

ANNUAL REPORT 2017



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AT A GLANCE: MSC CRUISES IN 2017

OUR FLEET

14

ships



7.7 YEARS

average age of fleet weighted by ALB
one of the youngest fleets at sea

PLACES WE GO

225

itineraries offered worldwide

80

countries visited



191

ports of call

3,357

port calls

GUESTS

1.97 MILLION

guests welcomed

170

nationalities
welcomed on board



46

average age of our guests

OUR PEOPLE

23,776

employees* on board and ashore



6,000

additional people
hired in 2017

126

nationalities working on board

*Includes crew members in turnover and shared service centres outsourced personnel

NETWORK

20

number of MSC Cruises sales offices
around the world



70

countries in which MSC Cruises
holidays are sold

APPEALING PRODUCTS

69,000

highest number of passenger bookings
in one week



2,105,625

number of shore excursions sold

FOOD AND BEVERAGE

61,354,372

meals served



95,927,704

drinks served

SOCIAL COMMITMENT

EUR **7.7** MILLION

raised for UNICEF since 2009 and counting



2,750

mattresses donated to charities

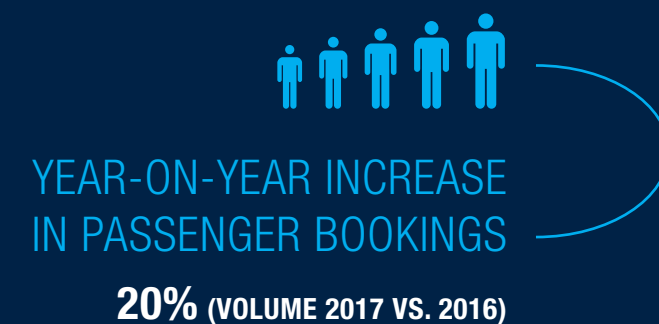
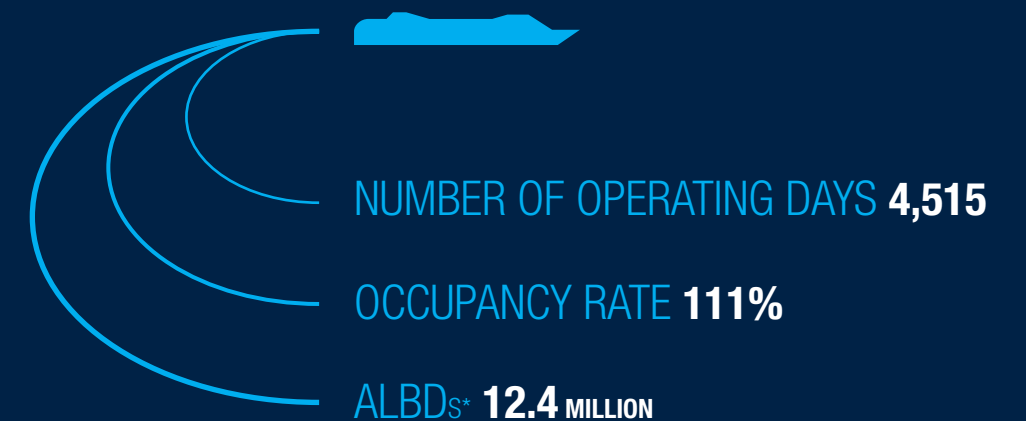
MSC CRUISES CONFIRMS ITS POSITION AS **NO. 1 CRUISE LINE**
IN TERMS OF CAPACITY IN EUROPE, SOUTH AMERICA AND SOUTH AFRICA.

EUR 9.1 BILLION INVESTMENT PLAN UNTIL 2026

Our investment plan is unprecedented in the cruise industry and has the longest horizon.

2017

KEY FINANCIAL HIGHLIGHTS



*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 accommodates two passengers and is computed by multiplying passenger capacity by revenue-producing ship operating days in the period.

CAPTURING THE GROWTH THAT LIES AHEAD



Photo by Ivan Sartiati

On 31 May 2017, MSC Cruises took delivery of MSC Meraviglia in Saint-Nazaire, France in the presence of Emmanuel Macron, President of the French Republic, Gianluigi Aponte, MSC Group Executive Chairman, and Pierfrancesco Vago, MSC Cruises Executive Chairman.

2017 was a pivotal year for MSC Cruises and will be remembered as the year we started delivering against the second phase of our ambitious industry-unprecedented growth plan. Following a period of strategic and operational planning, 2017 saw MSC Cruises expand its fleet significantly as we proudly took delivery of two next-generation mega-cruise ships: MSC Meraviglia and MSC Seaside.

These new additions are instrumental to further reinforcing our leadership position in Europe, and equally to helping us spearhead our expansion in North America. After coming into service in May 2017, MSC Meraviglia was deployed in the Mediterranean while MSC Seaside, delivered in November 2017, set sail for the sunny waters of the Caribbean.

This state of the art additional tonnage and our comprehensive pipeline of new builds will help us capture the growth that lies ahead. To build even greater momentum, we further increased our investment plan up to EUR 9.1 billion, including two extended versions of our Seaside Class – our so-called 'Seaside EVO' ships. As a result, the total number of additional cruise ships expected to be built by 2026, amounts to 10 ships – four of which are already coming into service by 2020, in addition to the two ships that came into service in 2017.

While our ship construction was at an all-time high, we also made significant progress in the development of exclusive beach destinations. We made our maiden call at Pomene Bay, a uniquely beautiful and remote peninsula in Mozambique. We also broke ground on Ocean Cay MSC Marine Reserve, a pristine private island destination located in the Bahamas. These one-of-a-kind destinations will excite even more guests to explore the natural beauty we showcase on our itineraries.

In addition to these fabulous beach destinations, we added over 30 new itineraries to our global cruise offering and continued to build on our 2016 commercial successes. We managed to steadily grow our footprint in key markets and further strengthened our relations with key trade partners, making for an even more extensive distribution network.

In 2017, we were close to hitting the milestone of welcoming two million passengers annually and are on track to doubling our capacity by 2022. With two new ships which came into service in 2017 and new ships already under construction, we gave our expansion plans new impetus and we are well-positioned to further accelerate our growth.



On 29 November 2017, we took delivery of our first ship built in Italy: MSC Seaside. This milestone was celebrated in the presence of Sergio Mattarella, President of the Italian Republic, Graziano Delrio, Italy's Minister of Infrastructures and Transports as well as representatives of further authorities and other dignitaries.

BRINGING TWO NEW PROTOTYPES TO SEA



MSC Meraviglia

The coming into service of MSC Meraviglia marked an important milestone in the history of our Company. She is the first of 12 new mega-ships which are set to come into service by 2026, and she is the first key achievement in our ambitious growth plan.

At 171,598 GRT and with a capacity to accommodate 5,714 guests, MSC Meraviglia is both the biggest ship ever built by a European ship owner and the biggest cruise ship globally to come into service in 2017. The ship is the first prototype in a new class of ships, named Meraviglia Class. She was built by STX France.

Due to her specific design and optimised dimensions, the ship is capable of docking at virtually any cruise port around the world, expanding the choice of itineraries and destinations for our guests.

The new layout of internal and external areas make it ‘the ship for all seasons’ – and one with an extended upscale MSC Yacht Club area, for guests who seek the ultimate cruise experience with VIP treatment in the luxury of a private yacht.

The diverse entertainment offering caters for all tastes and preferences. The ship features a fun park and a water park, areas offering breath-taking panoramic views, two covered promenades and innovative venues like the Carousel Lounge, where Cirque du Soleil performs its shows – a first at sea.

This next-generation ship features the latest innovations in digital technology. She is fitted with 16,000 points of connectivity, 700 digital access points, 358 informative and interactive screens, and 2,244 cabins with RFID/NFC access technology. She is our first ship to feature MSC for Me, pioneering our holistic digital programme that brings to the sea some of the very latest advances in customer-centric technology, to meet the needs of guests for years to come.

In her first months, MSC Meraviglia received the coveted Cruise Critic Editors’ Pick Award for “Best New Ship – UK”. Specifically, she earned special recognition for her spectacular food, entertainment, service and accommodation.

MSC Meraviglia sailed her inaugural season in the Mediterranean, and will help us consolidate our position as brand leader in Europe.

SHIP NAME	MSC Meraviglia
SHIP CLASS	Meraviglia Class
ENTERED INTO SERVICE	31 May 2017
GROSS TONNAGE	171,598 GRT
NUMBER OF PASSENGERS	5,714
CREW MEMBERS	1,536
NUMBER OF CABINS	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 Meraviglia is the biggest ship ever built by a European ship owner and the biggest cruise ship globally that came into service in 2017.”



MSC Seaside

Fresh off the heels of MSC Meraviglia, we took delivery of MSC Seaside in November 2017. She is the first of a completely new and innovative class of cruise ships and our first ship to be built by Italian shipyard, Fincantieri.

A game-changer in the world of cruises, this first prototype in our Seaside Class was specifically designed to sail in sunny waters. She is the 14th addition to our fleet and the fifth new prototype developed by MSC Cruises. As soon as she entered into service, she started making waves in the industry.

MSC Seaside was inspired by an elegant Miami beach condo and pushes the boundaries of modern cruising with its bold design concept, demonstrating MSC Cruises continued commitment to putting the guest experience front and centre, featuring MSC for Me and a range of technologies.

The ship has a number of distinctive and innovative design features unlike any other cruise ship and every element on board is designed to bring the 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 features, the ship boasts a variety of accommodation with flexible modular cabins for groups of up to ten guests, and luxurious suites with their own outdoor whirlpool bath. MSC Seaside has a wealth of entertainment on board, featuring the most interactive aqua park and the longest zip line currently at sea.

MSC Seaside offers an extensive choice of indoor and outdoor dining venues with a wide range of international restaurants. One of the highlights is the Asian Market Kitchen, headed by the renowned pan-Asian chef, Roy Yamaguchi.

Thanks to her revolutionary architecture and cutting edge technology, MSC Seaside will lead the way for a new generation of cruise ships. She was our first ship in MSC Cruises' fleet to be inaugurated in the United States, and is now sailing in the Caribbean year-round from the Port of Miami.

Merely weeks after MSC Seaside came into service, she received the Cruise Critic Editors' Pick Award of "Best New Ship" in the USA.



2017 was a year of celebrations. MSC Seaside was our first ship ever to be inaugurated in the United States.



MSC Seaside docked in the port of Trieste, Italy prior to her Grand Voyage to her home, Miami and the Caribbean.



A star-studded naming celebration culminated in a fireworks display as MSC Seaside reached her home port in Miami for the very first time at the end of December 2017.

SHIP NAME	MSC Seaside
SHIP CLASS	Seaside Class
ENTERED INTO SERVICE	29 November 2017
GROSS TONNAGE	153,516 GRT
NUMBER OF PASSENGERS	5,119
CREW MEMBERS	1,413
NUMBER OF CABINS	2,066
LENGTH/BEAM/HEIGHT	323.3 m/41 m/72 m
MAXIMUM SPEED	21.3 knots
PERCENTAGE OF OCEAN VIEW/BALCONY CABINS	76%

“Thanks to her revolutionary architecture and cutting edge technology, MSC Seaside will lead the way for a new generation of cruise ships.”

Taking holiday experiences to new heights

TECHNOLOGY



DESTINATIONS



ENTERTAINMENT



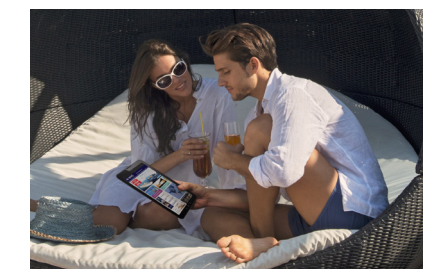
Welcoming guests on board and giving them the possibility of travelling the world in absolute comfort is our main purpose. This is why we are developing our holiday offering with the guest at the centre of it all. Services, products, entertainment, gastronomical experiences and digital experiences are all developed with today's and tomorrow's cruise clientele in mind.

We make sure guests enjoy every single aspect, from pre-embarkation right up to post-disembarkation. To this end, we ensure people and families travelling with us can be 'connected', enjoy world-class entertainment, visit unique destinations where no cruise line has ever been before, experience new dining concepts and so much more. In order to meet the highest standards and provide a consistent experience, we maintain long-term strategic partnerships with the world's best brands and companies.

MSC FOR ME

Since 2014, MSC Cruises has worked on a digital innovation plan for its fleet. After spending the past three years working with over ten of the world's leading digital, tech and behavioural science experts, including Deloitte Digital, Hewlett Packard Enterprise and Samsung, we have masterminded a holistic

digital programme that ensures every step of developing, designing and constructing our ships revolves around our guests. We envision a fleet-wide rollout of our programme called 'MSC for Me', making it the largest all-encompassing programme in the industry. MSC for Me has already been enabled on MSC Meraviglia and MSC Seaside, with MSC Splendida set to follow suit in April 2018.



CIRQUE DU SOLEIL AT SEA

At the end of 2015, MSC Cruises announced a long-term partnership with Cirque du Soleil to set new standards in live entertainment at sea. We built a EUR 20 million Carousel Lounge on board MSC Meraviglia, where Cirque du Soleil's outstanding artists deliver two different and unique shows six nights per week – created exclusively for MSC Cruises. The long-term partnership with Cirque du Soleil will be extended to MSC Meraviglia's three sister ships, due to be launched in 2019 and 2020.



“MSC for Me will be further deployed across the Company's new builds and its key features will be rolled out to all ships comprised in MSC Cruises' existing fleet”

SPEARHEADING NEW CONCEPTS IN FINE DINING

Great food experiences and fine dining have always been a key feature of our overall guest experience.

We take pride in the quality and range of our culinary selection and are globally praised for providing better-quality ingredients, mostly – if not entirely – sourced locally. In 2017 we introduced an even greater choice of dining packages and flexible options that can be booked at any time prior to embarkation as well as whilst on board.



Guests can dine as they want, when they want and in an even wider range of speciality restaurants and international dining experiences, including sushi, Teppanyaki, steakhouse, seafood and many more speciality restaurants.

We have ongoing partnerships with award-winning chefs, including Carlo Cracco, Jean-Philippe Maury, Jereme Leung and Roy Yamaguchi. 2017 also saw us launch MSC MasterChef At Sea, a collaboration with TV production company Endemol Shine Group, to provide guests with a one-of-a-kind, immersive entertainment format around fine cuisine across our fleet.



ENTERTAINING OUR GUESTS



Full-sized bowling alleys, an XD cinema, zip lines, interactive aqua parks, water attractions... every aspect on our ships aims at dazzling our guests. There is never a dull moment on board and we continuously seek to deliver new thrills. A key highlight in 2017 was the inauguration of MSC Meraviglia's impressive Mediterranean-style indoor promenade, Galleria Meraviglia, which features an 80-metre LED sky that creates an awe-inspiring atmosphere 24 hours a day with stunning visuals and effects.



STRATEGIC PARTNERSHIP

We maintain partnerships and agreements with the world's leading brands so guests enjoy an even greater end-to-end holiday experience. MSC Cruises has ongoing strategic partnerships with companies including Technogym (wellness experience), LEGO (playrooms and entertainment for kids), CHICCO (purpose-built areas for infants and babies), Eataly (Italian marketplace and Chef's Table) and many others.

In 2017, we also signed a global agreement with Air France/KLM to offer exclusive services and greater flexibility for holidaymakers booking Fly&Cruise holiday packages.



UNIQUE BEACH DESTINATIONS Ocean Cay (Bahamas)

In January 2017, MSC Cruises broke ground on Ocean Cay MSC Marine Reserve. This milestone marked the official commencement of the works that will turn a former industrial sand extraction site back to its original pristine state. Located south of Bimini in the Bahamas, the island is set to become a natural paradise exclusive to MSC Cruises' guests in November 2019.

The first phase of development of the marine reserve began in 2017 and consisted of clearing the island of existing industrial infrastructure. MSC Cruises is working in partnership with the Government of The Bahamas and environmental experts to turn this former industrial wasteland into a thriving environment for man and nature alike.



POMENE BAY (Mozambique)

Pomene Bay is one of the most beautiful and unspoilt destinations in Mozambique and Southern Africa. Uniquely positioned, this beautiful stretch of coastline offers breath-taking white sandy beaches and crystal clear, blue waters.

This exceptional beach destination offers an unprecedented marine safari experience, complete with its own beach club, the MSC Pomene Safari Beach Club, available exclusively to MSC Cruises' guests sailing from Durban, South Africa.



SIR BANI YAS ISLAND (United Arab Emirates)

Since 2014, MSC Cruises has been working with the Abu Dhabi Ports Authority to perfect the concept and development of Sir Bani Yas Island, a tropical beach oasis on a nearly 2.5-km stretch of land on a natural island just off the southwest coast of Abu Dhabi.



In December 2016 we made our maiden call to Sir Bani Yas Island and are now regularly calling at this destination on our itineraries in the Gulf. Our guests are able to spend a full day on this stunning tropical island paradise, enjoying a relaxing massage or wellness treatment, or making use of the many beach facilities.

“Partnering with world-class and innovative brands helps us deliver unique and rich guests experiences.”

MSC YACHT CLUB:

OUR LUXURY OFFER



Cruise guests seeking outstanding luxury and a truly superior holiday experience can sail in the MSC Yacht Club.

This award-winning high-end travel concept offers guests an unrivalled 'ship within a ship' experience and an incomparable opportunity to discover new levels of luxury.

The MSC Yacht Club – where passengers have their separate section of the ship – was introduced in 2008. Since then, we have added the MSC Yacht Club to all of our new-builds.

On our latest ships, MSC Seaside and MSC Meraviglia, this exclusive-access area has become even more spacious.

Guests can enjoy benefits including superior cabins, inclusive fares, 24/7 butler and concierge service, access to exclusive dining, a private pool, whirlpool baths and solarium facilities, private elevators and priority check-in.

“In the MSC Yacht Club, guests can savour exclusivity and privacy in the luxury of a private club.”

A SIGNIFICANT NUMBER OF KEY ACCOLADES IN EUROPE AND USA

Since 2008, we have received numerous industry and media awards across key regions. Recognition for our product and services is positive and we have seen a significant evolution in past years. These awards are a tribute and further proof of the excellence we pursue across the board.

