro are translated into Euro at the exchange rate prevailing on date of the transaction. As at the balance sheet date, assets and liabilities in Euro are translated into Swiss Francs at year-end rates, except for shareholders' equity, which is presented at historical values. The income statement is translated at the average exchange rate for the year. The resulting differences in currency translation are shown in a specific reserve under equity.

The exchange rates applied are as follows:

Conversion rates EUR/CHF	**2018**	2017
Exchange rate at December 31	1.12720	1.16863
Average exchange rate	1.16546	1.11015

03. TRADE RECEIVABLES

	KEUR - At December 31,		KCHF - At December 31,	
	2018	2017	**2018**	2017
Trade receivables - third parties, gross	61,521	64,943	69,347	75,894
Trade receivables - third parties, allowance	(5,689)	(2,657)	(6,412)	(3,105)
Trade receivables - third parties, net	**55,832**	**62,286**	**62,935**	**72,789**
Trade receivables - related parties, gross	156,537	113,960	176,449	133,176
Trade receivables - related parties, allowance	(11,288)	(16,297)	(12,724)	(19,045)
Trade receivables - related parties, net	**145,249**	**97,663**	**163,725**	**114,131**
Trade receivables, net	**201,081**	**159,949**	**226,660**	**186,920**

	KEUR - At December 31,		KCHF - At December 31,	
Trade receivables - Third parties, allowance	**2018**	2017	**2018**	2017
At January 1	(2,657)	(2,335)	(3,105)	(2,508)
Utilisation/reversal of previous years allowance	882	1,066	1,028	1,246
Additional allowance	(3,914)	(1,388)	(4,412)	(1,622)
Exchange rate differences	-	-	76	(221)
At December 31	**(5,689)**	**(2,657)**	**(6,412)**	**(3,105)**

04. DERIVATIVES

The Company has entered into interest rate swap agreements and derivatives on fuel price for the benefit of certain subsidiaries in order to centrally hedge the exposure to interest rate movements and to fuel price fluctuations for the whole MSC Cruises Group.

In 2018 the Company has entered into different foreign exchange rate derivatives agreements in order to centrally hedge the exposure to foreign exchange rate fluctuation.

	KEUR - At December 31,		KCHF - At December 31,	
Impact of derivatives on assets and liabilities	**2018**	2017	**2018**	2017
Impact on assets				
Current assets				
Derivatives on fuel price	21,484	27,591	24,216	32,244
Derivatives on interest rate	-	-	-	-
Derivatives on foreign exchange rate	2,240	-	2,525	-
At December 31	**23,724**	**27,591**	**26,741**	**32,244**
Non-current assets				
Derivatives on fuel price	13,278	12,677	14,967	14,815
Derivatives on interest rate	30,920	16,851	34,854	19,692
Derivatives on foreign exchange rate	-	-	-	-
At December 31	**44,198**	**29,528**	**49,821**	**34,507**
Impact on liabilities				
Current liabilities				
Derivatives on fuel price	21,484	27,591	24,216	32,244
Derivatives on interest rate	-	-	-	-
Derivatives on foreign exchange rate	148	-	167	-
At December 31	**21,632**	**27,591**	**24,383**	**32,244**
Non-current liabilities				
Derivatives on fuel price	13,278	12,677	14,967	14,815
Derivatives on interest rate	30,920	16,851	34,854	19,692
Derivatives on foreign exchange rate	-	-	-	-
At December 31	**44,198**	**29,528**	**49,821**	**34,507**
Net impact on assets and liabilities	**2,092**	**-**	**2,358**	**-**

05. INVENTORIES

	KEUR - At December 31, 2018	2017	KCHF - At December 31, 2018	2017
Onboard inventories	64,621	54,646	72,837	63,858
Ashore inventories	13,261	11,380	14,949	13,300
Inventories, gross	**77,882**	**66,026**	**87,786**	**77,158**
Allowance for obsolete inventories	(1,678)	(2,412)	(1,892)	(2,819)
General allowance on inventories	(7,582)	(582)	(8,547)	(681)
Inventories, allowance	**(9,260)**	**(2,994)**	**(10,439)**	**(3,500)**
Inventories, net	**68,622**	**63,032**	**77,347**	**73,658**

