Contents

Global Cruise Market 2008

Executive summary

- An 18% increase of cruise bednights booked by UK passengers who choose to cruise for longer in 2008
- An 11% increase meant the third successive year of double digit growth for the UK market, bringing it to the brink of 1.5m cruise passengers
- 110,000 of the 140,000 extra UK passengers were for cruises out of UK ports
- Four out of every ten cruises booked started in a UK port – a share expected to increase in 2010 with the arrival of three new ships based in Southampton and one summer deployment becoming year-round
- One in every 12 package holidays booked in the UK is now a cruise; it was only one in 26 in 1999
- UK-booked cruise per diem prices fell more than 1% in 2008. More than a third of all cruises cost less than £1,000 and prices are falling again in 2009
- The Mediterranean remains the favourite cruise destination for the British but Northern/Western Europe is catching up fast and overtook the Caribbean to be second favourite in 2008
- A record number of cruise lines, ships and passengers visited UK ports in 2008 and more overseas passengers embarked on cruises from those ports than ever before
- Global cruise sales estimated at 17m for 2008 – a 4% increase
- A small drop in cruise passengers in the top-producing market – North America- is offset by a 10% increase in European passengers which (including the UK) approached 4.5m in 2008
- European cruise industry now producing similar economic benefits for Europe as the North American cruise industry is contributing to the US economy
- 39 new ships on order through to 2012, including ten arriving in 2009

Source: UK Cruise Market 2008 – compiled for the Passenger Shipping Association and European Cruise Council by IRN, UK Cruise Survey (also IRN Research)

Double digit growth for UK again

For the third year in succession, the UK cruise market achieved double digit growth in 2008 when an 11% increase took passenger numbers to nearly 1.5m.

As the average length of cruise taken also increased - from 9.7 to 10.4 nights – there was an even greater growth in cruise bednights booked: 18%.

The market size has doubled in just nine years but perhaps the most significant development during that period is that this growth has come at a time when foreign package holiday sales in the UK have dropped by over 2 million to less than 18m.

As a result, the equivalent of one in every 12 foreign packages bought by UK holidaymakers is now a cruise compared to just one in 26 as recently as 1999.

Although cruise sales percentage growth is expected to be in the low single figures in 2009, another decline in foreign package holiday sales is inevitable following capacity cutbacks by the two major players: TUI and Thomas Cook. As a result, cruising will again increase its share of this sector.

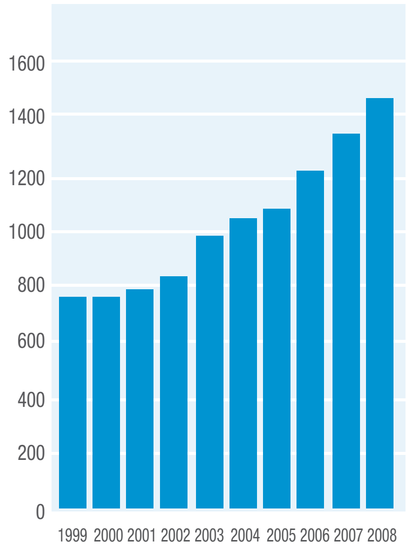
Cruising has also increased its share of the overall foreign holiday market by more than 50% to 3.3%. Much of this growth has come in the three years to 2008 when overall foreign holidays increased by less than 3% while cruise sales grew 38%.

Almost all passengers (83% in 2008) continue to book their cruises through a travel agent even though in difficult trading conditions, cruise companies market more strongly to their past passengers.

As a result, the share of repeat passengers grew sharply to 68% in 2008 – the highest since 2000.

Since past passengers tend to be older than first-timers, this meant a slight increase in the average age of passengers in 2008 – up from 53.2 to 53.8. The age of flycruise passengers stayed exactly the same at 52.4.