Key highlights in 2017

 **34**
total awards won globally

In the UK, **MSC Meraviglia** received the accolade of **Best New Ship** in 2017 in the Cruise Critic Editors' Picks

In the US, **MSC Seaside** made waves in 2017 and received the award of **Best New Ship** at the 10th annual Cruise Critic Editor's Picks



194 AWARDS
RECEIVED SINCE 2008

88 in Europe

70 in North America

23 in South America

12 in Asia

1 in Australia

over **50%**
of all awards were won
between 2015-2017

25%
of awards recognized
the strong performance
of our brand in media

26%
of our awards
acknowledged the
superiority of our
product & services

16%
of our awards
were received directly
from trade partners

Industry experts praise us for our **innovation, entertainment** and **family** offering.

Geographic focus and strength



NORTH-AMERICA AND CARIBBEAN

New commitments made to increase year-round deployment.

225 ITINERARIES OFFERED WORLDWIDE

80 COUNTRIES VISITED

1.97 MILLION GUESTS WELCOMED

170 NATIONALITIES WELCOMED ON BOARD

20 NUMBER OF MSC CRUISES SALES OFFICES AROUND THE WORLD

70 COUNTRIES IN WHICH MSC CRUISES HOLIDAYS ARE SOLD



EUROPE AND CARIBBEAN

New tonnage strategically deployed to strengthen the Company's position in key areas of focus.

Plans made to further expand our offering in Europe and strategically position tonnage for greater flexibility in coming seasons

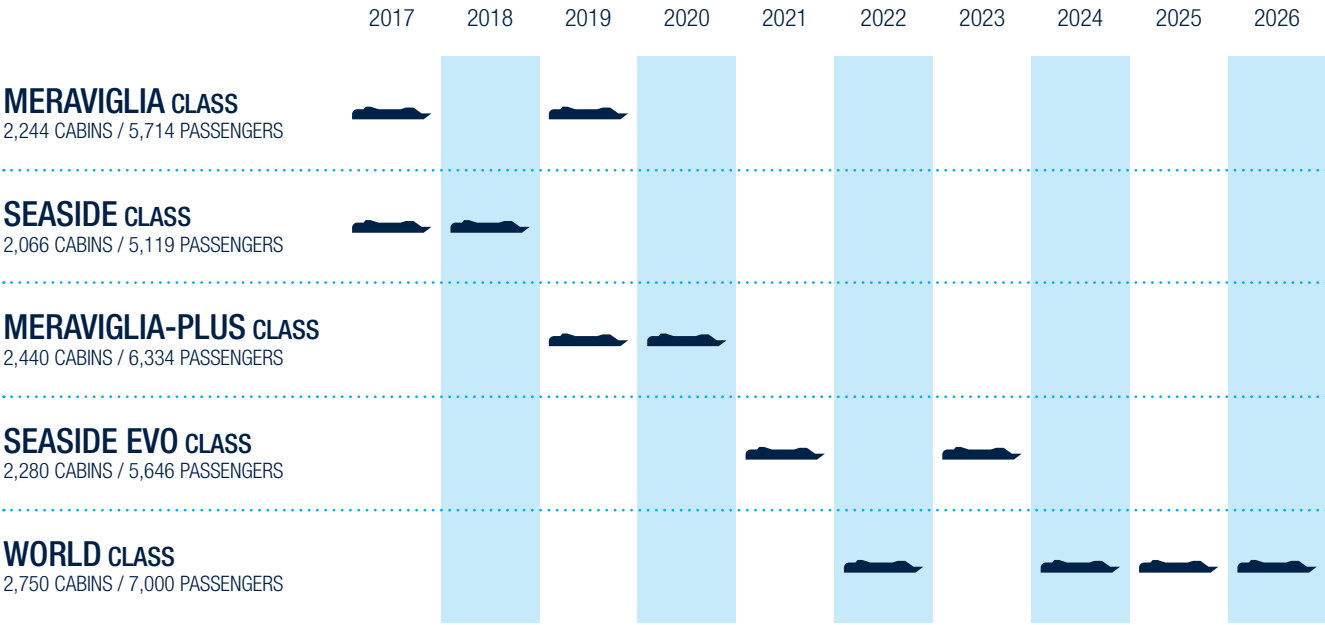
SOUTH AFRICA

Consolidated market position and commitments made to deploy greater tonnage.

ASIA

The global redeployment of our fleet has allowed us to allocate greater and newer tonnage in China and Asia.

FURTHER FLEET EXPANSION



Back in 2014, MSC Cruises launched an investment plan that was unprecedented in the industry with a horizon of more than 10 years to support the second phase of growth. Throughout the subsequent years, this investment plan was gradually raised to reach EUR 10.5 billion in November 2017 and covered the construction of 12 next-generation mega-cruise ships in total – two of which already came into service in the course of 2017. With an expansion plan of 10 ships, MSC Cruises is currently the cruise line with the highest number of cruise ships on order worldwide.

2017 saw us enter the accelerated part of our growth plan with two new prototypes entering into service: MSC Meraviglia and MSC Seaside. These milestones marked just the beginning of MSC Cruises' further fleet expansion.

In May 2017, we signed a letter of intent with STX France, for the construction of two 200,000 GRT, LNG-powered mega cruise ships, with options for two additional vessels. The four ships will become MSC Cruises' World Class. The signing took place in the presence of Emmanuel Macron, President of the French Republic, and Bruno Le Maire, Minister of the Economy.

Merely six months later, this time in the presence of Sergio Mattarella, President of the Italian Republic, we also signed new firm orders with Fincantieri for the construction of two Seaside EVO ships, a further evolution of the Seaside Class prototype. The first Seaside EVO ship will come into service in 2021 – replacing the option agreement we initially made for a third Seaside Class ship – and will be joined by a second Seaside EVO ship set to come into service by 2023.

While the aforementioned plans provide a look at our long-term strategy, 2017 also saw us celebrate key milestones for our three ships under construction, due to come into service in the near future:

- Only six months after MSC Seaside come into service, her sister ship MSC Seaview, the second of our Seaside Class, is set to join our operational fleet in June 2018. We celebrated her float-out in August 2017 and she will sail her inaugural 2018 summer season in the Mediterranean, and will then follow the sun to Brazil and the southern hemisphere for the winter 2018-2019 season. She will be our third ship to come into service under our investment plan.
- In November 2017, we celebrated the keel laying of MSC Bellissima, our second Meraviglia Class ship which is set to come into service in March 2019. She will sail her inaugural season in the Mediterranean and will be a strategic asset in reinforcing our position in key regions. She will also bring Cirque du Soleil at Sea to our guests and will feature the latest innovations, both in guest-centric and maritime technology. Sales for MSC Bellissima were opened earlier in May 2017 and bookings have been coming in steadily.
- In conjunction with MSC Bellissima's keel laying in November 2017, we cut first steel of MSC Grandiosa, our first Meraviglia-Plus ship. The Meraviglia-Plus ships are a further evolution of the Meraviglia Class and will add considerable passenger capacity to our fleet. At 181,000 GRT, they measure 331 metres in length and can welcome up to 6,334 guests. This extended version of our highly successful Meraviglia Class prototype, is further proof of the engineering capabilities of the partnership between STX France and MSC Cruises.

“With an order book of 10 ships, MSC Cruises is currently the cruise line with the highest number of cruise ships on order worldwide.”

A sneak preview of our ships under construction in 2017

MSC SEAVIEW

MSC Seaview is the second of two identical Seaside class ships. She will feature the same beautiful beach condo concept and will also bring guests closer to the sea thanks to special design elements that make the most of the warmer weather. MSC Seaview is set to spend her inaugural summer season in the balmy western Mediterranean, where the expertise of MSC Cruises remains unparalleled. MSC Seaview will call at three historic Mediterranean homeports: Genoa, Marseille and Barcelona. She will also call at other popular Mediterranean destinations including Naples, Messina and Valletta, enabling guests to benefit from a wide range of shore activities designed to let them discover each new destination.



MSC Seaview in contact with water for the first time at her float-out ceremony.



In August 2017, MSC Seaview was already in an advanced stage of construction.

SHIP NAME	MSC Seaview
SHIP CLASS	Seaside-Class
COMING INTO SERVICE	June 2018
GROSS TONNAGE	153,516 GRT
NUMBER OF PASSENGERS	5,119
CREW MEMBERS	1,413
NUMBER OF CABINS	2,066
LENGTH/BEAM/HEIGHT	323.3 m/41 m/72 m
MAXIMUM SPEED	21.3 knots
PERCENTAGE OF OCEAN VIEW/BALCONY CABINS	76%

MSC BELLISSIMA

MSC Bellissima is the second of two identical Meraviglia Class ships. Due to her innovative design and dimensions, she will be capable of docking at virtually any cruise port around the world, expanding the choice of itineraries and destinations for our guests. The new layout of internal and external areas make it a ship for all seasons – and one with an extended luxury MSC Yacht Club area. The ship will boast some unique features, including the latest in digital technology to ensure guests' needs can be met for years to come. The entertainment areas have been multiplied, making sure that every taste is catered for. Options include a fun park and a water park, areas offering breathtaking panoramic views, two covered promenades and innovative venues like the Carousel Lounge, a multi-purpose karaoke bar, a comedy club as well as a TV studio with a bar.



Part of the keel of MSC Bellissima being laid in November 2017.



Two commemorative coins were placed into one of MSC Bellissima's ship blocks as a way of blessing her and ensuring good fortune for the ship and her crew.

SHIP NAME	MSC Bellissima
SHIP CLASS	Meraviglia-Class
COMING INTO SERVICE	March 2019
GROSS TONNAGE	171,598 GRT
NUMBER OF PASSENGERS	5,714
CREW MEMBERS	1,536
NUMBER OF CABINS	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 the first Meraviglia-Plus ship, an extended version of the Meraviglia Class, and is designed to ensure an even greater guest experience. MSC Grandiosa signifies magnificence and grandeur, a fitting name for this even more richly appointed, ultra-modern mega-ship. MSC Grandiosa also constitutes a continuation of innovative product development and is set to feature a range of novelties including the very first fine art museum at sea.



Giving the command to start cutting the first steel of MSC Grandiosa.



Pierfrancesco Vago, MSC Cruises' Executive Chairman and Laurent Castaigne, STX France's CEO at the steel cutting ceremony in November 2017.

SHIP NAME	MSC Grandiosa
SHIP CLASS	Meraviglia-Plus Class
COMING INTO SERVICE	November 2019
GROSS TONNAGE	181,000 GRT
NUMBER OF PASSENGERS	6,334
CREW MEMBERS	1,704
NUMBER OF CABINS	2,440
LENGTH/BEAM/HEIGHT	331 m/-m/-m
MAXIMUM SPEED	22.3 knots
PERCENTAGE OF OCEAN VIEW/BALCONY CABINS	TBC

SIX PROTOTYPES: PUSHING THE BOUNDARIES OF SHIP DESIGN

MSC Cruises invested EUR 6 billion between 2003 and 2013 to build 12 modern cruise ships across three classes: Lirica Class, Musica Class and Fantasia Class. Following the coming into service of MSC Meraviglia and MSC Seaside in 2017, the Company is now investing another EUR 9.1 billion to build another 10 next-generation ships. In 2017, the average age of our fleet weighted by Available Lower Berth Days, was 7.7 years – one of the youngest fleets at sea.



NAVIGATING A SUSTAINABLE COURSE



MSC Cruises is the offspring of a family who has been exploring the seas for over 300 years and since day one, the sea has always been our home. The world's oceans create sustainable livelihoods and decent work, and we are committed to preserving this precious resource and protecting the people who sail them. We feel a deep responsibility to our guests, the people who work with us, the cities we call at and the communities we visit.

MEETING HIGH INTERNATIONAL STANDARDS

As a starting point, our fleet and operations meet important international standards and have earned various international certifications: ISO 50001 for energy performance and management; ISO 14001 for environmental management; OHSAS 18001 for health and safety management; ISO 9001:2008 for quality management and compliance with regulatory requirements.

In addition, we are committed to reaching and exceeding the increasingly high industry and regulatory standards in various domains of operational and environmental management.

OUR GOAL: CLEANER SHIP EXHAUST

In order to greatly limit sulphur and other emissions in ports and in specific operating areas, as well as to meet our own environmental objectives, MSC Cruises is taking various measures – in terms of both emissions and fuel. These efforts aim at significantly reducing NOx, particulate matter and SOx emissions as well as meeting or exceeding IMO standards.

We are making continuous progress to equip all our new ships with Exhaust Gas Cleaning Systems (EGCS), and are also retrofitting our existing fleet with this same technology to meet strict SOx control standards.

At the end of 2017, 42% of our fleet was equipped with such a system, and by October 2018, this number will increase to 50%.

The number of ECGS will further increase in the years to come. ECGS ionically and mechanically 'washes' exhaust fumes, removing up to 97% of the sulphur dioxide, greatly reducing particulate matter.

In addition, we are using low sulphur fuels in sensitive locations like Venice, the Norwegian Heritage Fjords and other locations. To help reduce in-port emissions, our latest classes of ships are also designed for shore-to-ship power supply.

HOW ON-BOARD WASTE MANAGEMENT FACILITIES MAY MAKE CERTAIN CITIES GREEN WITH ENVY

Throughout the years, we have taken voluntary steps to equip our ships with state-of-the-art waste management and recycling facilities on board. Efficient waste management is a key area of focus. We manage our wastes in accordance with CLIA's sound environmental principles and to comply with all regulatory MARPOL requirements to prevent marine pollution. We continually strive to seek improved waste management practices and focus our efforts on recycling too.

All organic wastes, as well as recyclable disposable items including plastics, metals, paper and glass, are collected and separated by specially trained Waste Handling and Recycling crew members. Waste is compacted, segregated or incinerated, and residual waste is carefully delivered to dedicated port facilities.

Waste management practices are a key area of focus in our crew members' training programmes and they receive ongoing training to make sure they remain abreast of the highest standards.

“We feel a deep responsibility to our guests, the people who work with us, the cities we call at and the communities we visit.”

WASTEWATER DISCHARGES: NEAR TAP WATER QUALITY

In 2008, when launching our Fantasia Class of 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. Through our systems, hazardous substances and pollutants are filtered out and digested by bacteria and biological processes and the remaining purified wastewater is disinfected by UV processing rather than chlorine or other chemicals to avoid causing harm to marine life. We monitor key indicators to ensure any remaining bacteria levels, such as faecal coliform, are favourable before discharge.

Liquid waste that may be hazardous to the environment such as cooking oil, oily water, machinery lubricants and cleaning products are never and under no circumstances discharged into the sea, but are carefully offloaded ashore by authorised companies.

MSC MERAVIGLIA PRODUCES 1,000L OF DRINKABLE WATER PER DAY

As potable water is such a precious resource at sea, we have implemented a range of technical measures to minimise water consumption on board. Among a range of measures, our low water consumption vacuum toilets consume considerably less water than traditional toilets, and water taps in public spaces are fitted with flow limiters.

In addition, our latest ships are equipped with water production and distillation units to produce fresh water from the sea. Using a process of reverse osmosis, MSC Meraviglia is capable of producing 1,000L of drinkable water per day.

OUR SHIPS FEATURE VARIOUS ENERGY-SAVING TECHNOLOGIES

Propeller and "azipod" (an electric podded azimuth thruster) design, overall hull design, weight distribution and anti-fouling paints significantly reduce drag and make for optimised hydrodynamics. MSC Meraviglia is 20% larger than our latest Fantasia class of ships (already



among the most sustainable cruise ships in the world), and yet she uses a similar amount of fuel.

Thanks, various energy-saving measures contribute to significantly increased energy efficiency. Thanks to on-board LED lighting, high-efficiency appliances and a range of measures, our ships are designed to use less fuel and energy.

Environmental stewardship is an ongoing journey for us and we are already investing in technology to further ready our ships for the future: our upcoming World Class of ships will be powered by LNG and we intend to equip our EVO class with SCR.

IN 2017, 2,750 MINT-CONDITION MATTRESSES WERE DONATED TO CHARITIES

MSC Cruises wholeheartedly embraces the principle of recycling and circularity and has ongoing commitments with charitable organisations to donate high-value write-offs and recyclable waste.

In 2017, we donated 2,750 mattresses, 4,835 bath towels, 464 bed covers and thousands of other useful items, all in impeccable condition, to organisations including the Red Cross and the Salvation Army in Miami. The latter also received a significant quantity of recyclable waste including 1.5 tonnes of plastic bottle taps, 293 cubic metres of cardboard and paper as well as 73 tonnes of recyclable aluminium, for which it receives valuable revenues.

MSC Cruises has been a proud partner of UNICEF since 2009. By the end of 2017, we had raised more than EUR 7.7 million for UNICEF thanks to the generous donations of our guests. The funds raised are used to provide support to malnourished children in Ethiopia, South Sudan, Somalia and Malawi.

More recently, in December 2017, MSC Group launched a new partnership with the Andrea Bocelli Foundation (ABF), to support some of the most disadvantaged communities in Haiti, one of the poorest countries in the world. MSC Group will support ABF's Health and Educational Projects in Haiti, collecting funds on board MSC Seaside.



WE CARE ABOUT OUR DESTINATIONS AND THEIR LOCAL COMMUNITIES

In attractive destinations such as Dubrovnik, MSC Cruises has been instrumental in supporting the local government to alleviate dense tourist traffic. To this end, we are actively supporting the 'Respect the City' campaign by not only proactively altering ship arrival times, but also better sequencing shore excursions to improve visitor flows.

When disaster hits, MSC Cruises and its sister companies are on hand to provide support. In the aftermath of the hurricanes in the Caribbean, the MSC Group made significant contributions to a worldwide effort to support the Caribbean communities and islands most affected by Hurricane Irma. Through its vast network, MSC Cruises and other companies in the MSC Group has engaged in an ongoing comprehensive effort to provide meaningful assistance to Caribbean islands in need, including Puerto Rico, St. Maarten, Tortola and Dominica. MSC Cruises, along with other players in the cruise industry,

has supported local governments in their efforts to restore normality and rebuild the damaged infrastructures on affected islands. In a joint effort with the MSC Group, we purchased and shipped multiple containers of needed goods, such as tonnes of water, food, building materials, personal supplies, lighting, mattresses, containers for shelter and medical supplies. A semi-permanent school structure for the British Virgin Islands was purchased, shipped and delivered to the affected area.



