

INSIDE VIEW:

CELEBRITY TODAY AND TOMORROW

Celebrity Cruises President and CEO Dan Hanrahan spoke about the line on the occasion of Celebrity Eclipse's entry into service

by

Richard H. Wagner

Dan Hanrahan is in charge of a cruise line undergoing a dramatic transformation. During its 20 year history, Celebrity Cruises, a subsidiary of Royal Caribbean Cruises Ltd., has developed a reputation for sophisticated cruising on elegant ships that has earned it a loyal following. Rather than rest on its laurels, however, Celebrity is in the midst of adding five new and innovative 120,000 gross ton ships to its fleet, substantially changing four others and saying farewell to some of its older ships. At the same time, the line is expanding its footprint, entering new markets both within and outside of the United States.

Leading the Way

At the forefront of the wave of change moving through Celebrity are five new ships referred to as the Solstice class - a \$3.7 billion investment. The first ship in the class, Celebrity Solstice, entered service in late 2008; the second, Celebrity Equinox, premiered some six months later; and the

third, Celebrity Eclipse had her inaugural cruise in April 2010. Built in Germany by Meyer Werft, the Solstice class ships have been hailed for their innovation both in their public spaces and in their use of technology.

The public spaces of the Solstice-class ships include 10 restaurants as well as numerous entertainment alternatives. However, what most sets them apart is the attention to detail in their design that makes them not only visually interesting but also makes them spacious and conducive to good passenger flow. "We think the public spaces that we worked so hard to design with absolutely amazing designers have really turned out well and have made these ships distinct and very different. There are also great places to party."

The Solstice class also features guest accommodations that are larger than on previous Celebrity ships. 90 percent of the staterooms are outside and 85 percent have verandas. While the ships also boast luxury suites, the jewel in the crown from an accommodations viewpoint are a series of staterooms that have their own restaurant. "The Aqua Class staterooms, which are tied

into the spa, have been a big success for us almost as much because of the Blu restaurant as anything else. Obviously, the tie into the spa and the amenities that we have in the rooms are important but a lot of the feedback that I have been getting is that the Blu restaurant makes those staterooms very, very special."

The newest of these ships, Eclipse, is not a mere clone of her two predecessors. "The artwork is always different on every ship. We begin with our art partner very, very early in the design process, talking about what we want to accomplish on the ship. Our art partner comes back with an in-depth presentation that is always scheduled for two hours but usually takes four to six when we get through everything they have to show us. You can tell why when you see the number of pieces of art on the ships. So art is an important, an integral part of what happens on the ship."

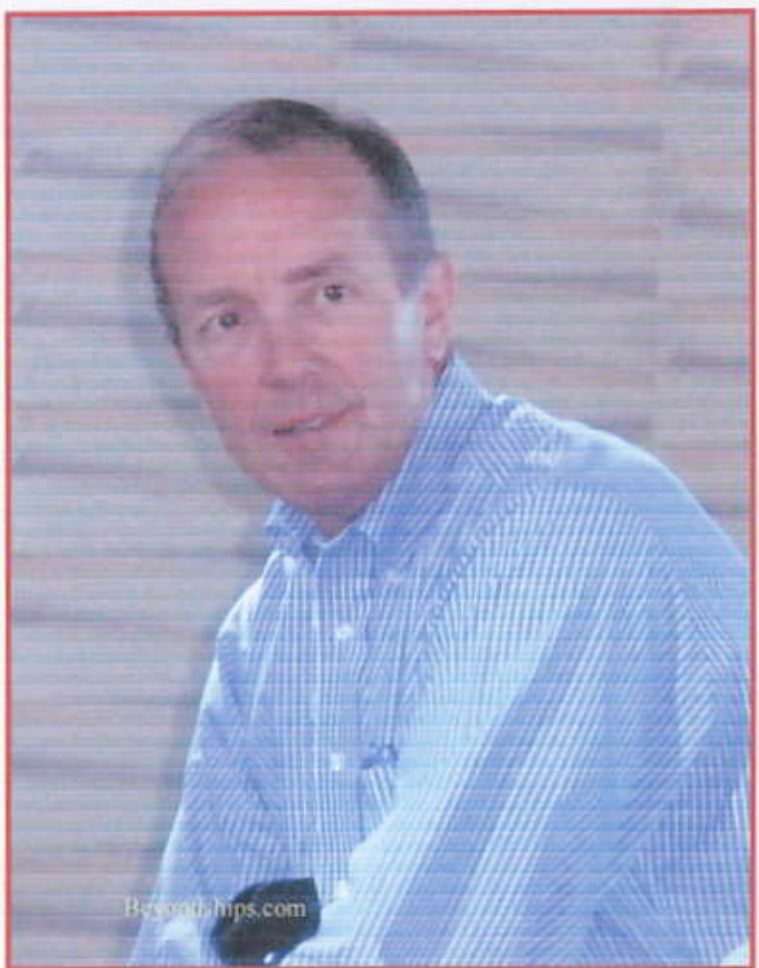
"But we made some other changes. We have the addition of Qsine. We wanted a new restaurant on this ship. We thought after two of them, we should start to make some changes to the dining. Qsine is truly spectacular looking but it is even more interesting in the food. Pick up one of the I-pads and look at the menu and you'll see that it is something very different and very interesting."