GROWTH IN OCEAN CRUISE HOLIDAYS
PAX 000s (1999-2008)



UK CRUISE MARKET, % SHARE
BED NIGHTS BY DESTINATION, 2008

In fact, those average ages have changed remarkably little over the past decade with 1999 averages of 53.8 (52.3 flycruise) almost identical to the 2008 figures. This is because the frequency with which past passengers are cruising is increasing at a similar rate to the growth in families cruising which is introducing more younger passengers to the mix.

More passengers are also choosing to cruise out of UK ports with a 23% increase in 2008 compared with just a 4% rise in flycruise passengers. 110,000 of the extra 140,000 UK passengers were on UK-UK port cruises.

This was a major factor in the increase in average cruise durations and it also means that four in every ten cruise passengers now take the no-fly cruise route compared with just two in ten in 1999.

While airport security hassles may be playing a part, this dramatic shift is mainly due to the series of new ships introduced to UK-UK cruising by UK-based brands like P&O Cruises, Cunard Line and Fred. Olsen Cruise Lines.

Another major factor has been the UK homeporting of ships operated by European or US-based brands like MSC or RCI (year-round from 2010), Princess Cruises and Norwegian Cruise Line (NCL) but targeted at UK passengers.

These US brands were joined in the UK by Carnival Cruise Lines in 2008 and Celebrity Cruises will follow with a UK market-designated ship in 2010 to ensure this trend continues, especially as P&O Cruises (Azura) and Cunard Line (Queen Elizabeth) are also launching new ships.

UK cruise passengers choose UK ports

Norway, Baltic and Western Europe were the main beneficiaries of both the boom in UK cruise passenger numbers in 2008 and also of the growing enthusiasm to cruise from UK ports.

Overall, the region attracted 265,000 UK passengers – a 24% increase on 2007 which meant it overtook the Caribbean into second place (behind the Mediterranean) among the UK cruise fans' favourite destinations.

While six in ten still head south to the Mediterranean or Atlantic Islands, two in ten now cruise to the Baltic, Norway, around the UK or to the near-Continent with nearly all (93%) embarking their cruise at a UK port.

SOUTHERNERS HEAD NORTH, NORTHERNERS HEAD SOUTH

If you come from the South East of England, cruises to Northern Europe are your favourite while, for the Welsh, Scots and those living in the North West of England, it is the Atlantic Islands all the way.

One in five of UK cruise passengers come from the South East and, according to the UK Cruise Survey 2008 (carried out by IRN Research for the PSA), they account for a third of the UK passengers to Northern Europe.

The North West provides the second largest number of cruise passengers (13% of the 1.4m) and account for one in five of those choosing Atlantic Islands itineraries.

At 9%, the Scots are the equal third largest UK market segment and, with the Welsh (6%), provide a quarter of the Atlantic Islands passengers.

CRUISE HOLIDAY TAKERS BY REGION OF RESIDENCE AND DESTINATION – 2008

% respondents	Mediterranean	Caribbean	Northern Europe	Atlantic Islands	Other	UK Cruise Survey	Cruise line returns 2008
South East	20	16	34	19	17	23	21
South West	14	16	14	6	13	14	9
North West	15	14	9	21	12	13	13
East of England	8	8	8	11	12	9	4
Yorkshire & Humberside	7	12	6	3	12	8	9
Scotland	8	9	5	12	8	8	9
West Midlands	9	8	5	8	3	7	8
East Midlands	6	9	6	1	9	6	7
Wales	4	2	6	12	5	5	6
London	5	2	3	3	6	4	6
North East	3	3	1	4	3	2	5
Northern Ireland	0	2	0	0	2	1	2
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Figures may not sum to total due to rounding. Weighted 1,128 responses. Source: IRN Research – UK Cruise Survey 2008.

Their numbers, which have quadrupled since 1999, are evenly split between the Norwegian fjords, Baltic and Western Europe and the regions are slowly closing on the Mediterranean which enjoyed a 17% increase in UK cruise visitors in 2008 – as did the Atlantic Islands.