“By the end of 2017, we had raised EUR 7.7 million for UNICEF thanks to the generous contributions of our guests.”

“Environmental stewardship is an ongoing journey for us and we are already investing in technology to further ready our ships for the future.”

MSC Group

Headquartered in Geneva, Switzerland, the MSC Group is a global business engaged in the transportation and logistics sector. The Group encompasses a cargo division, MSC Mediterranean Shipping Company SA, a Terminal Division, Terminal Investment Limited (TIL), a Logistics Division (MEDLOG) and a Passenger Division which consists of MSC Cruises and ferry companies Grandi Navi Veloce (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. As containerisation took place as the globalisation of the world economy evolved, MSC grew to become a leader in global container shipping.

Alongside the success of the container shipping division, the Aponte family sought to diversify the Group into cruises, appointing Pierfrancesco Vago to launch a highly successful and global cruise company, terminal investments and passenger ferries. Today the group employs more than 70,000 employees around the globe.



MSC CRUISES



- › The world's largest privately-owned cruise company
- › 14 modern and technologically advanced ships
- › 800% growth rate in first 10 years of operation
- › 1.97 million guests welcomed in 2017
- › 23,776 employees on board and ashore
- › Capacity to double by 2021 and nearly triple by 2026

FERRIES



- GNV**
- › 13 ferry ships
 - › Calling at 14 prime destinations across 17 major routes
 - › Established in 1992

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

MSC MEDITERRANEAN SHIPPING COMPANY



- › The No. 2 largest container cargo business worldwide
- › 480 offices around the globe
- › 47,000 staff
- › Operations in 155 countries, covering all 5 continents
- › 490 vessels with a total intake capacity of 3.1 million TEU
- › Calling at 500 ports on 200 trade routes
- › 18 million TEU carried annually

TIL TERMINAL INVESTMENT LIMITED



- › The No. 6 among terminal portfolio companies worldwide
- › Investments in 51 container terminals
- › More than 27 million movements per year
- › Active in 28 countries in all 5 continents
- › Represented at 7 of the world's 25 busiest ports

MEDLOG TRANSPORT AND LOGISTICS



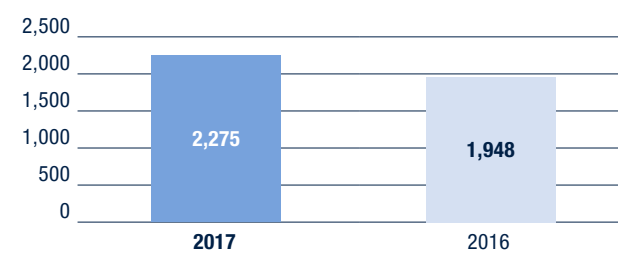
- › Represented in more than 50 countries
- › 5,000 trucks
- › 10,000 trailers
- › 4,000 rail carriages
- › 68 locomotives
- › 18 barges

BUSINESS REPORT

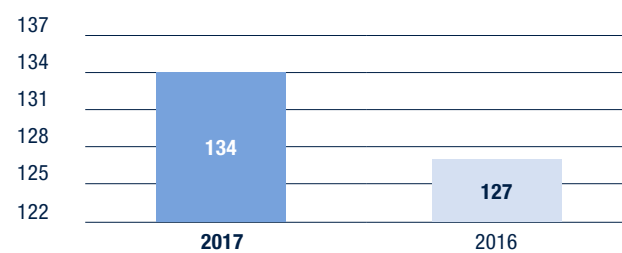
FINANCIAL HIGHLIGHTS

in MEUR	For the years ended December 31,	
	2017	2016
Total revenues	2,275	1,948
Operating profit	367	299
Net profit	311	338

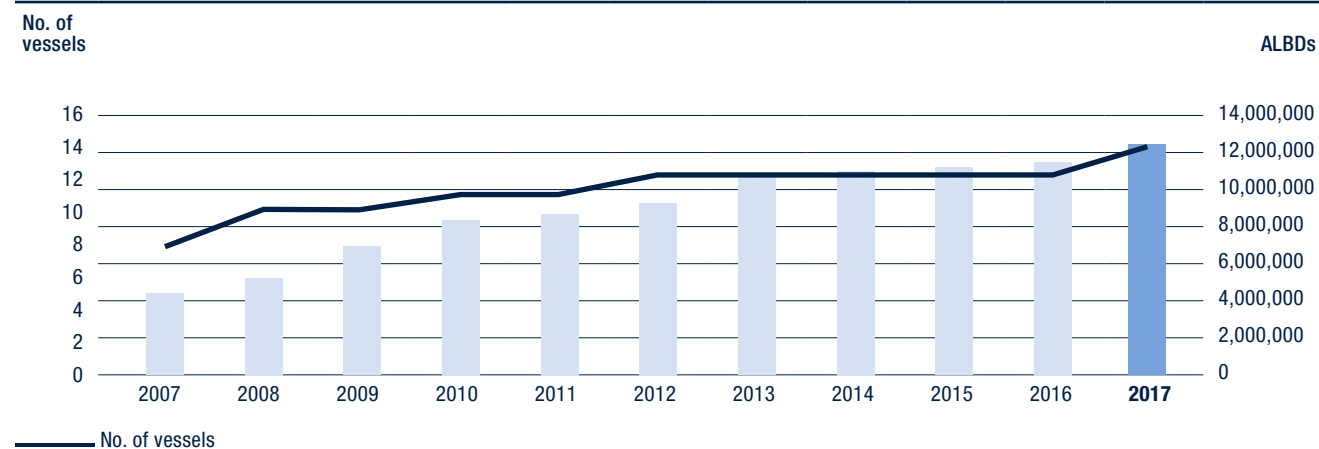
TOTAL REVENUES - in MEUR



NET REVENUES YIELD - in EUR

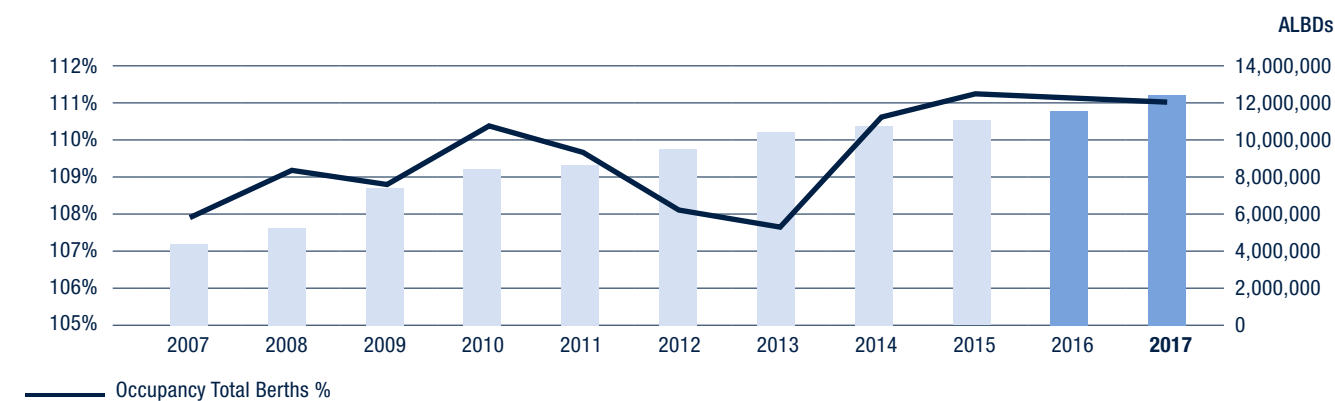


CAPACITY (ALBDs*)

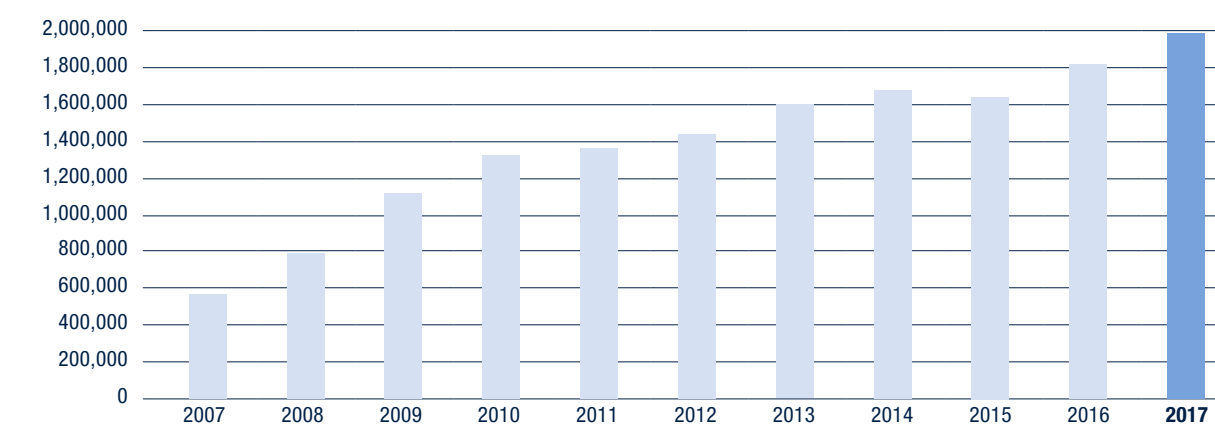


* ALBDs (Available Lower Berth Days) is a standard measure of passenger capacity for the period, which the Group uses to perform rate and capacity variance analyses to determine the main non-capacity-driven factors that cause cruise revenues and expenses to vary. ALBDs assumes that each cabin the Group 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

2017 was a pivotal year for MSC Cruises as it marked the foundation for our ambitious growth plan, unprecedented in the industry. It was a year in which we consistently delivered our targets and in which our strategic trajectory exceeded expectations. Our recent deliveries, MSC Meraviglia in May 2017 and MSC Seaside in November 2017, which are part of our ten-year, new-build investment plan, have set new standards in the cruise ship sector. 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 spearheaded our expansion in North America. Our presence is 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 started building our innovation programme, investing in the latest technology at the service of hospitality. 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. While our ship construction was at an all-time high, we also made significant progress in destination investments and we continue to look strategically at port infrastructure investments. We achieved strong performance, generating a net profit of EUR 311 million and we confirmed our fourth consecutive year of double-digit growth in operating profit.

Our strong achievements are a credit to the passionate and dedicated commitment of our 23,776 shore and ship-side team members, which are at the centre of our successful journey.

Unprecedented growth on a sound financial basis

Our first phase of expansion, which ran from 2003 to 2013, produced twelve innovative cruise ships, letting us emerge as Europe's number one cruise line. Then, following four years of preparation – a time in which we laid the ground for further growth – a new expansion phase has now taken shape. Following our recent order for two Seaside “EVO” vessels, we are in line to build another twelve cruise ships in nine years, from 2017 to 2026, tripling our passenger capacity and targeting to be the third cruise player in the industry by the year 2021. This incredible industrial plan is already fully backed by ECA financing for the ships to be delivered by 2020 and will progress at full speed in 2018 for the four ships to be delivered from 2021 to 2024.

Our consistent financial performance over the last years coupled with a strong and solid vision for the future, allowed us to strengthen our position in the Swiss Capital market by issuing our second CHF Bond for a value of CHF 335 million, at a 3% coupon. In slightly more than 6 months from the first CHF bond issue, we marked another record transaction in the Swiss market and further secured our growth.

Our strategy to anticipate reservation of yard construction slots is fully consistent with our priority to ensure financial discipline at all times.

BASIS OF PREPARATION AND FINANCIAL MEASUREMENTS

Revenues from our cruise and cruise-related activities are recognised as “passenger ticket revenues” and “onboard 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 on-board entertainment, and include revenues for service charges and 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 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 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, 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 2017, we operated fourteen ships as the Company took delivery of two next-generation mega cruise ships: MSC Meraviglia in May 2017 and MSC Seaside in November 2017.

Our overall capacity increased by 8.3%, from 11.4 million to 12.4 million Available Lower Berth Days, as a result of the deliveries of MSC Meraviglia and MSC Seaside during 2017.

In 2017, we were close to hitting the milestone of welcoming 2 million passengers, an increase of 9.0% compared to the previous year. Our ship occupancy achieved 111.0% remaining in line with the year before.

Total revenues increased by 16.8% to EUR 2,275 million from EUR 1,948 million. Operating profit increased by 22.7% to EUR 367 million from EUR 299 million. Net profit decreased by 8.0% to EUR 311 million from EUR 338 million, mainly driven by differential impact of the French corporate tax rate from 2016 to 2017. Net Revenues Yield resulted in an increase of 5.5% to EUR 134 from EUR 127. Net Cruise Costs excluding Fuel Yield increased by 2.7% to EUR 76 from EUR 74. Fuel consumptions per Available Lower Berth Days decreased by 2.5% to 37.7 Kg from 38.7 Kg.

Total assets increased by 23.2% to EUR 6,824 million from EUR 5,538 million. Financial debt increased by 30.2% to EUR 3,977million from EUR 3,054 million. Total equity increased by 25.0% to EUR 1,731 million from EUR 1,385 million. Our balance sheet continues to strengthen, supporting our ambitious growth plan.

The following table presents selected statistical information:

	For the years ended December 31,	
	2017	2016
No. of vessels	14	12
Operating days	4,515	4,319
Available Lower Berth days (ALBDs)	12,357,222	11,414,872
Total passengers carried	1,979,904	1,816,156
% Occupancy Total Berths	111.0%	111.2%
Fuel Consumption per ALBDs (kg)	37.7	38.7

	For the years ended December 31,	
in MEUR EXCEPT YIELD*	2017	2016
Total revenues	2,275	1,948
Operating profit	367	299
Net profit	311	338
Net revenues Yield	134	127
Net cruise costs excluding fuel Yield	(76)	(74)
Total assets	6,824	5,538
Financial debt	3,977	3,054
Total equity	1,731	1,385

*Certain comparative figures have been affected by a reclassification of passenger taxes from "Other operating expenses" to "Commissions, transportations and other expenses" to conform with the Financial Statements' presentation adopted in 2016.

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

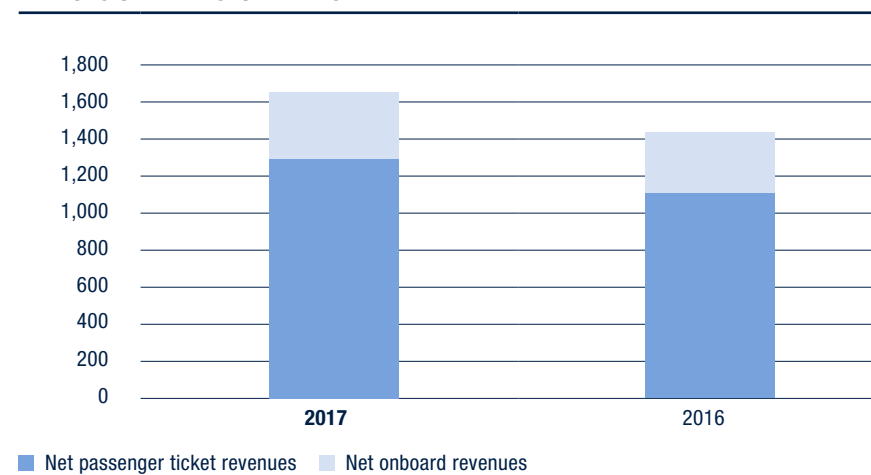
	For the years ended December 31,	
in %	2017	2016
Passenger ticket revenues	75.6	75.5
Onboard revenues	24.4	24.5
Gross cruise revenues	100.0	100.0
Commissions,transportations and others expenses	(18.2)	(17.0)
Onboard and others expenses	(8.3)	(8.2)
Crew payroll and related expenses	(12.9)	(13.8)
Fuel expenses	(7.1)	(6.9)
Food expenses	(4.3)	(4.4)
Other operating expenses	(12.0)	(13.0)
Selling, general and administrative expenses	(12.4)	(12.4)
Depreciation and amortisation	(8.6)	(8.9)
Operating profit	16.2	15.4
Interest expenses	(4.6)	(4.4)
Other income	0.7	3.4
Gain on derivatives	0.6	0.3
Profit before tax	12.9	14.7
Income taxes	0.8	2.8
Net profit	13.7	17.5

The following table shows our operational revenues and costs details:

	For the years ended December 31,	
in MEUR EXCEPT ALBDs AND YIELD*	2017	2016
Passenger ticket revenues	1,706	1,458
Onboard revenues	551	474
Gross cruise revenues	2,257	1,932
Less cruise costs		
Commissions, transportations and others expenses	(410)	(329)
Onboard and others expenses	(187)	(158)
Net passenger ticket revenues	1,296	1,129
Net onboard revenues	364	316
Net cruise revenues	1,660	1,445
ALBDs	12,357,222	11,414,872
Gross cruise revenues Yield	183	169
Net cruise revenues Yield	134	127
Net passenger ticket revenues Yield	105	99
Net onboard revenues Yield	29	28
Cruise operating expenses	(1,416)	(1,223)
Cruise selling, general and administrative expenses	(281)	(239)
Gross cruise costs	(1,697)	(1,462)
Less cruise costs included in net cruise revenues		
Commissions, transportations and others expenses	(410)	(329)
Onboard and others expenses	(187)	(158)
Net cruise costs	(1,100)	(975)
Fuel expenses	(160)	(134)
Net cruise costs excluding fuel expenses	(940)	(841)
ALBDs	12,357,222	11,414,872
Gross cruise costs Yield	(137)	(128)
Net cruise costs Yield	(89)	(85)
Net cruise costs excluding fuel expenses Yield	(76)	(74)

*Certain comparative figures have been affected by a reclassification of passenger taxes from "Other operating expenses" to "Commissions, transportations and other expenses" to conform with the Financial Statements' presentation adopted in 2016.

NET CRUISE REVENUES - in MEUR



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, 2017

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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 2017 and 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 43 to 105) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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.



Revenue recognition

Key Audit Matter

In 2017, the Group has revenue from passenger tickets amounting to EUR 1.706 million, and on board revenue amounting to EUR 552 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.

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

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.



values of the ships as well as their future performance.