"We also made some structural changes. You'll notice that the grand staircase in the foyer is changed. I think my favorite on the ship is the entrance to the spa, which seems to be much more inviting. It separates the gym from the spa so it makes the gym experience better and I think it makes the spa experience better."

"We always look at what we can do to improve. But we have to strike the right balance because we think that we have done a pretty good job on the Solstice class of ships. We don't want to change for the sake of change. We want to make sure that any changes we make have a real impact on the experience of the guests."

Eclipse will be based in Southampton, England and so one set of changes was made in order to make the guests who Celebrity anticipates will be sailing on the ship feel more at home. "You'll notice that there are tea kettles in the staterooms. We have changed some of the entertainment - - one of our shows is really focused around British rockers. We have some different foods in the Oceanview Café. We have also put on some different wines, spirits and ales. So, we made a number of changes because we are anticipating about 80 percent of our guests will be from the UK and Ireland. Having said that, we run a pretty consistent product around the world and all nationalities and all cultures gravitate to it and enjoy it pretty well."

With regard to technological innovation, Mr.



Dan Hanrahan

Hanrahan noted that the Solstice-class ships were designed with environmental considerations in mind. "This ship was designed from the hull up. Normally, what we do is design the public areas and we put a hull underneath it. But, we designed this hull first to make the most fuel efficient hull. Then, we have a Teflon-type of paint that goes on the bottom so the ship goes through the water more easily. Many of the lighting points are LED fluorescents versus halogens. If you go in the Solarium you can see those are all solar panels [on the glass roof over the pool]. Those are just a few of the things that we do to conserve energy."

"I think one of the things we are most proud of - - because we are the leaders in the industry - - is our advanced waste water purification systems. We have spent well over \$100 million as a company just to make sure that any water that we put back in the seas is absolutely as clean as possible."

Two more Solstice-class ships, Celebrity Silhouette and another as yet unnamed ship, will be joining the fleet in 2011 and 2012 respectively. "What we will do with the other two ships is still in the design process but for the most part they will be very similar to



what we have here. There may be décor changes but we think that we have hit on a pretty good formula here and we don't want to spend a lot of money re-inventing the wheel. We will do an art package for each of those ships that will have its own unique character but for the most part you'll see what you see [on Eclipse] and you'll see some changes in décor."

Revitalizing Award Winners

While delighted with the success of the Solstice class, that success also caused Celebrity to review the rest of its fleet. Prior to the entry of Solstice into service in 2008, the mainstays of the Celebrity fleet were four 90,000 ton ships built between 2000 and 2002, collectively referred to as the Millennium class. These ships had been very successful with passengers and critics alike but would the public perception of them pale as their newer, larger and more spectacular fleetmates entered service? To ensure that these ships would not suffer by comparison, Celebrity has taken the bold step of committing \$200 million to a substantial transformation of these four ships.

"The Millennium class has been a very decorated class of ships - - consistently in the top 10 of the Conde Nast reader's poll. We had what were arguably the highest rated ships with the Millennium class ships and then we came out with something that was very new and exciting. One of the things we thought was that it was really important to build upon the Solstice class ships - - they have been so successful; they have gotten

so many accolades - - so we said 'why not take some of the best things that are on Solstice and [put them on the Millennium class ships]?' Solsticizing is what we are calling the project to convert the Millennium class ships to have some of the best features of Solstice."

"When Millennium went into dry dock last year, we sort of stuck our toe into the water and we did a little bit. We did carpets, fabrics and things like that. Then, we [implemented] Celebrity Life [the line's new onboard programming concept] across the entire fleet."

"Constellation just went into dry dock and we are going to be doing a number of things to Constellation. For example, the Martini Bar that you see here [on Eclipse], we are going to move into the Grand Foyer on Constellation. So the Martini Bar as you know it that is on Deck 5 [on Constellation] is not going to be there anymore. [As on the Solstice class ships] there will be an ice bar. There will be a Crush where you see the vodka bottles lined up in the center in the ice. We are going to move the Internet Café that is [in the Grand Foyer on Constellation] to a different part of the ship. The Cova Café will turn into Café al Bacio - - so same place but it will be designed very similar to the Al Bacio that we have here. There will be a Gelateria in there. Then, on Deck 5 [on Constellation], where we have that opening down to the Rendezvous, we are going to close that off. We are going to put Cellar Masters in there and we are also going to put Bistro on Five in there. We think when we are done with that and taking the similar decorations that we have in the staterooms [here] into the staterooms and suites

[on Constellation] that we will have really transformed that ship."