But, while most of the Mediterranean increase was down to more flycruises, the Atlantic Islands grew solely because of extra ex-UK port passengers.

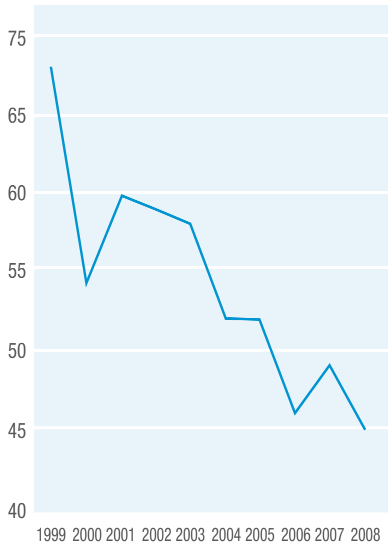
Elsewhere, an increase in Queen Mary 2 transatlantic crossings helped double the number of UK passengers on line voyages – part of an overall trend which saw an increase in longhaul cruise passengers departing UK ports set against a reduction in longhaul flycruises.

The biggest fall was a halving of the number of passengers cruising the Red Sea, Arabian Gulf and Indian Ocean – a trend which may be reversed in 2010 when RCI starts cruising out of Dubai.

Alaska cruise numbers also fell – for the first time in five years and this may continue in 2009 as cruise companies cut back on capacity there due to a high passenger tax and onerous operating regulations recently introduced by the state.

UK CRUISE MARKET, % SHARE
BY BROAD DESTINATION, 2008

UK CRUISE MARKET, % CRUISES
7 DAYS OR UNDER



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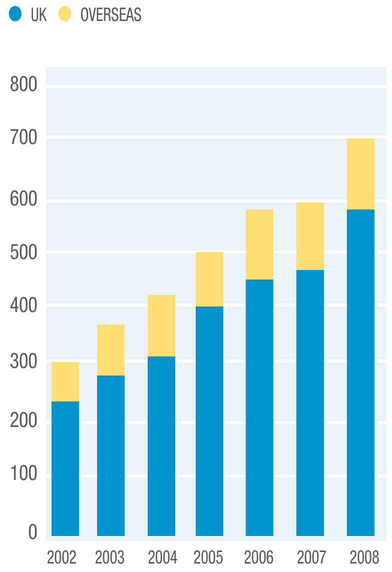
All cruise routes lead to UK

A record number of cruise ships called at UK ports in 2008 when the total topped 100 (101) for the first time. This was ten more ships than in 2007 and they also represented a record number of cruise lines: 53.

Not surprisingly, this meant a record number of visiting cruise passengers – 8% up on 2007 at 396,000. This total has nearly doubled (+94%) since 2002.

EMBARKATIONS (000's)
2002-2008



The rising demand from UK passengers for cruises departing UK ports ensured record numbers of embarking passengers as well but the 20% increase to 709,000 was also partly due to the number of overseas passengers starting their cruises in UK ports rising 5% to 132,000. This total has grown 71% since 2002.

Late bookings on the rise?

Although more than half the cruises sold in 2008 were still booked more than six months in advance, there was a small increase – from 24% to 26% – in those booked less than three months before departure.

This was still well below the 42% share of late bookings taken as recently as in 2001 when just 6% booked a year in advance compared with 18% in 2008. But it suggested that the economic uncertainty was beginning to affect consumer confidence – a trend which appeared to be continuing in the early months of 2009.

The UK Cruise Survey 2008 also suggested that destination played a significant part in when cruises were booked.

Very few (4%) booked Atlantic Islands cruises within three months of departure with a third booking these more than a year out. By contrast, nearly a quarter (23%) booked Mediterranean cruises no more than three months beforehand.

Prices go up as well as down

The average price paid for a cruise booked in the UK rose 6% to £1,409 but this was because the British were booking longer cruises and so boosting the UK cruise industry's revenues by 17% to more than £2bn – double the 2003 total.