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

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

- Note 5, Summary of significant accounting policies: Property, plant and equipment, Impairment
- Note 5, Summary of significant accounting policies: Use of 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; sections "Long-term receivables from related parties" and "Credit risks"
- Note 25, 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.



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.



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, 29 March 2018

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

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PRIMARY STATEMENTS

December 31, 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in KEUR	Notes	For the years ended December 31,	
		2017	2016
Passenger tickets		1,705,832	1,457,871
Onboard revenues		551,560	473,654
Other revenues		17,144	16,026
Total revenues		2,274,536	1,947,551
Commission, transportation and other expenses		(410,070)	(328,926)
Onboard and other expenses		(187,098)	(158,246)
Fuel expenses		(160,121)	(133,688)
Crew payroll and related expenses	6	(291,762)	(266,629)
Food expenses		(96,163)	(84,831)
Other operating expenses		(288,679)	(266,619)
Selling, general and administrative expenses		(280,604)	(239,251)
Share of profit of joint ventures	14	538	207
Depreciation and amortisation	12,13	(193,728)	(171,027)
Total operating expenses		(1,907,687)	(1,649,010)
Operating profit		366,849	298,451
Interest income		2,596	3,745
Interest expenses		(106,389)	(88,323)
Foreign exchange gain on non-operating items		11,080	1,514
Gain on derivatives	20	14,199	5,974
Other financial items		5,484	63,339
Total non-operating expenses		(73,030)	(13,751)
Profit before tax		293,819	284,790
Income taxes	7	17,304	53,236
Net profit		311,123	338,026
of which attributable to owners of the parent		311,016	337,930
of which attributable to non-controlling interests		107	96
Remeasurements of defined benefit obligations	6	(336)	125
Income tax effect	7	45	(25)
Total items that will never be reclassified to profit or loss		(291)	100
Cash flow hedges	20	34,010	33,000
Currency translation difference		1,140	(2,390)
Total items that may be reclassified to profit or loss		35,150	30,610
Other comprehensive income for the year		34,859	30,710
Total comprehensive income for the year:		345,982	368,736
of which attributable to owners of the parent		345,890	368,629
of which attributable to non-controlling interests		92	107

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in KEUR	Notes	At December 31,	
		2017	2016
Goodwill and other intangible assets	13	29,244	15,838
Property, plant and equipment	12	5,767,605	4,634,177
Investments in joint ventures	14	10,670	10,120
Other non-current assets	15	63,778	54,096
Derivatives on fuel price and interest rate	20	12,739	14,083
Long-term receivables from related parties	20,25	180,740	201,554
Deferred tax assets	7	4,923	4,306
Total non-current assets		6,069,699	4,394,174
Inventories	10	111,233	84,195
Trade and other receivables	9	179,082	131,603
Current income tax		2,445	3,980
Prepaid expenses and other current assets	11	89,498	62,879
Derivatives on fuel price	20	27,591	835
Cash and cash equivalents	8	344,613	320,329
Total current assets		754,462	603,821
Total assets		6,824,161	5,537,995
Share capital	24	159	159
Retained earnings and reserves		1,751,354	1,385,464
Equity attributable to owners of the parent		1,731,513	1,385,623
Non-controlling interests		(35)	(127)
Total equity		1,731,478	1,385,496
Long-term financial debt	20	3,653,721	2,775,976
Non-current provisions	18	23,407	19,965
Employee benefits	6	11,044	9,187
Deferred tax liabilities	7	269,430	305,564
Derivatives on interests rates	20	51,270	74,504
Other non-current liabilities		33,285	26,359
Total non-current liabilities		4,042,157	3,211,555
Customer deposits and time charter advances	17	398,699	301,986
Bank overdrafts and short-term borrowings		5,820	51,143
Current portion of long-term financial debt	20	323,212	277,922
Employee payables		31,922	27,744
Trade and other payables	16	282,886	263,146
Current income tax payable		2,301	14,646
Derivatives on fuel price and interest rate	20	442	7
Current provisions	18	5,244	4,350
Total current liabilities		1,050,526	940,944
Total liabilities		5,092,683	4,152,499
Total liabilities and equity		6,824,161	5,537,995

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Retained earnings	Hedging reserve ⁽¹⁾	Cumulative losses on defined benefit plans	Currency translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
in KEUR									
Balance at December 31, 2015		159	1,049,165	(35,065)	(2,895)	5,630	1,016,994	(234)	1,016,760
Profit for the year		-	337,930	-	-	-	337,930	96	338,026
Other comprehensive income/(loss) for the year		-	-	33,000	100	(2,401)	30,699	11	30,710
Total comprehensive income/(loss) for the year		-	337,930	33,000	100	(2,401)	368,629	107	368,736
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		-	-	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	24	159	1,698,111	31,945	(3,086)	4,384	1,731,513	(35)	1,731,478

⁽¹⁾ 2017 additions comprised EUR 25,356 thousand (EUR 49,822 thousands in 2016) related to derivatives on fuel price and EUR 8,654 thousand (negative EUR 16,822 thousand in 2016) related to derivatives on interest rates (refer to Note 20).

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the years ended December 31,	
	Notes	2017	2016
in KEUR		311,123	338,027
Total net profit for the year			
Adjustments for:			
Impairment losses on trade receivables and inventories	9, 10	3,149	581
Depreciation of property, plant and equipment	12	185,735	165,800
Amortisation of intangibles	13	7,993	5,227
Income taxes	7	(17,304)	(53,236)
Share of profit in joint ventures	14	(538)	(207)
Gain on derivatives		(14,199)	(5,974)
Interest income		(2,596)	(3,745)
Interest expenses		106,389	88,323
Foreign exchange gain		(12,765)	(5,434)
Other non-cash items included in the profit		(5,484)	(63,339)
Other financial income		(284)	7,389
Cash flow from operations before working capital changes		561,219	473,412
Change in trade and other receivable, net of allowance		(50,093)	(20,110)
Change in inventories, net of allowances for obsolete inventories		(27,969)	(9,439)
Change in prepaid expenses and other current assets		(26,619)	(11,038)
Change in trade and other payables		28,881	13,428
Change in customer deposits and time charter advances		96,713	62,455
Change in employee payables		4,178	2,911
Change in provisions		(14)	(178)
Change in employee benefits		397	299
Change in other non-current liabilities		3,154	200
Cash generated from operating activities		589,847	511,940
Interest received		1,124	458
Income taxes paid		(30,026)	(11,321)
Net cash flow from operating activities before unwinding		560,945	501,077
Net cash flow from unwinding	3	-	150,351
Net cash flow from operating activities		560,945	651,428
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	(1,299,095)	(520,396)
Acquisition of intangible assets	13	(12,686)	(8,681)
Investments in joint ventures		-	(7,725)
Change in other non-current assets		(8,990)	(12,583)
Increase/(decrease) in long-term receivables from related parties		878	(98,361)
Dividends from joint ventures	14	-	412
Net cash used in investing activities		(1,319,893)	(647,334)
Cash flows from financing activities			
Proceeds from financial debt		1,222,792	544,591
Repayment of financial debt		(311,605)	(298,595)
Bank overdrafts and short-term borrowings		(47,567)	(29,219)
Interest paid		(63,464)	(84,547)
Net cash from financing activities		800,156	132,230
Effect of exchange rate movements on cash and cash equivalents		(16,924)	1,299
Net change in cash and cash equivalents		24,284	137,623
Cash and cash equivalents beginning of year		320,329	182,706
Cash and cash equivalents end of year		344,613	320,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

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. It is a market leader in the Mediterranean, South America and South Africa, and offers a wide range of seasonal itineraries.

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 – 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, is both the biggest ship ever built by a European ship owner and the largest cruise ship globally to come into service in 2017. The ship is the first prototype of a new class of ships, named the Meraviglia Class and was built by STX France.

MSC Seaside is 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. This ship with 76% of the cabins positioned on the outside of the ship offers one of the highest sea-view cabin ratios at sea.

The Group expects to introduce up to ten ships by the end of 2026. Specifically, the Group plans to introduce six additional ships by 2023, and has a letter of intent to build up to four additional ships of which two are to be delivered in 2022 and 2024, and two options for delivery in 2025 and 2026.

The Group operates fourteen ships of five different ship-classes with a capacity of approximately 12.4 million Available Lower Berth Days¹ calling at 191 ports worldwide. The Group plans to introduce six additional ships by 2023, and has a letter of intent to build up to four additional ships of which two to be delivered in 2022 and 2024 and two options for delivery in 2025 and 2026.

Of the expected ten ships, seven are being or will be built by STX France and the remaining three by Fincantieri (refer to Note 21. Future Capital Commitments).

Seaside-Evo Class

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 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 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.

World Class ships are based on an advanced over 200,000 Gross Register Tonnage (GRT), Liquefied Natural Gas-powered (LNG) next-generation prototype. They will feature more than 2,700 cabins and a capacity of approximately 5,400 lower berths.

Reduction of the corporate income tax rate in France

On December 21, 2017 the French parliament adopted the 2018 Finance Bill (“Loi de finances 2018”). The French corporate income tax rate is set to decrease from 28.92% to 25.83% from 2018 to 2022. The 2018 Finance Bill replaced the 2017 Finance Bill which had already decreased the French corporate income tax rate from 34.43% to 28.92%.

The reductions in the corporate income tax rate in France led to a re-measurement of the deferred tax liabilities assumed in the unwinding related to MSC Fantasia and MSC Splendida (refer to Significant events - 2016) resulting in a gain of EUR 21.5 million (EUR 50.6 million in 2016) included within *Income taxes* in the Group's consolidated statement of comprehensive income.

The reductions in the French tax rate also resulted in a decrease in the finance lease obligations related to the financing of MSC Musica and MSC Orchestra (refer to Note 20. Financial Instruments and risk management under the item GIE financing structures) of EUR 13.1 million (EUR 45 million in 2016) and the resulting gain was included within *Other financial income* in

Significant Events – 2016

Unwinding – MSC Fantasia 2015 and MSC Splendida 2016

In connection with MSC Fantasia and MSC Splendida, the Group had entered into lease agreements in which it had agreed to lease such ships from separate France-based special purpose entities, respectively the SNC Fantasia Bail and the SNC Splendida Bail (“SNCs”), owned and financed by syndicates of banks and investors called “Groupement d'intérêt économique” (GIE) (refer to Note 20. Financial instruments and risk management under the item GIE financing structures). The ships were accounted for as finance leases. To improve its liquidity position, the Group entered into a

the Group's consolidated statement of comprehensive income.

Release of Milestone Guarantee

The Group has been benefiting from certain financial guarantees (hereinafter collectively the “Milestone Guarantee”) provided in favour of the lenders and other security parties. The Milestone Guarantee is 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, provide for the Milestone Guarantee to be released, at the time the Group, on a consolidated basis, are in compliance with the following covenants:

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

Since December 31, 2016 and as of December 31, 2017 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 obtaining 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 as of December 31, 2017 and it is expected to be finalised for all remaining relevant financing agreements in the course of 2018.

structured transaction with the owners and lenders of the SNCs. The transaction substantially resulted in a modification of the GIE financing structures (hereinafter the “unwinding”) and it required the acquisition of the SNCs by the Group.

SNC Fantasia Bail was acquired in December 2015 and SNC Splendida Bail was acquired in January 2016 (both at a price of EUR 1,000). The SNC Splendida Bail purchase did not result in any re-measurement of the carrying value of MSC Splendida ship, since the ship was already included in the Group's Statement of Financial Position as an asset held under a finance lease, while the relevant

finance lease obligation was replaced by the underlying SNC's loan financing structure (refer to Note 20. Financial instruments and risk management under the item financial debt).

In addition to the title to the ship and the relevant financing, the Group assumed deferred tax liabilities amounting to EUR 180.5 million relating to the accelerated tax depreciation of MSC Splendida ship and to a non-linear revenue recognition policy that had been applied by the SNC, in compliance with specific tax rules, in the period before its acquisition by the Group.

The net proceeds of the unwinding amounting to EUR 150.4 million, which principally consisted of a cash deposit, were in substance a compensation for deferred tax liabilities assumed.

Fleet development

The Group expects to introduce up to eleven ships by the end of 2026. Specifically, the Group plans to introduce six additional ships through 2020, it has an option to introduce one additional ship for delivery in 2021 and has a slot reservation agreement for 4 additional ships to be delivered between 2022 and 2026. Of the expected eleven ships, eight are being or will be built by STX France and the remaining three by Fincantieri (refer to Note 21. Future Capital Commitments).

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 of the Group are presented

On April 4, 2016 the Group confirmed the options for the two “Meraviglia-Plus” ships to be built by STX France, which are expected to enter into service in October 2019 and July 2020, respectively. The “Meraviglia-Plus” class is an evolution of the Meraviglia class ships. At 331 metres in length and with an additional 200 cabins that take the total from 2,244 to 2,440, each of the two ships will be capable of accommodating a maximum number of 6,300 guests. The shipbuilding contracts became effective on December 19, 2016.

On the same date, MSC Cruises SA and STX France also entered into a slot reservation agreement for the construction of four new, over 200,000 Gross Register Tonnage (GRT), Liquefied Natural Gas - (LNG) powered ships. The four ships will be based on an advanced next-generation prototype and will form what will be known as the “World Class” of MSC Cruises SA ships. The four ships covered by the agreement will become due for delivery in 2022, 2024, 2025 and 2026. They will feature more than 2,700 cabins and approximately 5,400 lower berths occupancy capacity. At the same time, STX France has waived the EUR 29.3 million loan it had previously lent to the Group. The Group has substantially deferred within *Other non-current liabilities* the effect of the loan cancellation since allocated to the future ships and it will recognize it in the consolidated Statement of Comprehensive Income over the useful life of the relevant ships.

in thousands of Euro (“KEUR”), unless otherwise specified. The consolidated financial statements for the year ended December 31, 2017 were approved and authorised for issue by the Board of Directors on March 29, 2018.

05. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the presentation of these consolidated financial statements have been applied consistently with

Changes In Accounting policies

Adoption of new and amended IFRS and IFRIC interpretations from January 1, 2017

The adoption of the new or amended standards had no material impact on the Group's consolidated financial statements.

• Amendments to IAS 7: disclosure initiative

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and

non-cash changes (such as foreign exchange gains or losses). The Group has provided the information in Note 20.

• Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity

Accounting standards and amendments not yet adopted

The standards and interpretations that were issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

• IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaced IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39.

IFRS 9 will take effect for annual periods beginning on or after January 1, 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group adopted IFRS 9 as of January 1, 2018. MSC Cruises has reviewed its financial assets and liabilities. The financial assets currently classified as loans and receivables as well as the financial liabilities valued at amortized costs will be classified as financial instruments at amortized costs. The fair values of derivatives not used for hedge accounting will be classified as financial instruments at fair value through profit and loss. The new hedge accounting requirements will not have an impact on the accounting of the existing hedging relationships. Overall the impact of IFRS 9 will not be significant.

• IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and established a new five-

should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. Their application has no impact on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

step model that is applicable to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard will be applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group has completed the evaluation of potential changes to the core revenues using the five-step model required by the new revenue standard, including the accounting for customer loyalty programs and promotional offerings. Based on our assessment, the adoption of this newly issued guidance is not expected to have a material impact on the timing of recognition of the core revenues of the Group, but will require to enhance the disclosures with respect to the revenue recognition policies.

• 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. The standard will become effective for annual periods beginning on or after January 1, 2019.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. The assessment has not been finalised yet. The Group will apply what is referred to in the standard as a “modified retrospective approach”. Under this approach, a lessee does not restate comparative information. The date of initial application will be 1 January 2019. At the date of initial application, the lessee recognises the cumulative effect of initial application as an adjustment to the opening balance of equity as of 1 January 2019.

Annual Improvements to IFRS 2014-2016 cycle

• IAS 28 Investments in Associates and Joint Ventures - clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised, (b) the associate or joint venture becomes an investment entity, and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018. The Group will apply the interpretation from its effective date. The Group has assessed the impact of the amendments on the consolidated financial statements, and given the current investment portfolio, it is expected to be immaterial.

• Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for

The Group has lease contracts classified as operating leases. Under IFRS 16, the Group will have to recognise additional assets and liabilities for these contracts which will lead to an increase in total assets and total liabilities. In addition, the pattern of expenses will change. Instead of including lease expenses in other operating expenses, the Group will recognise an additional depreciation and an additional interest expense. This will lead to a higher operating profit. The Group is currently assessing the impact of the above-mentioned amendments.

the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. The Group will apply amendments when they become effective. However, since the Group does not own investment properties, no effects are expected on the consolidated financial statements.

• IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) the beginning of the reporting period in which the entity first applies the interpretation.

Or

(ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the

reporting period in which the entity first applied the interpretation. The Interpretation is effective for annual periods beginning on or after 1 January 2018. However, since the Group's current practice is in line with the Interpretation, no effects are expected on the consolidated financial statements.

• IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

Annual Improvements to IFRS 2015-2017 cycle

• IFRS 3 - Business Combinations and IFRS 11, Joint Arrangements

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

• IAS 12 - Income Taxes

The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax

- whether an entity considers uncertain tax treatments separately,
- the assumptions an entity makes about the examination of tax treatments by taxation authorities,
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and
- how an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretationw is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group is currently assessing the impact of the above-mentioned interpretation.

consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

• IAS 23 - Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

These amendments are effective for annual reporting periods beginning on or after 1 January 2019. The Group is currently assessing the impact of the above-mentioned amendments.

Accounting Policies

Business combinations

Business combinations are accounted for using the acquisition method as of the acquisition date, which is the date on which control is transferred to the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

If the Group holds less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts

and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee,
- rights arising from other contractual arrangements, and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Goodwill is initially measured as the excess of the aggregate of the fair value of the consideration transferred, the amount recognised for 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 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 acquire. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, will be adjusted when the final measurements are determined (within one year of the acquisition date).

Consolidation principles and methods

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commenced until the date that 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. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Acquisition and disposal of NCI

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 NCI 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.

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.

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 and joint ventures in the Group is provided in Note 27. 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 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 directly 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 as of 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 cost for financing items and through other comprehensive income for derivatives. All financial information contained in these consolidated financial statements are presented in Euro and have been rounded to the nearest thousands, except when otherwise indicated.