Allowance for obsolete inventories	KEUR - At December 31, 2018	2017	KCHF - At December 31, 2018	2017
At January 1	(2,412)	(2,026)	(2,819)	(2,176)
Utilisation/reversal of previous years allowance	734	(386)	855	(429)
Exchange rate differences	-	-	72	(214)
At December 31	**(1,678)**	**(2,412)**	**(1,892)**	**(2,819)**

General allowance on inventories	KEUR - At December 31, 2018	2017	KCHF - At December 31, 2018	2017
At January 1	(582)	(582)	(681)	(625)
Additional allowance	(7,000)	-	(8,158)	-
Exchange rate differences	-	-	292	(56)
At December 31	**(7,582)**	**(582)**	**(8,547)**	**(681)**

06. LONG-TERM RECEIVABLES FROM RELATED PARTIES

At December 31, 2018 long-term receivables from related parties mainly include receivables from indirect subsidiaries which carry an annual interest of 1%.

07. OTHER NON-CURRENT ASSETS

	KEUR - At December 31, 2018	2017	KCHF - At December 31, 2018	2017
Long-term prepaid expenses	3,847	4,144	4,336	4,843
Long-term VAT receivables	9,687	17,146	10,920	20,037
Other non-current assets	815	1,475	919	1,724
Total other non-current assets	**14,349**	**22,765**	**16,175**	**26,604**

Other non-current assets at December 31, 2018 mainly consisted of Italian VAT receivables amounting to KEUR 9,687 (KCHF 10,920), at December 31, 2017 KEUR 17,146 (KCHF 20,037). Long-term VAT receivables consisted entirely of Italian VAT reimbursement claims, which are not expected to be collected in the next twelve-month period due to the timeframe of the recovery process. In 2018, this receivable has been partially transferred to current asset for KEUR 7,973 (KCHF 8,987).

08. INVESTMENTS

	KEUR - At December 31, 2018	2017	KCHF - At December 31, 2018	2017
Gross value				
At January 1	29,463	28,378	34,432	30,482
Acquisitions / new entities / recapitalisation /disposal	3,818	1,085	4,450	1,205
Exchange rate differences	-	-	(1,366)	2,745
At December 31	**33,281**	**29,463**	**37,516**	**34,432**
Accumulated impairment				
At January 1	(9,186)	(9,186)	(10,735)	(9,869)
Exchange rate differences	-	-	378	(866)
At December 31	**(9,186)**	**(9,186)**	**(10,357)**	**(10,735)**
Investments at January 1, net	**20,277**	**19,192**	**23,697**	**20,613**
Investments at December 31, net	**24,095**	**20,277**	**27,159**	**23,697**

The increase mainly includes the investment in Trieste Adriatic Maritime Initiatives SRL.

The following table lists subsidiaries, joint ventures and associates as well as the related percentage of share capital owned at December 31, 2018 and December 31, 2017:

Company	Country	Investment held 2018	Investment held 2017
KWAZULU CRUISE TERMINAL (PTY) LTD	South Africa	70%	70%
MARSEILLE PROVENCE CRUISE TERMINAL SAS	France	50%	50%
MEDITERRANEAN CRUISES TRAVEL AGENCY (SHANGHAI) CO LTD	China	50%	50%
MSC ACCADEMIA DELLE SCIENZE INFORMATICHE SRL	Italy	0%	100%
MSC CRUCEROS SA	Argentina	95%	95%
MSC CRUCEROS SA	Spain	100%	100%
MSC CRUISES (AUSTRALIA) PTY LTD	Australia	100%	100%
MSC CRUISES (USA) INC	United States	100%	100%
MSC CROCIERE SA CO	United States	100%	100%
MSC CRUISES ASIA COMPANY LTD	China	100%	100%
MSC CRUISES BARCELONA TERMINAL, SL	Spain	100%	100%
MSC CRUISES BELGIUM NV	Belgium	100%	100%
MSC CRUISES JAPAN LTD	Japan	100%	100%
MSC CRUISES LTD	UK	100%	100%
MSC CRUISES LTD	Cyprus	100%	100%
MSC CRUISES SCANDINAVIA AB	Sweden	100%	100%
MSC CRUISES SHIP MANAGEMENT (SHANGHAI) LTD	China	99.95%	99.95%
MSC CRUISES SHIPPING SERVICE (SHANGHAI) LTD	China	100%	100%
MSC CRUISES THE NETHERLANDS BV	Netherlands	100%	100%
MSC CRUZEIROS DO BRASIL LTDA	Brazil	99%	99%
MSC CRUZEIROS SA	Portugal	98%	98%
MSC FOOD AND BEVERAGE DIVISION SPA	Italy	100%	100%
MSC KREUZFAHRTEN (AUSTRIA) GMBH	Austria	100%	100%
MSC KREUZFAHRTEN AG	Switzerland	100%	100%
MSC KREUZFAHRTEN GMBH	Germany	100%	100%
MSC KRSTARENJA DOO	Croatia	100%	100%
MSC KRUVAZIYER TURIZM AS	Turkey	100%	50%
MSC LOGISTICS (MOZAMBIQUE) LTD	Mozambique	100%	100%
MSC MEDIAGRAFICA SRL	Italy	100%	100%
MSC OCEAN CAY LTD	Bahamas	100%	100%
MSC STARLIGHT CRUISES PTY LTD	South Africa	100%	100%
TERMINAL DE CRUCEROS PUNTA DEL ESTE SA	Uruguay	80%	80%
TRIESTE ADRIATIC MARITIME INITIATIVES SRL	Italy	35.5%	0%
VENEZIA INVESTIMENTI SRL	Italy	25%	25%

The percentages shown in the table above refer to the percentage of share capital owned, corresponding to the percentage of voting rights, and represent the Company's direct interests in the subsidiaries.

In addition the Company indirectly owns, via its subsidiary MSC Cruises Ltd (Cyprus), 100% of the share capital and voting rights of the entities that operate, own or lease the vessels hired by the Company.

09. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	in KEUR		in KCHF	
	PP&E	Intangible assets	PP&E	Intangible assets
Gross value				
At January 1, 2017	20,079	29,179	21,566	31,341
Acquisitions	52,574	20,476	57,311	22,322
Write-off/disposals	(1,357)	-	(1,479)	-
Exchange rate differences	(54)	-	5,854	4,364
Gross value at December 31, 2017	**71,242**	**49,655**	**83,252**	**58,027**
At January 1, 2018	71,242	49,655	83,252	58,027
Acquisitions	72,734	28,384	80,574	31,682
Write-off/disposals	(1,028)	-	(1,142)	-
Exchange rate differences	-	-	(1,553)	(1,742)
Gross value at December 31, 2018	**142,948**	**78,039**	**161,131**	**87,967**
Accumulated depreciation and amortisation				
At January 1, 2017	(2,685)	(20,320)	(2,884)	(21,826)
Depreciation and amortisation	(1,418)	(7,574)	(1,545)	(8,256)
Write-off/disposals	564	-	615	-
Exchange rate differences	16	-	(303)	(2,516)
Accumulated depreciation and amortisation at December 31, 2017	**(3,523)**	**(27,894)**	**(4,117)**	**(32,598)**
At January 1, 2018	(3,523)	(27,894)	(4,117)	(32,598)
Depreciation and amortisation	(1,042)	(11,515)	(1,158)	(12,781)
Write-off/disposals	1,009	-	1,121	-
Exchange rate differences	44	-	194	956
Accumulated depreciation and amortisation at December 31, 2018	**(3,512)**	**(39,409)**	**(3,960)**	**(44,423)**
Net book value at December 31, 2017	**67,719**	**21,761**	**79,135**	**25,429**
Net book value at December 31, 2018	**139,436**	**38,630**	**157,171**	**43,544**

In December 2015 the Company entered into an agreement with the Government of the Commonwealth of the Bahamas to develop a private marine reserve on an island in the Bahamas named Ocean Cay. Development work began in 2016, the facilities are expected to be opened in November 2019.