"If you have been on the Millennium ships you will remember [the artificial flower shop], which is up on the very, very top of the ship. For the eight years Constellation has been in existence, I think we have sold three flowers in that time we moved that out and did something different. So, we are going to put Tuscan Grille up there. We think by the time that we have done all that we have really taken the best from the Solstice class and it will tie the brand together in a much more powerful way."

Celebrity Infinity and Celebrity Summit will be Solsticized in 2011. Celebrity Millennium will receive the rest of her Solsticizing in 2012.

In addition to the Solstice and Millennium class ships, Celebrity has two smaller ships built between 1995 and 1997 from the Century class. It was recently announced that one of these ships, Celebrity Mercury, will be leaving the Celebrity fleet in 2011 and following Celebrity Galaxy, which left the fleet in 2009, to TUI Cruises. Whether the remaining ship, Celebrity Century, will be Solsticized is an open question. "Four years ago now we spent \$55 million on Century, which seems to have been a very good investment on our part. We are about to embark on this huge investment on the four Millennium class ships. We want to see how it goes Solsticizing [them]. If Solsticizing goes as well as we hope it will, we will take a look at the Century as well."

Navigating New Waters

At the same time that the Celebrity fleet has been changing, the line has also been broadening its footprint, sailing on new itineraries from more ports. In addition to the traditional cruise destinations of the Caribbean and Alaska, Celebrity ships now sail to South America, Europe, the Mediterranean, the Panama Canal, Bermuda, the Galapagos Islands and Canada/New England on a regular basis.

With Celebrity Eclipse, the line is making a substantial commitment to the British/Irish market. "One of the things that we are very excited about is that the ship will be sailing throughout the season out of Southampton. This is the first time at Celebrity that we have done this. We have always had good response from guests from the UK to the Celebrity fleet. We see a market that is growing where cruises are an important part of holidays but still only three percent of total holidays and 10 percent of packages. So it is a market that still has lots and lots of room to grow and we would like to be in on the ground floor of that as much as we possibly can. Depending on how this goes, I can see the UK

market becoming more and more important to us. All indications are - - especially based upon the way Eclipse has been received - - it seems to be an environment in which Celebrity can grow and grow pretty dramatically over the next few years."

In the United States, Celebrity's style of cruising has been embraced by the professional classes and successful urban sophisticates. Cruising has not penetrated the corresponding groups in the UK to the same extent. Therefore, Celebrity sees a need to adapt its marketing.

"At Celebrity, our marketing focus as a whole is on people who have cruise experience and that's the majority of the people we get. Between 20 and 25 percent are first time cruisers but the vast majority are people who have cruised before with us or with another line. When we were talking about coming [to the UK], one of the things we said we had to do because the market is under-penetrated is that we had to cast a little wider net. We have to look at the kind of folks who this type of décor and this type of experience would appeal. We think there is an opportunity to attract first-timers here in the UK market just because of the size of the market and because this product in particular would appeal to them."

The other major cruise lines have also recognized the potential of the UK and European markets and are also deploying their ships to Europe. However, Hanrahan sees Celebrity as positioned to meet this competition. "There will be a lot of capacity in Europe next year, that is a fact. Having said that, as a company, one of things that I think we have done quite well over the past few years is broaden our sourcing. So, we are not sourcing entirely from the United States, we are not sourcing entirely from the UK - - we have really grown our sourcing worldwide. As a result of that, I think we are well-positioned to not have to worry about dropping prices down."

Aside from Europe, Celebrity has been using its smaller ships to develop less traditional homeports in the United States. Even with the departure of Mercury from the fleet, Celebrity plans to continue to develop these ports. "We will continue to serve some of those smaller markets like Baltimore as we go into the future. We still have Century, which is one of the smaller ships."

The line is also on the lookout for new opportunities. "We are always looking for new ports of call and a world cruise is something we have talked about many times. Our sales organization is very bullish on it. I have been the one who has stood in the way. It is a very expensive cruise to operate and I haven't seen for us that the indications are that we could get the kind of prices that we would need to make it a profitable effort for us. But, it is absolutely something that I want in our future. We need to be in the world cruise business."

"We would like to expand our footprint. We are going maybe too slow for some but I think this move to here was a big one. But we would like to go to more places. There is a lot of interest in a world cruise. We will be doing some research in the fall with our Captain's Club members as well as people who do not sail with us to get a better feel for what markets we can expand to in the future."

Recognizing Old Friends

Although change is a watchword at Celebrity, the line is mindful of the support that it has received over the years from its repeat passengers. Accordingly, Celebrity re-launched its loyalty program in 2009 with enhanced benefits. "The changes that we have made at the 10 plus [cruises] level are pretty dramatic and have been extremely well-received. I know that we have given away a lot of free drinks in Michael's Club between four and six in the afternoon, that has become very popular, but it makes sense for us. We have been able to justify that. Our guests are happy. I have gotten a lot of positive feedback and letters on that. Obviously, we have the award-winning ships but we are very focused on the onboard experience and making sure [that the guests] come home and [say] that it was a terrific experience onboard. And with the loyalty program, we want to be sure that they feel that they are being recognized when they come onboard."