The main foreign currencies are as follows:

	Closing rate at December 31,		Average rate at December 31,	
	2017	2016	2017	2016
USD	1.19933	1.05407	1.12740	1.10620
BRL	3.96666	3.43470	3.59944	3.85929
GBP	0.88762	0.85443	0.87576	0.81914
ZAR	14.85656	14.48941	15.01161	16.28319
CHF	1.16863	1.07410	1.11015	1.09038
ARS	22.34948	16.74080	18.67689	16.33529

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

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 in proportion to the state of completion of the voyage, which is assessed by reference to the number of days completed as a proportion of total voyage days.

Revenue from onboard sales of goods is recognised when the significant risks and rewards of ownership are transferred to the customers which is the point in time 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

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

deposit liabilities 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 a voyage on a pro-rata basis over the period of the voyage.

Dividends are recorded when the legal claim to them has arisen. Interest income and expenses are recognised pro-rata basis using the effective interest method.

Air and other transportation revenues to and from the ships and the revenues for service charges are recorded as cruise passenger ticket revenues.

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, credit card receivables and other financial investments

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 formula. The

with maturities of three months or less from the time of their investment.

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 the assets to a working condition intended for their use, including borrowing costs directly attributable to the acquisition, construction or production of an asset (in case of a qualifying asset) and government grants related to depreciable assets. Subsequent expenditures are capitalised only when it is probable that the future economic benefits associated with the expenditures will flow to the Group.

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

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

Ships	30 years
Dry-dock expenses	3 - 5 years
Buildings	30 years
Other equipment	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. The useful lives of ships are 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.

Intangible assets

Goodwill that arises on business combinations is presented with intangible assets. Goodwill is initially measured as the excess of the aggregate of the fair value of the consideration transferred, the amount recognised for 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 income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Leased assets

Finance leases

Assets held by the Group under leases which substantially transfer all of the risks and rewards of ownership to the Group are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases

All other leases are treated as operating leases and are not recognised in the Group's consolidated statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Financial instruments

Non-derivative financial assets and financial liabilities

The Group initially recognises loans and receivables on the date that they originate. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial

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:

Software 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. Gains or losses arising from de-recognition of port concession rights are measured as the difference between disposal proceeds, net and the carrying amount of the asset, and are recognised in the consolidated statement of income when the asset is derecognised.

asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which all the risk and rewards of ownership of the financial assets are substantially transferred. The Group initially recognises debt securities issued

on the date that they originate. All other financial liabilities are recognised initially on the trade date on which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are measured at amortised cost using the effective interest method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method less any allowances for doubtful receivables. Loans and receivables comprise cash and cash equivalents, trade and other receivables, certain other non-current assets and long-term receivables from related parties. Allowances for doubtful receivables represent the Group's estimates of incurred 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 Group's historical bad receivables experience. The impairment loss is calculated as the difference between the carrying amount of the receivables and the present value of the estimated future cash flows discounted at the receivables' original effective interest rate.

Loans and receivables are further classified as current and non-current depending on whether these will be realised within twelve months from the balance sheet date or beyond.

Financial liabilities at amortized cost

Financial liabilities at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. They comprise bank overdraft and other short-term borrowings, trade payables, other payables, financial debt, including bonds, and long-term payables to related parties.

Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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. The EIR amortisation is included in finance costs in the consolidated statement of income.

Derivatives

All derivatives are initially recognised in the statement of financial position at fair value and changes thereafter are generally recognised in the income statement.

A derivative may be designated as a cash flow hedging instrument to hedge the cash flows deriving from a future transaction that is highly probable.

At the start of a hedging transaction, the Group formally designates and documents the hedging transaction to which it intends to apply hedge accounting, including its risk management objectives and the strategy that it is pursuing. The documentation includes identification of the hedging instrument, the element or transaction that is to be hedged, the nature of the risk and the procedures that the Group intends to use to assess the effectiveness of the hedge in offsetting the exposure to changes in the fair value of the element being hedged or of the cash flows attributable to the risk being hedged. The effectiveness of hedges is assessed on a regular basis over the years in which hedges are designated as such.

The effective part of the gains or losses resulting from the fair value adjustment of the derivative designated as hedging instrument in a cash flow hedge is recognised in other comprehensive income and reported in a specific equity reserve. The portion booked to other comprehensive income will be reclassified to the income statement in the same period or periods during which the item affects the income statement. Any ineffective part is recognised immediately in the income statement.

If a hedging instrument no longer meets the criteria for hedge accounting, expires or is extinguished or sold, then the hedge accounting is discontinued prospectively. If a forecast transaction in a cash flow hedge is no longer expected to occur, then the amount accumulated in the equity reserve is reclassified to the income statement.

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 as of balance sheet date.

Share capital

Ordinary shares are classified as equity since the shares are non-redeemable and any dividends are discretionary. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any

Impairment

Property, plant and equipment and intangible assets with finite useful lives are reviewed for indications of impairment as of each financial statements date. 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 income statement for the period.

Goodwill and intangible assets with indefinite useful lives are allocated to cash generating units and tested for impairment on this basis at least once a year. A cash-generating unit 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

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 recognized in finance expenses.

tax effects. The distribution of dividends to the Company's shareholders is recognised as a liability in the consolidated statement of financial position when the dividends are approved by the Company's shareholders.

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 as of 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.

Use of judgments and estimates

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions 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.

Estimates and Assumptions

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

- provisions for doubtful receivables (refer to Note 5. Summary of significant accounting policies) 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. 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 item 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 and amortisation. 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.

Revenues are related to the passenger tickets for the sales of cruise voyages and also include onboard sales of services. The Group sells cruises on an international basis and the passenger

ticket revenues are primarily attributed to passengers who make reservations in Europe (60% in 2017 and 61% in 2016), South America (15% in 2017 and 15% in 2016), USA (9% in 2017 and 8% in 2016) and South Africa (3% in 2017 and 3% in 2016).

Substantially all non-current assets are located outside of Switzerland and consist primarily of the ships, which are registered in Panama or in Malta (89% of non-current assets excluding financial assets and deferred tax assets, 83% in 2016).

06. EMPLOYEE BENEFITS

Employee benefit expenses

Employee benefit expenses consisted of the following:

in KEUR	For the years ended December 31,	
	2017	2016
Crew payroll and related expenses	(291,762)	(266,629)
Administrative staff payroll and related expenses (included in SG&A)	(93,008)	(77,999)
Administrative staff defined benefit pension exp. (included in SG&A)	(2,847)	(2,714)
Administrative staff defined contribution pension exp. (included in SG&A)	(2,294)	(469)
Total	(389,911)	(347,811)

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. The pension plan of MSC Cruises SA 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 IAS 19 due to the underlying benefits guarantees.

The amount recognized 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:

in KEUR	For the years ended December 31,	
	2017	2016
Defined benefit obligation	20,646	18,288
Fair value of plan assets	(12,496)	(10,785)
Net defined benefit liability	8,150	7,503
Other employee benefits	2,894	1,684
Employee benefits	11,044	9,187

The movement in the defined benefit obligation was as follows:

in KEUR	For the years ended December 31,	
	2017	2016
At January 1	18,288	14,435
Current service cost (employer)	2,804	2,656
Interest expenses on defined benefit obligation	106	128
Employee contributions	2,077	2,425
Actuarial (gain) / losses	514	(34)
Benefits paid	(1,460)	(1,421)
Exchange differences	(1,683)	99
At December 31	20,646	18,288

in KEUR	For the years ended December 31,	
	2017	2016
At January 1	(10,785)	(7,908)
Return on plan assets excluding interest income	(178)	(145)
Interest income on plan assets	(63)	(70)
Ordinary contributions paid by employer	(1,857)	(1,593)
Employee contributions	(2,077)	(2,425)
Benefits paid	1,460	1,421
Exchange differences	1,004	(64)
At December 31	(12,496)	(10,785)

The amounts recognised in the consolidated statement of income – selling and administrative operating expenses – were as follows:

in KEUR	For the years ended December 31,	
	2017	2016
Current service cost (employer)	2,804	2,656
Interest expenses on defined benefit obligation	106	128
Interest income on plan assets	(63)	(70)
Total	2,847	2,714

The amounts recognized in other comprehensive income were as follows:

in KEUR	For the years ended December 31,	
	2017	2016
Return on plan assets excluding interest income	178	145
Actuarial losses	(514)	(20)
Total	(336)	125

The principal actuarial assumptions were as follows:

	For the years ended December 31,	
	2017	2016
Discount rate (end of period)	0.7%	0.6%
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,	
	2017	2016
Sensitivity to discount rate assumptions:		
- Increase discount rate + 0.50%	(9.0%)	(9.0%)
- Decrease discount rate - 0.50%	10.5%	10.6%
Sensitivity to salary increase rate assumptions:		
- Increase salary rate + 0.50%	1.2%	1.2%
- Decrease salary rate - 0.50%	(1.2%)	(1.1%)
Sensitivity to mortality assumptions - 1 year life expectancy:		
- Increase life expectancy +1 year	1.1%	1.1%
- Decrease life expectancy -1 year	(1.1%)	(1.2%)

Plan assets were comprised as follows:

	At December 31,	
	2017	2016
Assets from insurance contracts	100.0%	100.0%
Cash and cash equivalents	0.0%	0.0%
Total	100.0%	100.0%

Expected contributions to define benefit plans for 2018 amounted to EUR 1.9 million (EUR 1.7 million in 2016). The expected duration of the defined benefit obligation was 19.1 years in 2017 (19.1 years in 2016).

The total number of employees of the Group was as follows:

	At December 31,	
	2017	2016
Crew members	14,911	11,702
Administrative staff	1,560	1,410
Total Employees	16,471	13,112

07. INCOME TAXES

Major components of income taxes included the following:

	At December 31,	
in KEUR	2017	2016
Current tax on profit for the year	(19,830)	(18,349)
Adjustments in respect of prior years	(136)	12
Defered taxes	37,270	71,573
Total	17,304	53,236

On December 21, 2017 the French parliament adopted the 2018 Finance Bill (“Loi de finances 2018”). The French corporate income tax rate is set to decrease from 28.92% to 25.83% from 2018 to 2022. The 2018 Finance Bill replaced the 2017 Finance Bill which had already decreased the French corporate income tax rate from 34.43% to 28.92%.

The planned reduction in the French corporate income tax rate led to a re-measurement of the deferred tax liabilities assumed in the unwinding related to MSC Fantasia and MSC Splendida resulting in a decrease of EUR 21.5 million that represents the main Component of the deferred tax income of EUR 37.3 million recognized by the Group.

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 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:

	At December 31,	
in KEUR	2017	2016
Profit / (Loss) before taxes	293,819	284,790
Tax using MSC Cruises SA's domestic tax rate	(34,847)	(32,751)
Tax effect of non deductible/non taxable items	271	(23)
Impact of different tax rates in foreign tax jurisdictions	25,882	10,871
Impact of the tonnage tax regime ⁽¹⁾	16,034	5,809
Impact of changes in the local tax rates ⁽²⁾	21,330	51,332
Impact of deferred taxes	(11,170)	17,963
Others including adjustments in respect of prior years	(136)	35
Tax (charge) / income	17,304	53,236

⁽¹⁾ Tonnage tax charge is included in *Other operating expenses*

⁽²⁾ Mainly due to the reduction of the corporate income tax rate in France (refer to Note 3. Significant Events)

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 costs and other ship operating expenses.

Components of recognized deferred income tax balances

The movement of the deferred tax assets was as follows:

	Employee benefit obligation	Tax losses carried forward	Other liabilities	Total
in KEUR				
At December 31, 2015	1,370	70	1,994	3,434
(Charged) /credited to the statement of income	(585)	(7)	1,024	432
Charged to other comprehensive income	(25)	-	-	(25)
CTA	-	-	465	465
At December 31, 2016	760	63	3,483	4,306
Credited to the statement of income	160	13	950	1,123
Credited to other comprehensive income	45	-	-	45
CTA	-	-	(551)	(551)
At December 31, 2017	965	76	3,882	4,923

The movement of the deferred tax liabilities was as follows:

	Unwinding ⁽¹⁾	Revenue recognition ⁽²⁾	Foreign Exchange Gain ⁽³⁾	Other	Total
in KEUR					
At December 31, 2015	188,317	6,365	-	1,475	196,157
Credited to the statement of income	(66,416)	(3,564)	-	(1,161)	(71,141)
Deferred tax liability assumed in "unwinding"	180,548	-	-	-	180,548
At December 31, 2016	302,449	2,801	-	314	305,564
Charged /(credited) to the statement of income	(17,543)	(501)	3,551	(13)	(14,506)
Adjustments in respect of prior years	(103)		-		(103)
Gain French tax rate	(21,539)	-		-	(21,539)
CTA	-	-	-	14	14
At December 31, 2017	263,264	2,300	3,551	315	269,430

⁽¹⁾ Related to the Unwinding of MSC Fantasia and MSC Splendida performed respectivley in 2015 and in 2016.

⁽²⁾ Different revenue recognition between IFRS and Swiss Law (CO)

⁽³⁾ Foreign exchange gain on long term financing, not recognised under Swiss Law (CO)

Amounts recognized in the consolidated statement of financial position for deferred taxes were reported as non-current assets and non-current liabilities.

Deferred tax assets were recognized for tax losses carried forward

only to the extent that the realization of the related tax benefit is probable. As of December 31, 2017 and as of December 31, 2016 there were not tax losses and deductible temporary differences for which no deferred tax asset has been recognized.

08. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the year ended December 31, 2017 were as follows:

	At December 31,	
in KEUR	2017	2016
Cash on hand and balances with banks	318,972	302,129
Short-term investments	12,484	10,274
Credit card receivables	13,157	7,926
Total	344,613	320,329

Credit card receivables, net of processing fees, not yet credited to the bank accounts at the reporting date were considered as

cash equivalents if expected to be credited in one week after the reporting date.

09. TRADE AND OTHER RECEIVABLES

Trade and other receivables for the year ended December 31, 2017 were as follows:

	At December 31,	
in KEUR	2017	2016
Trade receivables - third parties	71,974	56,690
Trade receivables - related parties (Note 25)	17,880	14,085
Credit cards receivable <= 3 months	38,239	22,276
Credit cards receivable > 3 months	39,798	25,799
Trade receivables	167,891	118,850
Allowance for doubtful receivables	(2,852)	(2,565)
Trade Receivables	165,039	116,285
Other receivables		
Other receivables - third parties	4,489	8,308
Other receivables - related parties (Note 25)	7	10
VAT and other tax receivables	9,547	7,000
Other Receivables	14,043	15,318
Total Trade and Other Receivables	179,082	131,603

Ageing list – Trade receivables

	At December 31,	
in KEUR	2017	2016
Neither past due nor impaired	137,700	84,933
Past due		
Less than 30 days	14,245	21,755
30 - 60 days	5,282	1,247
60 - 90 days	2,426	2,141
Above 91 days	8,238	8,774
Trade receivables	167,891	118,850
Allowance for doubtful receivables	(2,852)	(2,565)
Total	165,039	116,285

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

	At December 31,	
in KEUR	2017	2016
At January 1	(2,565)	(2,717)
Net increase in allowance for doubtful receivables	(2,218)	(581)
Amounts written off as uncollectable	1,931	733
At December 31	(2,852)	(2,565)

The allowance for doubtful receivables was calculated on an individual valuation basis. Receivables that were neither past due

nor impaired were related to a number of independent customers for whom there is no history of default.

10. INVENTORIES

As of December 31, 2017 inventories consisted of the following:

	At December 31,	
in KEUR	2017	2016
Bunker, diesel, luboil - gross value	10,588	8,965
Hotel consumables, food & beverages, shops & merchandise - gross value	100,737	72,835
Other inventories - gross value	4,982	7,717
Inventories - gross value	116,307	89,517
Allowance for obsolete inventories	(5,074)	(5,322)
Total	111,233	84,195

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

	At December 31,	
in KEUR	2017	2016
At January 1	(5,322)	(7,567)
Net increase in allowance for obsolete inventories	(931)	(588)
Amounts written off	1,179	2,833
At December 31	(5,074)	(5,322)

11. PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of December 31, 2017 prepaid expenses and other current assets consisted of the following:

	At December 31,	
in KEUR	2017	2016
Deposits	199	159
Prepaid expenses	62,991	45,580
Prepayments to suppliers - third Parties	11,034	11,084
Prepayments to suppliers - related Parties (Note 25)	15,216	6,056
Other current assets	58	-
Total	89,498	62,879

12. PROPERTY, PLANT AND EQUIPMENT

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

	Buildings	Ships	Ships under construction	Other equipment	Total
in KEUR					
Cost	11,987	4,349,071	212,018	29,296	4,602,372
Accumulated depreciation	(2,698)	(305,298)	-	(20,192)	(328,188)
Net book value at December 31, 2015	9,289	4,043,773	212,018	9,104	4,274,184
Balance at January 1, 2016	9,289	4,043,773	212,018	9,104	4,274,184
Additions	25,810	33,756	446,373	19,143	525,082
Disposals	(1,490)	-	-	-	(1,490)
Depreciation	(698)	(161,408)	-	(3,694)	(165,800)
Reclassification	2,449	8,079	(8,079)	-	2,449
Currency translation effects	(263)	-	-	14	(249)
Balance at December 31, 2016	35,097	3,924,200	650,312	24,567	4,634,176
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

Included in property, plant and equipment were leased assets as follows:

	Buildings	Ships	Ships under construction	Other equipment	Total
in KEUR					
Net book value at December 31, 2017	6,052	909,844 ⁽¹⁾	-	6,766	922,662
Net book value at December 31, 2016	6,315	941,585 ⁽²⁾	-	-	947,900

⁽¹⁾ of which KEUR 587,503 under GIE financing

⁽²⁾ of which KEUR 610,349 under GIE financing

As of December 31, 2017 the Group operated fourteen cruise ships, which were constructed between 2001 and 2017.

Ships under construction include progress payments for the construction of new ships, as well as design and engineering fees, capitalized interest, construction oversight costs and various owner supplied items.

Capital expenditures incurred in the period totaled EUR 1,319 million, with a relevant cash disbursement of EUR 1,299 million, and were primarily related to progress payments made to shipyards for the two vessels MSC Meraviglia and MSC Seaside (EUR 861.9 million) delivered in May and November 2017 and for MSC Seaview, MSC Bellissima and MSC Grandiosa (EUR 327.7

million), currently under construction for delivery respectively in June 2018, March 2019 and November 2019.