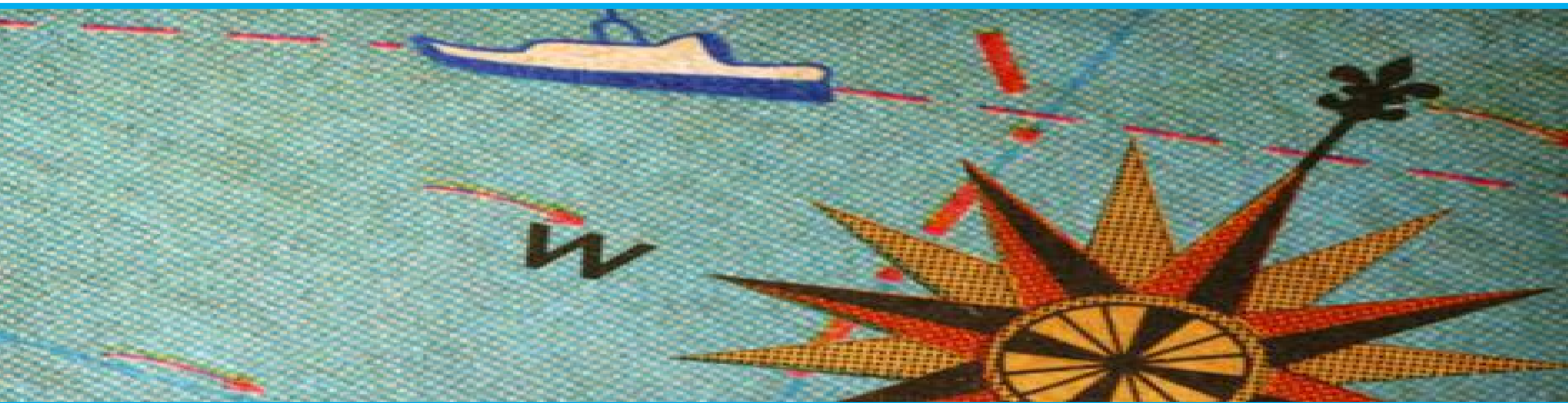
Average per diems actually dropped by £2 with per diems ranging from £80 to more than more than £300 and 35% of cruises cost less than £1,000 with nearly 60% less than £1,500.

According to the UK Cruise Survey 2008, price is one of the top three reasons for booking a particular cruise along with destination and previous experience with the cruise line.

The wide range of prices, which are even more competitive in 2009, is inevitably broadening the market. This is reflected in the kind of newspapers cruise passengers are reading.

While the Daily Mail remains the frontrunner – the choice of 30% of UK passengers – a quarter of them (24%) now read the Daily Mirror, Daily Express, Daily Star and the Sun.

More passengers (29%) also now read the News of the World, Sunday Mirror, Sunday Express and Sunday People than the Sunday Times, Sunday Telegraph and the Observer.



THE EUROPEAN DROP WAS ALMOST ENTIRELY DUE TO THE FAILURE (AND WITHDRAWAL FROM THE SECTOR) OF LEADING UK-BASED RIVER AND OCEAN CRUISE OPERATOR, TRAVELSCOPE.

Nile cruising on the rise

The number of UK Nile cruise passengers leapt by 36% to more than 39,000 in 2008, almost completing this particular river cruise destination's recovery since 9/11 and then the Iraq War caused numbers to fall by nearly two-thirds from the 41,000 peak in 2000 to less than 16,000 in 2003.

In fact, river cruises outside Europe showed an overall 20% increase in UK passengers in 2008 but this fell short of offsetting the sharp fall in the number of European river cruises taken so that the overall UK river cruise passenger total was nearly 9% down at 107,000.

The European drop was almost entirely due to the failure (and withdrawal from the sector) of leading UK-based river and ocean cruise operator, Travelscope.

