

General Introduction

ADVISORY COUNCIL MEETINGS, OCTOBER 18-22, 2015

Advisory Council members for The Royal Caribbean, The Royal Islander, The Royal Sands and The Royal Haciendas attended a general meeting on Sunday, October 18, 2015 at The Royal Sands.

Royal Resorts CEO Dr. Kemil Rizk and Vice President of Resort Operations Armando Millet Vales greeted them, giving a special welcome to new Council members.

The meeting began with a presentation by Dr. Rizk on the Mexican economy, its stability and growth prospects as the reforms passed in 2013 and 2014 begin to take effect.

The opening up of the energy sector will bring lower electricity rates in the years to come, benefitting tourism, manufacturing and the consumer. It is also forecast to add one percentage point to Mexico's GDP by 2018, in addition to creating jobs.

Dr. Rizk went on to discuss the record-breaking performance of the Mexican tourism industry, which has regained its position in the World's Top Ten Destinations. In 2014, Mexico welcomed 29 million visitors, a 20 percent increase. Growth has continued and the forecast is that it will end the year with a 6.1 percent rise in visitor numbers.

The travel industry is expanding and evolving to meet new demands such as the increasing use of smart phones and tablets for bookings and the importance of social media and the Internet when planning trips. More than ever, travelers are looking for experiences rich in inspiration and self-discovery. Internet-savvy travelers are more likely to book their own trips and services rather than be sold to. By 2025, the Millennial generation will comprise 75 percent of the global workforce. Well-traveled, they want

exceptional experiences, diversity and flexibility. They present enormous opportunities but also different challenges for Royal Resorts to design unique vacation experiences to suit their travel preferences, integrate the latest mobile technology and innovate further.

Dr. Rizk then briefed Council members on the Royal Resorts Signature Club and the benefits that have been added in the last year such as the Signature Marketplace. Since 2013, 5,149 members have enrolled in Platinum, the Signature Club membership that offers Points flexibility, enabling them to tailor their vacation time to suit changing needs.

He touched upon the Service Improvement program that was implemented at The Royal Sands and The Royal Haciendas to manage staffing issues associated with higher occupancy levels. Additional measures include a weekly First to Know briefing for members, the return of events such as the Taco Party and the launch of Royal Resorts Rewards, the new loyalty program for members (see page. 15).

Chief Financial Officer Fernando López Ruiz then addressed the group on economic issues that have a bearing on the preparation of the resort budgets.

He explained that an average exchange rate of \$13.27/US\$1 was considered for the preparation of the 2015 budget; however, it is expected to end the year at \$15.78/US\$1. This represents a variation of 19%, which will have a positive impact on the Resort P&L statements for 2015, as the majority of operating expenses are paid in pesos. The depreciation of the Mexican peso is due to a combination of factors such as the strength of the US dollar worldwide, the fall in oil prices and

uncertainty about the timing of the US Federal Reserve's decision to adjust interest rates.

According to the IMF World Economic Outlook, Mexico's GDP will grow by around 2.4 percent in 2016.

Mr. Millet concluded the Meeting with a summary of general issues pertaining to all the resorts:

- In early 2015, the printed In Search of Excellence check out questionnaire was replaced by an online customer satisfaction survey. The questions are divided into four categories: Overall Resort Experience, Property Evaluation, Service Evaluation and Villa/Rooms and on average The Royal Cancun is rated the top resort, consistently scoring over 90 percent.
- The numbers of visitors to the Mexican Caribbean rose in 2015. The average occupancy rate registered at Royal Resorts is 85.7 percent, 81.5 percent for Cancun and 84.3 percent for the Riviera Maya.
- In 2015, the Royal Resorts Foundation raised US\$69,060 for its charity causes: education, health, conservation and employee emergency relief. An increase from previous years, this was driven by the Dollar a Stay fundraising campaign, donations by members and staff and other initiatives.
- At Royal Resorts trash is recycled for cash and the proceeds from the sale of plastics, aluminum and paper go to the Royal Resorts Foundation community projects. In 2012, 160 tons worth US\$4,480 were collected, a figure that has risen over the years to 300 tons representing US\$16,000 in 2015.

NOTES RELATING TO THE ADVISORY COUNCIL REPORTS

Budget Assumptions

Based on the projections of leading Mexican financial institutions and analysts, an average exchange rate of \$15.96 pesos to US\$1 was used for the 2016 budget, (1.11 percent depreciation of the Peso against the Dollar in comparison to the forecast exchange rate for 2015). For budgeting purposes, an inflation rate of 3.46 percent has been considered, in line with the consensus of major financial institutions and the Mexican government. The increase in the cost of living in Mexico as it affects Royal Resorts employees is taken at 3.5 percent and mandatory wage increases for union employees are also taken into account.

Taxes

There may be some potential savings on property taxes if the municipal government authorizes a discount for early payments. Federal taxes are expected to remain the same.

Water and Sewage

Budgets for 2016 are based on anticipated metered water and sewage charges at rates that have increased from 28 to 35 percent. The cost of water is offset by the efficiency of the reverse osmosis plants that produce 80% of the water used by the resorts.

Electricity

In 2014 and 2015, the resorts paid lower

electricity rates, one of the impacts of energy reform. Energy saving measures are used throughout the resorts.

Advisory Councils

The Royal Cancun does not have an Advisory Council yet, but the financial statement for the resort is included in this section for the benefit of members. When the resort is 80 percent sold the Council will be established and representatives will be selected.

If you are interested in serving on one of the Councils, please check the Members Area of www.royalresorts.com for information and instructions on how to submit your application.