Capitalised ship improvements and planned major maintenance activities, including dry-docks, amounted to EUR 57.5 million.

In 2017, the amount of borrowing costs capitalized in property, plant and equipment was equal to EUR 11.9 million (EUR 3.7 million in 2016).

The increase in other equipment was primarily due to the capital expenditures related to the development of the Ocean Cay island, wich was under construction as of December 31, 2017 (refer to Note 21. Future Capital Commitments).

13. INTANGIBLE ASSETS

The movement of intangible assets was as follows:

	Goodwill	Port concession rights	Software	Other intangible assets	Intangible assets under construction	Total
in KEUR						
Cost	4,725	655	22,445	988	902	29,715
Accumulated amortisation	-	(176)	(16,288)	(435)	-	(16,899)
Net book value at December 31, 2015	4,725	479	6,157	553	902	12,816
Balance at January 1, 2016	4,725	479	6,157	553	902	12,816
Additions	-	481	8,200	-	-	8,681
Disposals	-	-	-	(85)	-	(85)
Amortisation	-	(38)	(5,006)	(183)	-	(5,227)
Reclassification	-	-	-	-	(902)	(902)
Currency translation effects	440	-	9	106	-	555
Balance at December 31, 2016	5,165	922	9,360	391	-	15,838
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	6,657	-	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	6,569	-	29,244
Cost	4,922	1,348	45,418	7,560	-	59,248
Accumulated amortisation	-	(492)	(28,521)	(991)	-	(30,004)
Net book value at December 31, 2017	4,922	856	16,897	6,569	-	29,244

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	2017	2016
Cash generating unit		
Europe	749	754
United States	565	642
South America	830	963
South Africa	1,802	1,848
Other	976	958
Total	4,922	5,165

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. The assumptions used were an estimated average revenue

growth rate in the planned period of 4.1% (3% in 2016), a terminal value growth rate of 2% (2.5% in 2016) and a discount rate after tax of 7% (8% in 2016).

14. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures were accounted for using the equity method (refer to Note 27. List of Group entities).

The movement of investments in joint ventures was as follows:

	For the years ended December 31,	
in KEUR	2017	2016
At January 1	10,120	2,416
Constitution of joint ventures	-	7,725
Share of profit	538	207
Dividends declared	-	(140)
Incorporation costs	109	-
Cumulative translation adjustment	(97)	(88)
At December 31	10,670	10,120

The tables below summarize the joint ventures financial statements:

	At December 31,	
in KEUR	2017	2016
Total Sales	18,054	19,508
Current assets	25,441	23,553
Non current assets	36,425	36,486
Total Assets	61,866	60,039
Total Equity	37,515	36,081
Current liabilities	24,351	23,958
Total Liabilities	61,866	60,039

in KEUR	For the years ended December 31,	
	2017	2016
Profit for the year	1,076	414
Profit for the year attributable to MSC Cruises share		
Profit share 50%	538	207

15. OTHER NON-CURRENT ASSETS

As of December 31, 2017 other non-current assets consisted of the following:

in KEUR	At December 31,	
	2017	2016
Long-term deposits	24,747	23,545
Long-term VAT receivables	17,193	15,656
GIE lease receivable	13,433	-
Other assets	8,405	14,895
Total	63,778	54,096

Long-term deposits mainly included EUR 18.1 million paid as a judicial deposit held by the Brazilian Tax Administration with reference to a pending tax litigation (refer to the Note 18. Provisions) and deposits of EUR 2.5 million made to airline companies and airline ticket sellers.

Long-term VAT receivables consisted entirely of Italian VAT reimbursement claims filed for the years 2009 through 2017, which are not expected to be collected in the next twelve-month period due to the timeframe of the recovery process.

GIE lease receivable refers to amounts due from the lessor of the vessel MSC Musica mostly originated from the re-measurement of financial lease obligations related to the financing of MSC Musica as a consequence of the reduction in the French tax rate (refer to Note 20. Financial Instrument and risk management under the GIE financing structures and to Note 3. Significant event)

Other assets included EUR 2.8 million of prepaid financing fees related to the structuring of the undrawn ships financing (EUR 7.7 million in 2016).

16. TRADE AND OTHER PAYABLES

Trade and other payables for the year ended December 31, 2017 were as follows:

in KEUR	At December 31,	
	2017	2016
Trade payables to third parties	189,948	200,934
Trade payables to related parties (Note 25)	56,806	38,804
Capital expenditure to third parties	20,644	8,790
Other payables to third parties	14,309	13,309
Other payables to related parties (Note 25)	255	82
Deferred income	924	1,226
Total	282,886	263,146

17. CUSTOMER DEPOSITS AND TIME CHARTER ADVANCES

Customer deposits and time charter advances consisted of the following:

in KEUR	At December 31,	
	2017	2016
Customer deposits	382,154	282,476
Time charter advances	16,545	19,510
Total	398,699	301,986

18. PROVISIONS

The movement of the provisions was as follows:

in KEUR	Social and tax litigations	Other provisions	Total
Balance at January 1, 2016	12,277	3,377	15,654
Additional provisions	7,323	-	7,323
Used during the year	-	(178)	(178)
Reclassification during the year	-	(1,769)	(1,769)
Currency translation effects	3,285	-	3,285
Balance at December 31, 2016	22,885	1,430	24,315
Current liabilities	4,025	325	4,350
Non-current liabilities	18,860	1,105	19,965
Balance at December 31, 2016	22,885	1,430	24,315
Balance at January 1, 2017	22,885	1,430	24,315
Additional provisions	3,619	361	3,980
Used during the year	-	(14)	(14)
Reclassification during the year	(250)	3,433	3,183
Currency translation effects	(2,813)	-	(2,813)
Balance at December 31, 2017	23,441	5,210	28,651
Current liabilities	4,822	422	5,244
Non-current liabilities	18,619	4,788	23,407
Balance at December 31, 2017	23,441	5,210	28,651

Provisions for social and tax litigations are 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. As of December 31, 2017 the provision amounted to EUR 18.2 million (EUR 17.8

million in 2016) 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 as of December 31, 2017. 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	Loans and receivables	Financial liabilities at amortised cost	Held for trading	Hedge accounting	Carrying value	Fair Value
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 on fuel price	-	-	-	40,330	40,330	40,330
Other current assets ⁽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 on interest rates	-	-	39,216	12,496	51,712	51,712
Financial debt	-	3,976,933	-	-	3,976,933	3,771,819
Balance at December 31, 2017	-	4,297,561	39,216	12,496	4,349,273	4,144,159
Financial assets						
Trade and other receivables ⁽¹⁾	124,603	-	-	-	124,603	124,603
Other non-current assets ⁽²⁾	38,440	-	-	-	38,440	38,440
Long-term receivables from related parties	201,554	-	-	-	201,554	201,554
Derivatives on fuel price	-	-	-	14,918	14,918	14,918
Other current assets ⁽³⁾	160	-	-	-	160	160
Cash and cash equivalents	320,329	-	-	-	320,329	320,329
Balance at December 31, 2016	685,085	-	-	14,918	700,004	700,004
Financial liabilities						
Trade and other payables (including employee payables)	-	290,890	-	-	290,890	290,890
Bank overdraft and other short-term borrowings	-	51,143	-	-	51,143	51,143
Derivatives on interest rates	-	-	40,431	34,073	74,504	74,504
Derivatives on fuel price	-	-	-	7	7	7
Financial debt	-	3,053,898	-	-	3,053,898	3,049,800
Balance at December 31, 2016	-	3,395,931	40,431	34,080	3,470,442	3,466,344

⁽¹⁾ Excluding VAT and other tax receivables

⁽²⁾ Excluding long-term VAT receivable

⁽³⁾ Related to current deposits

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 related to MSC Musica and MSC Orchestra (“GIE financing structures”) finance leases and bonds:

in KEUR	2017	2016
Loans	3,267,709	2,541,916
GIE financing structures	7,685	71,260
Finance leases	246,481	260,043
Bonds	455,058	180,679
Total	3,976,933	3,053,898

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	Financing cash flow	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
Finance 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

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

in KEUR	At December 31,	
	2017	2016
Variable-rate	2,661,324	2,534,880
Fixed-rate	1,315,609	519,018
Total	3,976,933	3,053,898

The Group uses interest rate swap agreements to modify its exposure to interest rate movements and to manage its interest expense. As of December 31, 2017, the Group maintained interest rate swap agreements on EUR 2,333.7 million (EUR 1,553.4 million

in 2016) 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 8% of its financial debt.

Details of the financial debt categorised by the different financing structures and by type of asset financed as of December 31, 2017 and 2016 were as follows:

	Maturities through	Interest rate	Original value in MEUR	Value at December 31, 2017 in MEUR	Value at December 31, 2016 in MEUR
Facility A -tranche 1	2025	Euribor 3 m + 1,13% ⁽¹⁾	855.1	480.7	536.4
Facility A -tranche 2	2025	Euribor 3 m + 2,00% ⁽²⁾	285.0	160.2	178.8
Facility B	2024	Euribor 3 m + 1.50%	458.8	275.6	310.6
Renaissance Project (senior tranche)	2027	Euribor 3 m + 1.90%	118.9	90.1	99.7
Renaissance Project (MSC Opera - senior tranche)	2027	2.75%	38.0	30.0	33.0
MSC Fantasia					
<i>Senior Tranche</i>	2020	Euribor 6 m + 0.65%	474.9	97.4	130.4
<i>Junior Tranche A</i>	2023	Euribor 6 m + 1.00%	68.7	60.7	59.7
<i>Junior Tranche B</i>	2023	Euribor 6 m + 1.00%	73.0	53.4	46.6
MSC Splendida ⁽³⁾					
<i>Senior Tranche</i>	2021	Euribor 6 m + 0.65%	474.9	118.5	152.8
<i>Junior Tranche A</i>	2024	Euribor 6 m + 1.00%	67.6	59.7	58.6
<i>Junior Tranche B</i>	2024	Euribor 6 m + 1.00%	73.0	51.1	44.0
MSC Bellissima	2031	Euribor 3 m + 1.00%	596.2	144.5	-
MSC Meraviglia	2031	Euribor 3 m + 1.00%	574.0	558.0	383.3
MSC Seaside	2029	2.35%	575.2	569.8	69.5
MSC Seaview	2030	Euribor 3 m + 1.50% ⁽³⁾	115.8	92.9	-
MSC Preziosa	2029	Euribor 6 m + 0.94%	435.4	404.0	422.6
MSC Orchestra - Scrubber	2027	1.44%	7.0	6.5	-
UK Building (13,5 MGBP)	2021	Libor 3m + 1.60%	17.9	14.4	15.2
UK Building (2,7 MGBP)	2017	Libor 3 m + 2.25%	3.6	-	0.7
Other loans			-	0.1	-
Total Loans				3,267.6	2,541.9
MSC Musica ⁽⁴⁾	2021	Euribor 6 m + 0.52% - 1.00%	392.6	0.0	21.2
MSC Orchestra ⁽⁴⁾	2022	4.04% - 4.52%	392.6	7.7	50.1
Total GIE Financing				7.7	71.3
MSC Magnifica	2029	2.81%	410.0	239.7	255.3
Other Leases			-	6.8	4.7
Total Finance Leases				246.5	260.0
Bond 2016 (195 MCHF)	2021	coupon 3.00%	181.3	166.3	180.7
Bond 2017 (335 MCHF)	2023	coupon 3.00%	303.8	288.8	-
Total Bond				455.1	180.7
Total Financial Debt				3,976.9	3,053.9

⁽¹⁾ Bpifrance tranche - 75% of total loan

⁽²⁾ Commercial tranche - 25% of total loan

⁽³⁾ 2.35% upon delivery

⁽⁴⁾ Refers to senior tranche and commercial tranche (85% of the total liability)

In July 2017, the Company issued a bond with a volume of CHF 335 million. The bond matures on July 14, 2023 and offers a coupon of 3% that is paid once a year on July 14. The Bond is listed on the SIX Swiss Stock Exchange.

The Group's debt agreements, including Group's main credit revolving facility, for which the Milestone Guarantee has been released (refer to Note 3. Significant event), 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 as of December 31, 2017.

Long-term receivables from related parties

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

in KEUR	At December 31,	
	2017	2016
Maritime Holding Limited	132,498	152,435
Bluvacanze	48,242	49,119
Total	180,740	201,554

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%.

The long-term receivable from Bluvacanze has been classified as non-current since it is not expected to be collected within the next twelve-month period.

GIE financing structures

In connection with MSC Musica and MSC Orchestra, the Group has entered into lease agreements in which it leases such ships from separate France-based special purpose entities, owned and financed by syndicates of banks and investors called “Groupement d’intérêt économique” (GIE). The lease agreements include certain tax lease features under which the future lease payments are sensitive to changes in the French tax rate with the tax risk being borne by the Group as lessee.

The planned reduction in the corporate income tax rate in France from 28.92% to 25.83% stipulated in the 2018 Finance Bill (“Loi de finances 2018”) will result in a decrease in future lease payments and of the related finance lease obligation of EUR 13.1 million (EUR 45 million in 2016), with the resulting gain being included within *Other financial income* in the Group’s consolidated Statement of Comprehensive Income.

The lease agreements include certain put-call arrangements in which the Group is entitled to purchase and the GIE is entitled to sell the ships at the end of the lease agreements. Such options are considered likely to be exercised.

The lease agreements include a variable component linked to interest rate fluctuations.

The Group has entered into certain swap agreements to hedge its exposure to the variable part of the lease payments (refer to Note 20. Financial instruments and risk management under the item finance leases).

The following table details future minimum lease payments under GIE financing structures together with the present value of the net minimum lease payments:

	At December 31,					
	2017			2016		
	Minimum lease payments	Finance charges	Present value of minimum lease payments	Minimum lease payments	Finance charges	Present value of minimum lease payments
in KEUR						
Less than 1 year	7,712	-	7,712	54,824	373	54,452
1 to 5 years	-	-	-	17,014	146	16,868
Later than five years	-	-	-	-	-	-
Total minimum lease payments	7,712	-	7,712	71,838	519	71,320

Finance leases

The Group leases MSC Magnifica under a lease agreement. The agreement has a term of 15 years and includes purchase options and purchase obligations related to the ship.

Future minimum lease payments, included other leases as well, were as follows:

	At December 31,					
	2017			2016		
	Minimum lease payments	Finance charges	Present value of minimum lease payments	Minimum lease payments	Finance charges	Present value of minimum lease payments
in KEUR						
Less than 1 year	27,823	7,200	20,623	25,395	7,589	17,806
1 to 5 years	103,604	29,261	74,343	103,909	32,033	71,876
Later than five years	171,860	20,345	151,515	196,679	26,318	170,361
Total minimum lease payments	303,287	56,806	246,481	325,983	65,940	260,043

Interest rate swaps and derivatives on fuel price

Interest rate swaps

As of December 31, 2017, the Group had interest rate swap agreements to hedge its exposure to interest rate movements and to manage its interest expense 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 2,812.0 million as of December 31, 2017, including forward starting swaps, and EUR 2,666.5 million as of December 31, 2016.

In 2017 the Group entered into an interest rate swap agreement that hedges a part of the Facility A credit agreement financing

MSC Poesia. The interest rate swap agreement converted the interest rate for EUR 117.7 million from Euribor 3m + 134 bps to a fixed rate of 126 bps (inclusive of margin) from January 2017 to January 2021. Similarly, in 2017 the Group entered into an interest rate swap agreement hedging credit agreement related to MSC Preziosa converting the interest rate for EUR 409.6 million from Euribor 6m to a fixed rate of 275 bps from September 2017 to March 2023.

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

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

⁽¹⁾ Swap rates include an embedded senior margin of 1,90%

The effects on the consolidated financial statements of the interest rates swaps were as follows:

	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 derivative (Floor) in the Financing Contract

In the period, the amount reclassified from *Hedging reserve* to earnings, related to the above interest rate swap was equal to EUR 8.7 million (EUR 6.8 million in 2016).

A reasonably possible change of 100 basis points in the zero-

coupon curves of market interest rates as of balance sheet date would have had the following impacts on the fair value of derivatives. This analysis assumes that all other variables remain constant:

Derivatives held for trading

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
Total				(108,914)	(39,215)	21,508

Derivatives – Hedge accounting (OCI)

in KEUR	Derivative type	Pay Leg	Receive Leg	Shift -100 bps	Balance sheet FV at December 31, 2017	Shift +100 bps
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
Facility A - Swap 2	Interest rate swap	Fix	Floating	(2,842)	7	2,751
MSC Armonia	Interest rate swap	Fix	Floating	(2,144)	(618)	783
MSC Sinfonia	Interest rate swap	Fix	Floating	(1,575)	(183)	1,167
MSC Lirica	Interest rate swap	Fix	Floating	(2,115)	(442)	1,082
Facility A	Interest rate swap	Fix	Floating	(22,596)	(5,668)	9,716
MSC Preziosa	Interest rate swap	Fix	Floating	(19,613)	55	17,131
Total				(67,300)	(12,435)	36,927

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.

There is a high degree of correlation between the marine fuel used by the Group's ships, Brent and fuel oil that permits to preserve the hedging relationship between the derivative and the hedged items.

	Product	Hedging instrument	Transaction dates	Barrels - in thousands	Weighted average fixed price in USD	Percentage of coverage
2018	Brent Oil	Swap	July 2016	690	53.0	60%
	Fuel oil 1.0%	Swap	November 2016	327	45.1	
	Fuel oil 3.5%	Swap	November 2016	756	39.0	
	Fuel oil 1.0%	Swap	May 2017	143	47.0	
	Fuel oil 3.5%	Swap	May 2017	257	41.0	
2019	Fuel oil 3.5%	Swap	May 2017	457	40.5	39%
	Fuel oil 3.5%	Swap	June 2017	571	40.7	
	Fuel oil 380	Swap	June 2017	263	42.4	
	Fuel oil 3.0%	Swap	June 2017	381	40.3	
Total				3,845		

The effect on the consolidated financial statements of the fuel hedging instruments was a gain of EUR 25.4 million (EUR 49.8 million in 2016) recognized in other comprehensive income since these contracts are designed as cash flow hedges.