RIVER CRUISE HOLIDAYS, 1999 – 2008

Passengers from the UK (000's) Destination	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*
Rhine/Moselle/tributaries	28.4	31.6	30.5	30.1	26.1	25.6	27.9	27.5	28.7	14.7
Danube	11.0	11.7	12.4	12.3	10.1	11.1	12.7	13.1	16.0	13.1
Russian	8.1	8.0	7.5	6.1	6.0	6.6	5.7	3.4	5.8	4.9
French (Rhone/Seine)	8.3	7.9	8.7	7.9	8.8	9.1	7.4	6.3	7.2	7.6
Italian (Po)	3.2	3.6	3.3	1.7	1.4	1.3	1.0	1.1	0	1.7
Elbe	1.1	2.1	2.2	1.1	3.2	5.4	4.7	2.5	3.8	2.8
Other European	4.2	7.8	9.5	12.5	5.5	13.9	15.3	15.3	12.4	9.1
Total European	64.4	72.6	74.0	71.6	61.3	73.0	74.7	69.2	73.9	54.0
Nile	31.4	41.0	34.5	25.5	15.8	22.7	31.8	30.1	29.0	39.4
Far East/China	1.3	3.0	7.3	18.2	11.0	13.1	6.4	8.1	8.2	6.7
Other non-European	1.3	1.2	0.8	1.3	2.0	2.2	5.7	3.5	7.0	7.0
Total non-European	34.0	45.2	42.6	45.0	28.9	38.0	43.9	41.7	44.2	53.1
Total	**98.4**	**117.8**	**116.6**	**116.5**	**90.1**	**111.0**	**118.6**	**111.0**	**118.4**	**107.1**

Included in the above:- Abercrombie & Kent, Airedale Tours, Arena Travel, Bales Tours, British Airways Holidays, Captain Cook Cruises, Cruiseurope, Delta Queen, Der Travel Service, Europe Cruise Line, Greatdays Travel, Intourist Travel Ltd, Jules Verne, Kingdom Tours, Kuoni, Mundi Color Holidays, Noble Caledonia Ltd, Page & Moy, Peter Deilmann River Cruises, Saga, Shearings, Somak Holidays, Swan Hellenic, Thomas Cook Holidays, Thomson Holidays, Titan Travel, Travel Renaissance, Travelscope Promotions, Travelsphere, Viking River Cruises, Wallace Arnold and Weir Associates.
2008 provisional* ***Source:* *IRN Research – UK CRUISE MARKET 2008*

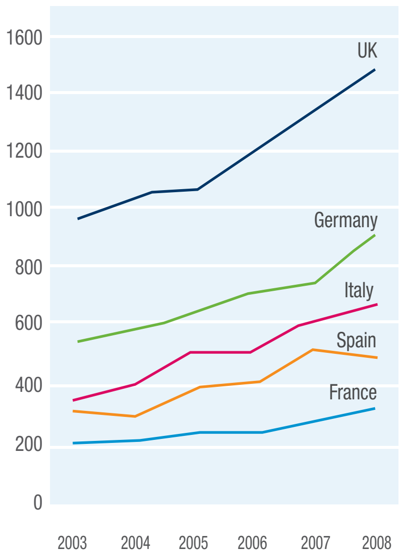
Europeans buy more cruises

Every target the European cruise industry sets itself has had to be revised upwards as growth has repeatedly exceeded expectations in recent years.

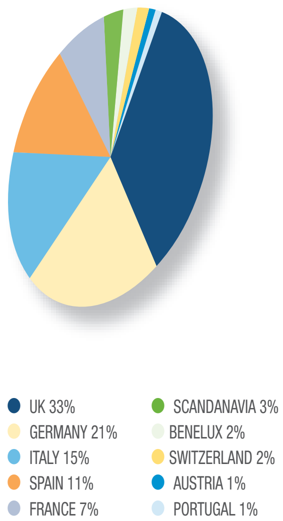
The UK remains the largest contributor but its share is slowly falling with significant increases in Germany, Italy, Spain and France over the past five years.