10. BANK OVERDRAFTS AND INTEREST-BEARING SHORT-TERM BORROWINGS

The Company manages the seasonal nature of its liquidity by making use of a EUR 160 million revolving credit facility (EUR 160 million at December 31, 2017). The facility bears interest at Euribor 3m/6m plus a spread, which may vary from 175 basis points (bps) to 300 bps (250 bps at December 31, 2018 and 300 bps at December 31, 2017) depending on specific conditions.

11. INTEREST-BEARING FINANCIAL DEBT

	KEUR - At December 31,		KCHF - At December 31,	
	2018	2017	**2018**	2017
Loans	167,634	120,354	188,958	140,649
Bond (MCHF195)	172,657	166,296	194,620	194,338
Bond (MCHF335)	299,782	288,883	337,916	337,597
Total interest-bearing financial debt	**640,073**	**575,533**	**721,494**	**672,584**

In November 2016, the Company issued a bond with a nominal value of CHF 195 million. The bond matures on November 30, 2021 and offers a coupon of 3% which is paid once a year on November 11.

In July 2017, the Company issued a bond with a nominal value of CHF 335 million. The bond matures on July 14, 2023 and offers a coupon of 3% which is paid once a year on July 14.

12. OTHER CURRENT LIABILITIES

At December 31, 2018 other current liabilities included amounts payable to pension funds concerning administrative salaries for KEUR 264, which corresponds to KCHF 298 (KEUR 212 at December 31, 2017, which corresponds to KCHF 248).

13. NON-CURRENT PROVISIONS

At December 31, 2018 non-current provisions are mainly due to the estimated risk for claims asserted by passengers amounting to KEUR 3,850 (KCHF 4,340). At December 31, 2017 this risk was estimated at KEUR 3,468 (KCHF 4,053).

14. SHAREHOLDERS' EQUITY

The authorised, issued and fully paid-up share capital is composed of 250 registered shares of CHF 1,000 par value each, which corresponds to historical cost at December 31, 2018 amounting to KEUR 159 (KCHF 250) and thus remained unchanged compared to the previous year.
The Company allocated appropriate amounts of its earnings to the general legal retained earnings in accordance with Swiss law. Since the general legal retained earnings amounted to 20% of the share capital, no additional allocation was required. General legal retained earnings are not readily available for distribution to shareholders.
No dividends were distributed during 2018.

15. INCOME FROM OPERATIONS

	KEUR - At December 31,		KCHF - At December 31,	
	2018	2017	**2018**	2017
Ticket revenue	1,922,514	1,566,620	2,240,616	1,739,179
Time charter revenue	64,451	73,386	75,115	81,469
Onboard revenue	677,641	546,814	789,766	607,046
Total income from operations	**2,664,606**	**2,186,820**	**3,105,497**	**2,427,694**

16. VESSEL HIRE AND RELATED OPERATING EXPENSES

	KEUR - At December 31,		KCHF - At December 31,	
	2018	2017	**2018**	2017
Vessels hire and running expenses	(1,622,256)	(1,292,118)	(1,890,681)	(1,434,446)
Travel agencies commissions	(230,323)	(178,190)	(268,434)	(197,818)
Other operating commissions	(125,206)	(112,972)	(145,924)	(125,416)
Passengers travel expenses	(137,850)	(135,712)	(160,660)	(150,660)
Onboard sales costs	(346,473)	(274,213)	(403,805)	(304,418)
Depreciation of property, plant and equipment	-	(249)	-	(276)
Amortisation of intangible assets	(1,566)	(680)	(1,825)	(755)
Total vessels hire and related operating expenses	**(2,463,674)**	**(1,994,134)**	**(2,871,329)**	**(2,213,789)**

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	KEUR - At December 31,		KCHF - At December 31,	
	2018	2017	**2018**	2017
Marketing expenses	(88,671)	(78,562)	(103,343)	(87,212)
Administrative salaries and social charges	(41,080)	(36,578)	(47,877)	(40,607)
Repairs and maintenance on hardware and software	(6,615)	(5,684)	(7,708)	(6,309)
Depreciation of property, plant and equipment	(1,042)	(1,169)	(1,214)	(1,298)
Amortisation of intangible assets	(9,949)	(6,894)	(11,595)	(7,652)
Other general and administrative expenses	(41,602)	(37,723)	(48,473)	(41,879)
Total selling, general and administrative expenses	**(188,959)**	**(166,610)**	**(220,210)**	**(184,957)**