In 2017 a loss of EUR 5.5 million was reclassified from *Hedging reserve* to earnings (EUR 19.5 million in 2016).

The fair value of swaps was included in assets for an amount of EUR 40.3 million.

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 as of 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 as of December 31, 2017 and December 31, 2016.

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 following valuation techniques were used for the derivatives:

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.
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 18 and Calendar 19, the Commodity Volatility and the Timing of the contract, discounted at a rate that reflects self credit risk.

The valuation method used to determine the fair value of financial liabilities measured at amortized costs is described in Note 20. Financial Instruments and Risk Management (under the item Category of financial instruments).

Financial risk exposure and financial risk management

The Risk Management activity carried out by the Group responded 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 Company 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), and
- 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 item 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 therefore 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.

Even if certain interest rate swap agreements do not meet all the requirements of IAS 39 for being designated as cash flow hedge instruments, such instruments have been entered into with the sole aim of hedging the identified interest rate risks. All counterparties are leading financial institutions in order to minimise the counterparty risk.

A possible change of 100 basis points in actual interest rates as of balance sheet date would have increased (decreased) 2017 and 2016 equity and the income statement by the amounts shown below. This analysis assumes that all other variables remain constant:

in KEUR - At December 31, 2017	Profit or loss		Equity, net of tax	
	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

in KEUR - At December 31, 2016	Profit or loss		Equity, net of tax	
	100 bps decrease	100 bps increase	100 bps decrease	100 bps increase
Variable-rate instruments	21,724	(25,377)	21,724	(25,377)
Interest rate swaps	(30,208)	23,057	(138,411)	114,196
Net impact	(8,484)	(2,320)	(116,687)	88,819

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 a 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'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, 2017 and 2016:

in KEUR	At December 31, 2017					
	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

in KEUR	At December 31, 2016					
	USD	BRL	GBP	ZAR	CHF	ARS
Trade receivables	17,210	54,568	13,784	50	21	-
Cash and cash equivalents	32,930	11,872	8,881	13,375	1,147	223
Financial debt	-	-	(15,966)	-	(180,679)	-
Trade payables	(28,850)	(7,662)	(1,616)	(1,137)	(1,319)	(199)
Net statement of financial position exposure	21,290	58,778	5,083	12,288	(180,830)	24
Derivatives on forex rates	(7,553)	-	-	8,282	-	-
Net exposure	13,737	58,778	5,083	20,570	(180,830)	24

The significant exchange rates are disclosed in Note 5. Summary of Significant Accounting Policies.

A reasonably possible strengthening (weakening) of the main foreign currencies as of balance sheet date would have affected

the measurement of financial instruments denominated in a foreign currency and would have affected the income statement by the amounts shown below. This analysis assumes that all the variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases:

in KEUR	Profit and loss 2017	
	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)

in KEUR	Profit and loss 2016	
	Strengthening	Weakening
USD (5% movement)	1,093	(1,093)
BRL (5% movement)	2,939	(2,939)
ZAR (5% movement)	678	(678)
CHF (5% movement)	(9,041)	9,041
GBP (5% movement)	254	(254)
ARS (5% movement)	1	(1)

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 Group constantly monitors its trade receivables and an ageing analysis is disclosed in Note 9. Trade and Other Receivables.

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

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 the item category of financial instruments.

passenger deposits and sell onboard activities in advance with long lead times ahead of sailing.

Specifically, as of December 31, 2017, the Group had a working capital deficit (Current Liabilities less Current Assets) of EUR 296.1 million (EUR 337.1 million as of December 31, 2016). This deficit included EUR 382.5 million of customer deposits (EUR 282.5 million as of December 31, 2016), which represent the passenger revenues already generated for cruises departing over the next twelve months and, accordingly, are substantially more like deferred revenue balances rather than actual current cash liabilities. After excluding cash and cash equivalents, the current portions of derivatives and of long-term financial debt and bank overdrafts, the adjusted operating working capital deficit as of December 31, 2017 was EUR 338.8 million (EUR 329.2 million as of December 31, 2016).

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 100 million as of December 31, 2016), unused as of 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 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 summarizes the remaining contractual maturities, which represent cash flows including interests, of the Group's financial liabilities as of December 31, 2017 and 2016:

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

in KEUR	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Trade and other payables (including employee payables)	291,327	-	-	291,327
Bank overdraft and other short-term borrowings	51,143	-	-	51,143
Financial debt	305,650	1,287,535	1,272,818	2,866,003
Derivatives on interest rates ⁽¹⁾	24,760	61,986	65	86,811
Derivatives on fuel price	7	-	-	7
At December 31, 2016	672,887	1,349,521	1,272,883	3,295,291

⁽¹⁾ Including only derivatives classified as liabilities

Contractual maturities refer only to the outstanding financial debt as of December 31, 2017 and do not include future capital commitments.

A reasonably possible change of 100 basis points in the zero-coupon

Derivatives held for trading

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)
Total	(106,078)	(42,430)	21,215

Derivatives – Hedge accounting (OCI)

in KEUR - At December 31, 2017	Shift -100 bps	Future Cash-Out	Shift +100 bps
MSC Armonia	(2,181)	(669)	842
MSC Sinfonia	(1,624)	(214)	1,196
Facility A -Swap 2	(2,937)	(19)	2,898
MSC Lirica	(2,132)	(486)	1,161
Facility A	(22,862)	(6,161)	10,541
MSC Fantasia	(7,535)	(2,763)	2,009
MSC Splendida	(9,261)	(3,395)	2,471
MSC Preziosa	(19,197)	(372)	18,452
Total	(67,729)	(14,079)	39,570

Derivatives held for trading

in KEUR - At December 31, 2016	Shift -100 bps	Future Cash-Out	Shift +100 bps
MSC Divina	(54,407)	(41,366)	(28,326)
MSC Musica	(2,318)	(1,723)	(1,126)
MSC Poesia	(2,280)	(1,860)	(1,439)
Other	(2,252)	(356)	1,538
Total	(61,257)	(45,305)	(29,353)

Derivatives – Hedge accounting (OCI)

in KEUR - At December 31, 2016	Shift -100 bps	Future Cash-Out	Shift +100 bps
MSC Armonia	(3,012)	(1,152)	708
MSC Sinfonia	(2,299)	(570)	1,158
MSC Lirica	(2,930)	(942)	1,045
Facility A	(32,593)	(11,357)	9,879
MSC Fantasia	(11,095)	(4,384)	2,328
MSC Splendida	(13,242)	(5,337)	2,568
MSC Meraviglia	(39,398)	(10,892)	17,612
MSC Bellissima	(34,908)	(6,872)	21,164
Total	(139,477)	(41,506)	56,462

A reasonably possible change of 100 basis points in the zero-coupon curves of market interest rates as of balance sheet date would have had the following impact on the future cash outflows

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 as of 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

in KEUR - At December 31, 2016	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Shift -100bps	291,685	1,241,807	1,050,332	2,583,824
Interest rates curve as of December 31, 2016	305,650	1,287,535	1,272,818	2,866,003
Shift +100bps	321,818	1,347,347	1,300,478	2,969,643

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

related to the financial liabilities (amounts un-discounted). This analysis assumes that all other variables remain constant:

country in which the ship is constructed, notably Bpifrance Assurance Export and SACE, the official export credit agencies of 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, 2017.

21.FUTURE CAPITAL COMMITMENTS

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

in KEUR	Amount
Ship construction contracts ⁽¹⁾	4,486,920
Commitments related to Ocean Cay MSC Marine Reserve	110,426
Other commitments given	3,066

⁽¹⁾ Bellissima, Seaview, Grandiosa, Vista 4, Seaside EVO (1,2) and other equipments

The Group anticipates payment, related to the ship construction contracts, for EUR 1,115 million in 2018, EUR 944.5 million in 2019 and EUR 829.5 million in 2020.

Ship construction contracts

The Group has three ships (Seaside Class) on order from Fincantieri for delivery in 2018, 2021 and 2023. The contract price of those ships is approximately EUR 2,478 million, of which EUR 138 million had been advanced as of December 31, 2017. The Group has export credit financing in place that provides financing for 80% of the ship to be delivered in 2018.

The group has orders from STX France for MSC Bellissima (the second Meraviglia-Class ship) to be delivered in March 2019 and two additional Meraviglia-Plus ships for delivery in 2019 and 2020. The combined contract price of the three ships is approximately EUR 2,322 million, of which EUR 242.5 million had been advanced as of December 31, 2017. The Group has export credit financing in place that provides financing for 80% of the ships' contract price.

In March 2017, the Group received commitments for the secured financing of the Meraviglia-Plus ships for up to 80% of the ships' contract price through a facility to be fully guaranteed by Bpifrance Assurance Export, the official export credit agency of France. In April 2017, the Group entered into a financing arrangement for the financing of these ships. Through the financing arrangement the

The table below details anticipated capital expenditures as of December 31, 2017:

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 1,334.3 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. Interest on the loan will accrue at a fixed rate of 119 bps (inclusive of the applicable margin).

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. Development work began in 2016. The capitalised cost as of December 31, 2017 amounted to EUR 64.1 million (EUR 13.7 as of December 31, 2016).

Other commitments

Other commitments given mainly included marketing commitments (sport sponsorships) resulting from contracts which may cover several periods/seasons for an amount of EUR 3.1 million.

22. OPERATING LEASES

Other operating lease contracts

The Group companies have entered into various agreements for office rentals, computer and office equipment with terms ranging from 1 to 15 years. The minimum commitments as of the balance sheet date were as follows:

in KEUR	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Computer & other equipment	405	583	1	989
Building rental	3,967	8,795	1,119	13,881
At 31 December 2017	4,372	9,378	1,120	14,870
Computer & other equipment	303	32	-	335
Building rental	2,261	7,354	-	9,615
At 31 December 2016	2,564	7,386	-	9,950

23. OFF BALANCE SHEET COMMITMENTS

Pledged assets

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

Guarantees

As of December 31, 2017 the following guarantees were in place:

Category of guarantee - in KEUR	Amount
Guarantees given to consumer protection authorities	46,132
Guarantees given to suppliers	1,438
Guarantees received from travel agencies	(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 domiciled in these 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 obligations to

passengers and, to that end, is required to maintain a USD 29.4 million 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. and, accordingly, has established a GBP 8.2 million and EUR 0.2 million bonds with the Association of British Travel Agents.

24. SHARE CAPITAL AND RESERVES

Share capital

The authorized, issued and fully paid-up share capital is comprised of 250 registered shares of CHF 1,000 par value each and amounts to EUR 159 thousand. 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 re-measurement 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.

25. 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	2017	2016
Sales of services		
Sale of services to related parties	1,172	1,211
Sale of services to joint ventures	1,353	1,204
Total	2,525	2,415
Financial Income		
Interest income from related parties	1,471	3,288
Total	1,471	3,288
Purchases of services		
Purchases of services from related parties	(51,155)	(36,385)
Purchases of services from joint ventures	(5,008)	(3,863)
Total	(56,163)	(40,248)

Year-end balances arising from sales and purchases of services with related parties were as follows:

	At December 31,	
in KEUR	2017	2016
Long-term receivables from related parties	180,740	201,554
Long-term receivables from related parties (Note 20)	180,740	201,554
Receivables from related parties	8,358	5,625
Receivables from joint ventures	9,529	8,470
Trade and other receivables from related parties (Note 9)	17,887	14,095
Prepayments to related parties	15,216	6,056
Prepayments to related parties (Note 11)	15,216	6,056
Total	213,843	221,705
Payables to related parties	51,417	33,086
Payables to joint ventures	5,644	5,800
Trade and other payables to related parties (Note 16)	57,061	38,886
Total	57,061	38,886

26. SUBSEQUENT EVENTS

Ocean Cay Financing

In 2018 the Group entered into two separate Export Credit Financing agreements respectively of EUR 100 million guaranteed by BPI France and of EUR 55.6 million guaranteed by SACE, related to the development of Ocean Cay.

Acquisition of the control of MSC Kruvaziyer Turizm AS

On the 14th of February 2018 MSC Cruises SA acquired the

residual 50% shares of MSC Kruzvazyer Turism AS, MSC Cruises general sales agent for the Turkish market, for an amount of USD 369 thousand.

No other events took place between December 31, 2017 and the date of the approval of these consolidated financial statements that would require adjustments or would need to be disclosed under this heading.

27. LIST OF GROUP ENTITIES

At December 31,					
	Country	2017		2016	
		Interest held	Consolidation method	Interest held	Consolidation method
HOSPEDAGM DE POMENE (MOZAMBIQUE) LDA	Mozambique	100%	I	100%	I
KWAZULU CRUISE TERMINAL (PTY) LTD	South Africa	70%	I	70%	I
MARSEILLE PROVENCE CRUISE TERMINAL SAS	France	50%	E	50%	E
MEDITERRANEAN CRUISES TRAVEL AGENCY (SHANGHAI) CO LTD	China	50%	E	50%	E
MSC ACCADEMIA DELLE SCIENZE INFORMATICHE SRL	Italy	100%	I	100%	I
MSC CROCIERE SA CO	United States	100%	I	100%	I
MSC CRUCEROS SA	Argentina	95%	I	95%	I
MSC CRUCEROS SA	Spain	100%	I	100%	I
MSC CRUISES ASIA COMPANY LTD	China	100%	I	100%	I
MSC CRUISES (AUSTRALIA) PTY LTD	Australia	100%	I	100%	I
MSC CRUISES BELGIUM NV	Belgium	100%	I	100%	I
MSC CRUISES BARCELONA TERMINAL SL	Spain	100%	I	-	-
MSC CRUISES JAPAN LTD	Japan	100%	I	100%	I
MSC CRUISES LIMITED	UK	100%	I	100%	I
MSC CRUISES SCANDINAVIA AB	Sweden	100%	I	100%	I
MSC CRUISES SHIP MANAGEMENT (SHANGHAI) LTD.	China	100%	I	100%	I
MSC CRUISES SHIPPPING SERVICE (SHANGHAI) LTD.	China	100%	I	-	-
MSC CRUISES THE NETHERLANDS BV	Netherlands	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 CRUZEIROS SA	Portugal	98%	I	98%	I
MSC ITALCATERING DO BRASIL LTDA	Brazil	99%	I	99%	I
MSC FOOD & BEVERAGE DIVISION SPA	Italy	100%	I	100%	I
MSC LOGISTICS (MOZAMBIQUE) LTD	Mozambique	100%	I	100%	I
MSC MEDIAGRAFICA SRL	Italy	100%	I	100%	I
MSC OCEAN CAY LTD	Bahamas	100%	I	100%	I
MSC KREUZFAHRTEN AG	Switzerland	100%	I	100%	I
MSC KREUZFAHRTEN (AUSTRIA) GMBH	Austria	100%	I	100%	I
MSC KREUZFAHRTEN GMBH	Germany	100%	I	100%	I

At December 31,					
	Country	2017		2016	
		Interest held	Consolidation method	Interest held	Consolidation method
MSC KRSTARENJA DOO	Croatia	100%	I	100%	I
MSC KRUVAZIYER TURIZM AS	Turkey	50%	E	50%	E
MSC STARLIGHT CRUISES PTY LTD	South Africa	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 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
MSC MALTA SEAFARERS COMPANY LTD	Malta	100%	I	100%	I
PREZIOSA CRUISE LIMITED	UK	100%	I	100%	I
NUALY INVESTMENTS INC	Panama	100%	I	100%	I
COMPañIA NAVIERA EVO 1 SA	Panama	100%	I	-	-
COMPañIA NAVIERA EVO 2 SA	Panama	100%	I	-	-
COMPañIA NAVIERA FANTASIA SA	Panama	100%	I	100%	I
COMPañIA NAVIERA MERAVIGLIA 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 PREZIOSA SA	Panama	100%	I	100%	I
COMPañIA NAVIERA SEASIDE 1 SA	Panama	100%	I	100%	I
COMPañIA NAVIERA SEASIDE 2 SA	Panama	100%	I	100%	I
COMPañIA NAVIERA SERENATA 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	-	-
COMPañIA NAVIERA VISTA 4 SA	Panama	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
SNC FANTASIA BAIL	France	100%	I	100%	I
SNC SPLENDIDA BAIL	France	100%	I	100%	I

I: Full consolidation method

E: Equity method

PARENT COMPANY MSC CRUISES SA FINANCIAL STATEMENTS

December 31, 2017

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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 2017, 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 107 to 134) for the year ended 31 December 2017 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.



Revenue recognition

Key Audit Matter

In 2017, the entity has revenues from passenger tickets amounting to EUR 1.567 million and on-board revenue amounting to EUR 547 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.

Our response

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 adjustment for cruise voyages over year-end by comparing 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

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.

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 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.



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.