In fact, Continental Europe has seen a 73% increase in cruise passengers (to just under 3m) over that period and its share of overall European numbers is likely to grow again this year when Costa, MSC and AIDA all introduce new ships.

MAIN EUROPEAN CRUISE MARKETS
2003-2008 PAX (000's)



EUROPEAN SOURCE MARKET,
% SHARE 2008



EUROPEAN CRUISE INDUSTRY ON A PAR WITH NORTH AMERICA

The European cruise industry is catching up with its North American counterpart in terms of the economic benefits to the countries it impacts.

In 2007, it generated €29bn in total economic benefits for Europe while the North American industry's impact on the US economy was $38bn (about €28bn). The European figure was up from less than €24bn in 2006 when the US figure was $36bn.

The European industry now also supports 285,000 jobs – up 26% from 2006.

Belying the economic situation, cruise passengers also spent 25% more ashore at an average of €100 at embarkation ports and €55 at ports of call for a total of €1.5bn.

Italy, Germany and the UK are the top three country beneficiaries with the first two boosted by the income for their cruise shipbuilders Fincantieri and Mariotti(Italy) and Meyer Werft (Germany).

IN 2008, A THIRD OF ALL PASSENGERS CRUISED MORE THAN ONCE A YEAR COMPARED WITH JUST OVER A QUARTER (28%) IN 2007.

The Spanish market had been growing fast before the withdrawal of one brand caused a slight dip in 2008. It is still likely to overcome the country's severe economic problems with an increase in cruise sales this year. This will be due to more capacity added to the two leading brands – Pullmantur and Ibero Cruceros – by their new owners Royal Caribbean Cruises (RCC) and Carnival.

Germany showed the most growth in 2008 when a 19% growth brought its total to 907,000 and, with the new TUI Cruises (also backed by RCC) brand launching, should top the million mark this year.

Even the previously cruise-wary French are joining the party, with a 11% increase bringing the total above 300,000 for the first time.

This is still only 7% of the total European market but the launch of a specific French brand (CDF) by RCC may be a first step in France starting to punch its weight in the European – and global – cruise market.

Cruising out of a crisis

The British led the way as the global cruise industry continued to grow in 2008 despite the credit crunch-inspired economic meltdown which spread across the world during the second half of the year.

Provisional figures for the year suggest 4% growth to about 17m ocean cruises sold worldwide – and this was despite a 1.5% fall in the largest market, North America.

The 150,000 fewer cruises sold there were, though, more than offset by the extra 400,000 cruises sold to Europeans and a third of these were additional UK passengers.

Although the economic situation has created some of the toughest market conditions the travel industry has seen for years, a combination of increased capacity, strong repeat business and timely consumer recognition of cruising's value-for-money is expected to ensure further global growth in 2009.

That downturn in North America is also expected to be reversed.

The main reason for it was the continuation of the major cruise companies' focus on Europe, a diversification policy which saw more ships deployed in that region at the expense of destinations closer to North America.

But the economic situation has prompted a couple of ships originally scheduled for Europe to be redeployed to US ports for 2009/10 which will also give a new boost to North American cruise sales.

Continued growth in Europe is, though, still assured with several new ships – including two for Costa Cruises and one apiece for MSC Cruises and AIDA Cruises – designated for European markets in 2009.

A total of ten new oceangoing ships will be launched this year, introducing up to 28,000 new berths onto the market. They include the first of two Oasis-class ships for Royal Caribbean International (RCI), which – at 225,000-ton and 5,400-passengers – will be the largest-ever built. They will be based in Port Everglades, Florida for weekly Caribbean cruises.

Including this year's ships, 39 are being built for introduction through to 2012. This will guarantee continued growth in global cruising.

Cruise companies have currently called a halt to more orders while they wait out the worst of the recession so growth is likely to slow between 2012-14 but it is expected to resume so that the target of 30m annual cruise sales is reached only a couple of years after the originally projected 2021.

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