18. FINANCIAL INCOME AND EXPENSES

	KEUR - At December 31,		KCHF - At December 31,	
	2018	2017	**2018**	2017
Gain on derivatives on foreign exchange rate	2,240	-	2,610	-
Dividends	126	2,168	147	2,407
Interests on long-term receivables from related parties	4,630	1,973	5,396	2,190
Other financial income	697	670	813	744
Total financial income	**7,693**	**4,811**	**8,966**	**5,341**

	KEUR - At December 31,		KCHF - At December 31,	
	2018	2017	**2018**	2017
Loss on derivatives on foreign exchange rate	(148)	-	(173)	-
Interests on interest-bearing long-term financial debt	(14,474)	(9,454)	(16,870)	(10,496)
Foreign exchange loss	(2,167)	(22,832)	(2,526)	(25,347)
Other financial expenses	(3,967)	(2,889)	(4,623)	(3,206)
Total financial expenses	**(20,756)**	**(35,175)**	**(24,192)**	**(39,049)**

19. EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD INCOME AND EXPENSES

Extraordinary, non-recurring or prior-period income mainly included the reversal of previous years' accruals.

Extraordinary, non-recurring or prior-period expenses were mainly related to previously not accrued costs.

20. CLAIMS AND LITIGATIONS

From time to time the Company is involved in legal proceedings. These encompass a range of topics, such as disputes with foreign tax authorities, claims asserted by passengers or ports and disputes arising from contractual relationships with agents and suppliers. Naturally the outcome of such legal disputes cannot be predicted with any certainty. Provisions for pending and imminent proceedings are recorded if a payment obligation is probable and its amount can be reliably determined. It is possible that the outcome of individual proceedings for which no provisions were recorded may result in payment obligations whose amounts could not have been foreseen with sufficient accuracy at December 31, 2018. Such payment obligations should not have any significant influence on the Company's net assets and earnings positions.

21. COMMITMENTS AND GUARANTEES

Commitments for cruise vessel hire

The vessels operated by the Company are hired under long-term lease agreements.

	KEUR - At December 31,		KCHF - At December 31,	
Future minimum lease payments	**2018**	2017	**2018**	2017
From 1 to 5 years	491,847	429,640	554,412	502,090
More than 5 years	1,843,253	1,638,976	2,077,722	1,915,357
Total future minimum lease payments	1,575,573	1,636,382	1,775,992	1,912,325
Total future minimum lease payments	**3,910,673**	**3,704,998**	**4,408,126**	**4,329,772**

Other commitments

At December 31, 2018 there were commitments resulting from:

	KEUR - At December 31,		KCHF - At December 31,	
	2018	2017	**2018**	2017
Rental lease contracts	15,368	6,899	17,323	8,062
Port facilities	122,099	55,948	137,630	65,383
Sponsorships	2,327	3,066	2,623	3,583
Total other commitments	**139,794**	**65,913**	**157,576**	**77,028**

Guarantees

At December 31, 2018 the Company issued various guarantees in favour of third parties for an amount totalling KEUR 15,037, which corresponds to KCHF 16,950 (KEUR 12,138 at December 31, 2017, which corresponds to KCHF 14,185).

22. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On February 22, 2019, the Company entered into a new revolving credit facility effectively increasing the available commitment to EUR 600 million from the EUR 160 million one available under the previous facility which was terminated on the same date. The facility bears interest at Euribor plus a spread of 250 basis points.

No other events took place between December 31, 2018 and the date of the approval of these financial statements that would require adjustments or would need to be disclosed under this heading.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

MSC Cruises SA

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

	IN EUR	in CHF
Profit carried forward	19,014,904	22,138,162
Profit for the year	2,816,154	3,282,121
Currency translation reserve	-	(895,781)
Retained earnings available to shareholders	**21,831,058**	**24,524,503**
The Board of Directors proposes to the General Meeting of Shareholders the following appropriation of available retained earnings:		
Dividends distribution	-	-
Retained earnings to be carried forward	21,831,058	24,524,503