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, 29 March 2018

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

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PRIMARY STATEMENTS

December 31, 2017

BALANCE SHEET

Assets	Notes	KEUR - At December 31,		KCHF - At December 31,	
		2017	2016	2017	2016
Current assets					
Cash and cash equivalents		274,760	185,168	321,092	198,885
Trade receivables					
- Third parties	3	62,286	44,082	72,789	47,348
- Related parties	3	97,663	82,376	114,131	88,480
Other current assets					
- Third parties		7,739	9,593	9,044	10,300
- Related parties		14,922	3,464	17,438	3,721
Derivatives on fuel price	4	27,591	841	32,244	903
Inventories	5	63,032	50,277	73,658	54,000
Prepaid expenses and accrued income					
- Third parties		54,982	36,837	64,253	39,565
- Related parties		19,147	91,109	22,374	97,861
Total current assets		622,122	503,747	727,023	541,063
Non-current assets					
Financial assets					
- Guarantee deposits		4,469	8,171	5,223	8,776
- Long-term receivables from related parties	6	462,731	284,505	540,760	305,588
Other non-current assets	7	22,765	16,570	26,604	17,799
Derivatives on interest rates	4	16,851	25,449	19,692	27,335
Derivatives on fuel price	4	12,677	14,083	14,815	15,127
Investments	8	20,277	19,192	23,697	20,613
Property, plant and equipment	9	67,719	17,394	79,135	18,682
Intangible assets	9	21,761	8,859	25,429	9,515
Total non-current assets		629,250	394,223	735,355	423,435
Total Assets		1,251,372	897,970	1,462,378	964,498

BALANCE SHEET

Liabilities and Shareholders' Equity	Notes	KEUR - At December 31,		KCHF - At December 31,	
		2017	2016	2017	2016
Current liabilities					
Trade payables					
- Third parties		43,367	77,115	50,680	82,829
- Related parties		98,171	58,011	114,724	62,310
Bank overdrafts and interest-bearing short-term borrowings	10	5,812	52,049	6,793	55,906
Current portion of interest-bearing long-term financial debt	11	16,642	16,428	19,449	17,645
Other current liabilities	12	7,650	8,893	8,940	9,542
Derivatives on fuel price	4	27,591	841	32,244	903
Current provisions		4,821	4,026	5,634	4,324
Customer deposits and time charter advances		310,402	240,487	362,743	258,309
Accrued expenses and deferred income					
- Third parties		100,484	39,432	117,426	42,051
- Related parties		21,331	44,859	24,930	48,182
Total current liabilities		636,271	542,141	743,563	582,001
Non-current liabilities					
Interest-bearing long-term financial debt	11	558,891	297,030	653,135	319,040
Other non-current liabilities		3,667	-	4,285	-
Non-current provisions	13	3,799	3,828	4,440	4,413
Derivatives on interest rates	4	16,851	25,449	19,692	27,335
Derivatives on fuel price	4	12,677	14,083	14,815	15,127
Total non-current liabilities		595,885	340,390	696,367	365,915
Total liabilities		1,232,156	882,531	1,439,930	947,916
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		15,238	12,598	16,273	13,477
- Profit for the year		3,777	2,640	4,193	2,877
- Currency translation reserve		-	-	1,672	(82)
Total shareholders' equity		19,216	15,439	22,448	16,582
Total Liabilities and Shareholders' Equity		1,251,372	897,970	1,462,378	964,498

INCOME STATEMENT

	Notes	KEUR - At December 31,		KCHF - At December 31,	
		2017	2016	2017	2016
Operating income					
Income from operations	15	2,186,820	1,877,833	2,427,694	2,047,043
Other operating income		9,979	5,964	11,078	6,501
Total operating income		2,196,799	1,883,797	2,438,772	2,053,544
Operating expenses					
Vessels hire and related operating expenses	16	(1,994,134)	(1,733,576)	(2,213,789)	(1,889,782)
Selling, general and administrative expenses	17	(166,610)	(145,385)	(184,957)	(158,488)
Total operating expenses		(2,160,744)	(1,878,961)	(2,398,746)	(2,048,270)
Operating result		36,055	4,836	40,026	5,274
Financial income	18	4,811	91,992	5,341	100,282
Financial expenses	18	(35,175)	(95,607)	(39,049)	(104,224)
Non-operating income		166	3	184	3
Non-operating expenses		-	(129)	-	(141)
Extraordinary, non-recurring or prior period income	19	104	2,890	116	3,150
Extraordinary, non-recurring or prior period expenses	19	(1,715)	(976)	(1,904)	(1,064)
Profit for the year before taxes		4,246	3,009	4,714	3,280
Direct taxes		(469)	(369)	(521)	(403)
Profit for the year		3,777	2,640	4,193	2,877

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

December 31, 2017

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 to organise and sell cruise voyages.

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).

It should be noted that 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 formula. 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 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. Customer deposits represent unearned revenue from advance

ticket sales for future voyages and are initially recorded as 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 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 adjusted for impairment losses.

Property, plant and equipment

Property, plant and equipment (PP&E) 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 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 (refer to note 2. Accounting principles applied in the preparation of the financial statements under the item Revenue recognition).

Trade receivables are recorded at their original net invoice amount.

The allowance for doubtful receivables represents the Company's estimate of incurred 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. Therefore, any leasing or rental costs are recognised

as expenses in the period they are incurred. The leased or rented assets are not recognised on the balance sheet.

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	2017	2016
Exchange rate as of December 31	1.16863	1.07410
Average exchange rate	1.11015	1.09011

03. TRADE RECEIVABLES

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Trade receivables - Third parties, gross	64,943	46,417	75,894	49,856
Trade receivables - Third parties, allowance	(2,657)	(2,335)	(3,105)	(2,508)
Trade receivables - Third parties, net	62,286	44,082	72,789	47,348
Trade receivables - Related parties, gross	113,960	98,673	133,176	105,985
Trade receivables - Related parties, allowance	(16,297)	(16,297)	(19,045)	(17,505)
Trade receivables - Related parties, net	97,663	82,376	114,131	88,480
Trade receivables, net	159,949	126,458	186,920	135,828

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Trade receivables - Third parties, allowance				
As of January 1	(2,335)	(2,530)	(2,508)	(2,725)
Utilisation/reversal of previous years allowance	1,066	848	1,246	911
Additional allowance	(1,388)	(653)	(1,622)	(701)
Exchange differences	-	-	(221)	8
As of December 31	(2,657)	(2,335)	(3,105)	(2,508)

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.

From December 31, 2016 the Company has effectively transferred the effects of such derivatives on its assets and liabilities to the relevant subsidiaries by entering into internal derivatives agreements.

	KEUR - At December 31,		KCHF - At December 31,	
Impact of derivatives on fuel price on assets and liabilities	2017	2016	2017	2016
Impact on assets				
Current assets	27,591	841	32,244	903
Non-current assets	12,677	14,083	14,815	15,127
As of December 31	40,268	14,924	47,059	16,030
Impact on liabilities				
Current liabilities	27,591	841	32,244	903
Non-current liabilities	12,677	14,083	14,815	15,127
As of December 31	40,268	14,924	47,059	16,030
Net impact on assets and liabilities	-	-	-	-

	KEUR - At December 31,		KCHF - At December 31,	
Impact of derivatives on fuel price on income statement	2017	2016	2017	2016
Impact on income statement				
Financial income	-	58,409	-	63,672
Financial expenses	-	(33,568)	-	(36,593)
Net impact on income statement	-	24,841	-	27,079

	KEUR - At December 31,		KCHF - At December 31,	
Impact of derivatives on interest rate on assets and liabilities	2017	2016	2017	2016
Impact on assets				
Non-current assets	16,851	25,449	19,692	27,335
At December 31	16,851	25,449	19,692	27,335
Impact on liabilities				
Non-current liabilities	16,851	25,449	19,692	27,335
At December 31	16,851	25,449	19,692	27,335
Net effect on assets and liabilities	-	-	-	-

	KEUR - At December 31,		KCHF - At December 31,	
Impact of derivatives on interest rate on income statement	2017	2016	2017	2016
Impact on income statement				
Financial income	-	28,997	-	31,610
Financial expenses	-	(49,930)	-	(54,429)
Net effect on income statement	-	(20,933)	-	(22,819)

05. INVENTORIES

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Onboard inventories	54,646	44,752	63,858	48,066
Ashore inventories	11,380	8,133	13,300	8,735
Inventories, gross	66,026	52,885	77,158	56,801
Allowance for obsolete inventories	(2,412)	(2,026)	(2,819)	(2,176)
General allowance on inventories	(582)	(582)	(681)	(625)
Inventories, allowance	(2,994)	(2,608)	(3,500)	(2,801)
Inventories, net	63,032	50,277	73,658	54,000

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Allowance for obsolete inventories				
As of January 1	(2,026)	(7,567)	(2,176)	(8,151)
Utilisation/reversal of previous years allowance	(386)	6,284	(429)	6,850
Additional allowance	-	(743)	-	(810)
Exchange differences	-	-	(214)	(65)
As of December 31	(2,412)	(2,026)	(2,819)	(2,176)

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
General allowance on inventories				
As of January 1	(582)	(1,704)	(625)	(1,836)
Utilisation/reversal of previous years allowance	-	1,122	-	1,223
Exchange differences	-	-	(56)	(12)
As of December 31	(582)	(582)	(681)	(625)

06. LONG-TERM RECEIVABLES FROM RELATED PARTIES

As of December 31, 2017 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,		KCHF - At December 31,	
	2017	2016	2017	2016
Long-term prepaid expenses	4,144	-	4,843	-
Italian VAT receivables	17,146	15,656	20,037	16,817
Other non-current assets	1,475	914	1,724	982
Total other non-current assets	22,765	16,570	26,604	17,799

Other non-current assets as of December 31, 2017 mainly consist of Italian VAT receivables amounting to KEUR 17,146 (KCHF 20,037), as of December 31, 2016 KEUR 15,656 (KCHF 16,817). These receivables, related to reimbursement claims

filed for the years 2009 through to 2017, are not expected to be collected within the next twelve-month period due to the timeframe of the recovery process.

08. INVESTMENTS

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Gross value				
As of January 1	28,378	19,729	30,482	21,253
Acquisitions / new entities / recapitalisation	1,085	8,649	1,205	9,428
Exchange differences	-	-	2,745	(199)
As of December 31	29,463	28,378	34,432	30,482
Accumulated allowance				
As of January 1	(9,186)	(9,186)	(9,869)	(9,895)
Additional allowance	-	-	-	-
Exchange differences	-	-	(866)	26
As of December 31	(9,186)	(9,186)	(10,735)	(9,869)
Investments as of January 1, net	19,192	10,543	20,613	11,358
Investments as of December 31, net	20,277	19,192	23,697	20,613

The increase mainly includes an investment in a service provider for shipping management in Shanghai, China.

The following table lists subsidiaries, joint ventures and associates as well as the related percentage of share capital owned as of December 31, 2017 and December 31, 2016:

Company	Country	Investment held 2017	Investment held 2016
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	100%	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, S.L.	Spain	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%	-
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	50%	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%
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				
As of January 1, 2017	20,079	29,179	21,566	31,341
Acquisitions	52,574	17,717	57,311	19,098
Reclasses	-	2,759	-	3,224
Write-off/disposals	(1,357)	-	(1,479)	-
Exchange differences	(54)	-	5,854	4,364
As of December 31, 2017	71,242	49,655	83,252	58,027
Accumulated depreciation and amortisation				
As of January 1, 2016	(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 differences	16	-	(303)	(2,516)
As of December 31, 2017	(3,523)	(27,894)	(4,117)	(32,598)
Net book value as of January 1, 2017	17,394	8,859	18,682	9,515
Net book value as of December 31, 2017	67,719	21,761	79,135	25,429

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 one of the island in the

Bahamas named Ocean Cay. Development work began in 2016, with a view to open the facilities in November 2019.

	in KEUR		in KCHF	
	PP&E	Intangible assets	PP&E	Intangible assets
Gross value				
As of January 1, 2016	14,251	21,276	15,351	22,918
Acquisitions	15,622	7,903	16,683	8,441
Write-off/disposals	(9,794)	-	(10,459)	-
Exchange differences	-	-	(9)	(18)
As of December 31, 2016	20,079	29,179	21,566	31,341
Accumulated depreciation and amortisation				
As of January 1, 2016	(7,737)	(15,392)	(8,335)	(16,581)
Depreciation and amortisation	(1,818)	(4,939)	(1,941)	(5,274)
Write-off/disposals	6,870	11	7,337	12
Exchange differences	-	-	55	17
As of December 31, 2016	(2,685)	(20,320)	(2,884)	(21,826)
Net book value as of January 1, 2016	6,514	5,884	7,016	6,337
Net book value as of December 31, 2016	17,394	8,859	18,682	9,515

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

As of December 31, 2017 bank overdrafts and interest-bearing short-term borrowings decreased primarily because of the reimbursement of the main revolving credit facility. The Group manages the seasonal nature of its liquidity by making use of a EUR 160 million revolving credit facility (EUR 100 million as of December 31, 2016), of which

none had been drawn down as of December 31, 2017 (EUR 40 million as of December 31, 2016, equivalent to CHF 43 million). The facility bears interest at Euribor 3m/6m plus a spread, which may vary from 175 basis points (bps) to 300 bps (250 bps as of December 31, 2016) depending on specific conditions.

11. INTEREST-BEARING FINANCIAL DEBT

	Duration loan (years)	Repayment terms (months)	Loan original value (KEUR)	KEUR - At December 31,		KCHF - At December 31,	
				2017	2016	2017	2016
Senior loan	12 y	3 m	156,944	120,354	132,608	140,649	142,434
Commercial loan	6 y	3 m	19,000	-	-	-	-
Bond (MCHF195)	5 y	12 m	180,700	166,296	180,850	194,338	194,251
Bond (MCHF335)	6 y	12 m	303,140	288,883	-	337,597	-
Total interest-bearing financial debt			659,784	575,533	313,458	672,584	336,685

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

As of December 31, 2017 other current liabilities included amounts payable to pension funds concerning administrative

salaries for KEUR 212, which corresponds to KCHF 248 (KEUR 352 as of December 31, 2016, which corresponds to KCHF 379).

13. NON-CURRENT PROVISIONS

As of December 31, 2017 non-current provisions are mainly due to the estimated risk for claims asserted by passengers amounting

to KEUR 3,468 (KCHF 4,053). As of December 31, 2016 this risk was estimated at KEUR 3,183 (KCHF 3,720).

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 as of December 31, 2017 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 2017.

15. INCOME FROM OPERATIONS

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Ticket revenue	1,566,620	1,307,796	1,739,179	1,425,639
Time charter revenue	73,386	96,268	81,469	104,943
Onboard revenue	546,814	473,769	607,046	516,461
Total income from operations	2,186,820	1,877,833	2,427,694	2,047,043

16. VESSEL HIRE AND RELATED OPERATING EXPENSES

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Vessels hire and running expenses	(1,292,118)	(1,134,361)	(1,434,446)	(1,236,572)
Travel agencies commissions	(178,190)	(143,248)	(197,818)	(156,156)
Other operating commissions	(112,972)	(104,676)	(125,416)	(114,110)
Passengers travel expenses	(135,712)	(106,109)	(150,660)	(115,671)
Onboard sales costs	(274,213)	(244,145)	(304,418)	(266,143)
Depreciation of property, plant and equipment	(249)	(1,037)	(276)	(1,130)
Amortisation of intangible assets	(680)	-	(755)	-
Total vessels hire and related operating expenses	(1,994,134)	(1,733,576)	(2,213,789)	(1,889,782)

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Marketing expenses	(78,562)	(67,694)	(87,212)	(73,792)
Administrative salaries and social charges	(36,578)	(32,177)	(40,607)	(35,075)
Repairs and maintenance on hardware and software	(5,684)	(4,889)	(6,309)	(5,327)
Depreciation of property, plant and equipment	(1,169)	(781)	(1,298)	(852)
Amortisation of intangible assets	(6,894)	(4,939)	(7,652)	(5,385)
Other general and administrative expenses	(37,723)	(34,905)	(41,879)	(38,057)
Total selling, general and administrative expenses	(166,610)	(145,385)	(184,957)	(158,488)

18. FINANCIAL INCOME AND EXPENSES

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Gain on derivatives on interest rates	-	28,997	-	31,610
Gain on derivatives on fuel price	-	58,409	-	63,672
Dividends	2,168	139	2,407	152
Interests on long-term receivables from related parties	1,973	4,352	2,190	4,744
Other financial income	670	95	744	104
Total financial income	4,811	91,992	5,341	100,282

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Loss on derivatives on interest rates	-	(49,930)	-	(54,429)
Loss on derivatives on fuel price	-	(33,568)	-	(36,593)
Interests on interest-bearing long-term financial debt	(9.454)	(5.176)	(10.496)	(5.643)
Interests on derivatives on interest rates	-	(4,692)	-	(5,116)
Exchange differences	(22,832)	722	(25,347)	787
Other financial expenses	(2.889)	(2.963)	(3.206)	(3.230)
Total financial expenses	(35,175)	(95,607)	(39,049)	(104,224)

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

Extraordinary, non-recurring or prior-period income mainly included the cancellation of certain trade payables.

Extraordinary, non-recurring or prior-period expenses were

mainly related to previously not accrued costs and cancellation of non-recoverable VAT receivables.

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 as of December 31, 2017. 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

Up to 2015 the vessels operated by the Company were hired based on lease agreements in which daily rates were set for a twelve-month period, which was then regularly extended. In

2016 the Company entered into multi-year lease agreements for the operation of the same vessels.

	KEUR - At December 31,		KCHF - At December 31,	
Future minimum lease payments	2017	2016	2017	2016
Less than 1 year	429,640	311,630	502,090	334,722
From 1 to 5 years	1,638,976	1,277,075	1,915,357	1,371,707
More than 5 years	1,636,382	1,157,115	1,912,325	1,242,858
Total future minimum lease payments	3,704,998	2,745,820	4,329,772	2,949,287

Other commitments

As of December 31, 2017 there were commitments resulting from:

	KEUR - At December 31,		KCHF - At December 31,	
	2017	2016	2017	2016
Rental lease contracts	6,899	9,615	8,062	10,327
Other lease contracts	-	1,390	-	1,493
Sponsorships	3,066	523	3,583	562
Total other commitments	9,965	11,528	11,645	12,382

Guarantees

As of December 31, 2017 the Company issued various guarantees in favour of third parties for an amount totalling KEUR 12,138,

which corresponds to KCHF 14,185 (KEUR 38,082 as of December 31, 2016, which corresponds to KCHF 40,904).

22. DISSOLUTION OF HIDDEN RESERVES

During 2017, hidden reserves were neither released nor accrued. In 2016 hidden reserves were released for an amount of KEUR 1,122,

corresponding to KCHF 1,211 inclusive of exchange rate differences (refer to Note 5 Inventories).

23. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In 2018 the Group entered into two separate Export Credit Financing agreements respectively of EUR 100 million guaranteed by BPI France and of EUR 55.6 million guaranteed by SACE, related to the development of Ocean Cay.

On the 14th of February 2018 MSC Cruises SA acquired the residual 50% shares of MSC Kruzvazyur Turizm AS, MSC Cruises general sales agent for the Turkish market, for an amount of KUSD 369 (KEUR 299).

PROPOSED APPROPRIATION OF PROFIT



PROPOSED APPROPRIATION OF PROFIT

	in EUR	in CHF
Profit carried forward	15,238,175	16,273,109
Profit for the year	3,776,822	4,192,844
Currency translation reserve	-	1,672,214
Retained earnings available to shareholders	19,014,997	22,138,167
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	19,014,997	22,138,167

