

ANNUAL MEETING REPORT OF THE ROYAL CARIBBEAN ADVISORY COUNCIL

October 22, 2015

Council Members: Brenda Harrington, Paul McIntosh, Dr. William Nitch, Robert Priest, José Luis Sánchez

The annual meeting of the Advisory Council for The Royal Caribbean was held in Cancún on Thursday, October 22, 2015. All Council members were present.

Prior to the meeting, Council members toured one of the villas where they were able to see projects that were completed in 2015 such as the smoke detectors in the kitchen. They also saw the new phone that will be replacing the old ones in all villas.

After the tour, Council members met with Chief Financial Officer Fernando López, Vice President of Resort Operations Armando Millet and members of their staff in the board room at The Royal Sands. CFO López explained the 2015 financial statements in detail. The Income Statement Comparison accompanying this summary shows budgeted and actual (forecast) income and expenses as of September 30, 2015 with estimates to the end of the year. The 2016 budget was unanimously approved and is also shown.

In 2015, the performance of the exchange rate had a positive impact on resort operating expenses. However, as such variables are beyond the control of the administration and fluctuate during the year, Management will continue to budget conservatively.

The budget compilation process begins with preliminary budgets denominated in pesos submitted by each department to Operations Director Millet. Once approved, a collective budget is prepared and converted to US dollars using a projected average exchange rate. The 2015 budget was based on a projected average exchange rate of \$13.27/US\$1. However, the actual average is approximately \$15.78/US\$1, resulting in a currency exchange gain of US\$1,132,548.

Repairs and replacement items approved by Council in 2014 and completed in 2015 include:

Resort Improvements

- Replacement of PX module in the reverse osmosis system
- Replacement of stainless steel pipes and spare parts in the reverse osmosis system
- One washing machine and one tumble dryer for the internal laundry
- Installation of smoke detectors in villas
- Repair cracks in buildings and public areas
- Painting walkways on floors 7, 8 and 9
- Change the 42" filter for the swimming pool

Villa Improvements

- Corrective maintenance in 20 villas
- Replacement of aluminum sliding doors in 10 villas
- Replacement of marble floors with ceramic tiles in five villas
- Replace T-bars on the false ceiling in 12 villas
- Electrical work in 20 villas to make the switchboard panels independent
- Fan & Coil set replacement in three villas

Fixed Assets and Major Repairs approved in the 2014 Budget and Additional Items authorized in 2015

- Repaint and reupholster terrace furniture
- Submersible pump for reverse osmosis system
- Installation of CCTV in resort areas
- Security checkpoint

APPROVED FOR 2016

Resort Improvements

- Repair cracks in buildings and public areas

- Application of Royal Ivory vinyl paint in guest walkways on floors 4, 5 and 6
- Replacement of valves, seals, gaskets and shock absorber for triplex pump in the reverse osmosis system
- Replacement of aluminum railings for the sundeck
- Submersible pump for the well supplying water to the reverse osmosis system
- Improvements to the ramp for physically challenged guests between buildings G and H
- Repair kit for the chiller plants in the air-conditioning system (screen, starter module, psio)
- Replacement of active carbon in the machine house water treatment system
- Replacement of chain mesh fencing (140 meters in length) around the tennis courts and repainting net posts
- Oil change for the air-conditioning chiller plant
- New motor pumps for the irrigation and pool water systems in the machine house
- New extractor fans for the lobby restrooms
- New fan and coil set No. 14 in the lobby
- New metal door for the garbage depot
- Replacement motor pump in the pool water filter system for ponds 1 and 2
- Fiberglass railings in the walkways connecting F and G Buildings, floors 7 and 8
- Fiberglass railings in the walkways connecting A and B Buildings, floors 7 and 8
- Replacement of 42 plg filter in the pool filter system
- Replacement of the fan and coil set No. 12

Villa Improvements

- Corrective maintenance in 20 villas
- Replacement of aluminum sliding doors in 10 villas
- Replacement of marble floors with ceramic tiles in five villas
- Replace T-bars on the false ceiling in 20 villas
- Fan & Coil set replacement in three villas
- Replacement of terrace tiles with non-slip flooring in five villas

Council also approved a Management proposal to add an amenity package to the units starting January 1, 2016. This will include a roll of paper towels, dishwashing liquid and a welcome pack of regular and decaf coffee in the kitchen and locally made Yucatan honey shampoo, conditioner and body lotion in the bathrooms.

The purchase of the amenities in member units is included in the Housekeeping Services budget and the Rental department will cover the cost of the package for units occupied by rental guests.

In the accompanying budget comparison, Total Operating Expenses for 2015 are 19.3 percent less than budgeted, largely because of the exchange rate differential. In Housekeeping Services, the variation was also attributed to staff vacancies not being filled immediately. In the case of Electricity, the resort is now paying a lower rate, partly as a result of the energy reform in 2013. This represents savings of US\$400,000 moving forward.

A purchase of additional beach towels meant that Sports Services came in over budget in 2015. The Income Tax line item is also higher due to the resort having a higher income before taxes, better occupancy and the effect of the exchange rate variation. Income Tax is charged at a rate of 30 percent.

Several line items show increases in the 2016 budget. They include Housekeeping Services and Front Desk, where additional personnel are needed as a result of

higher occupancy. The Municipal rates charged for Water and Sewage have risen from 28 to 35 percent and have been taken into account. The Courtesy Shuttle is also higher due to the purchase of a new bus (shared cost). Although Fixed Assets and Major Repairs acquisitions have been kept to an absolute minimum some essential maintenance purchases are needed for 2016 to keep the resort in optimum condition. Council members also approved the proposal to replace the phones in all the villas.

As shown on the accompanying statement, The Royal Caribbean receives income from sources other than Club Service Fees. Interest earned on bank accounts, a fee for certain ISCO transactions, guest laundry services, late checkout fees, kitchen cleaning fees and other charges, and commissions on telephone use are credited to income accounts.

The Royal Caribbean has healthy finances with an anticipated Club Cash Reserve of US\$4,403,100 and a Hurricane Cash Reserve of US\$2,024,957 by the end of 2015. As of September 30, 2015, the resort's total net worth was US\$5,239,303.

The number of members who are delinquent in their Club Service Fee payments or membership payments has risen in recent years and this is expected to continue. There is a Forced Resale program for units in this situation, but the Resort still has to make a provision for this cash shortfall when budgeting. The Rental Program has seen increased demand for The Royal Caribbean in 2015 and this has helped some members who would otherwise have fallen behind with payments. As an alternative, the Voluntary Relinquishment Turnover program has been implemented to recover units from Members who are not in good standing with their Club Service Fees and villa payments. They receive a repossession letter that they sign and their unit goes into company inventory. The Developer pays the Club Service Fees for company units. As a result of increased rentals and the turnover program, Resort Operations has been able to make a lower Non cash provision for Uncollectible Accounts, budgeting it at US\$42,751 for 2016. Nevertheless, Members who are in arrears are urged to fulfill their financial obligations.

After reviewing the budget, the Council voted unanimously to accept Management's proposal not to raise the Club Service Fee for 2016.

The Club Service Fee for 2016 is US\$990 and the breakdown is as follows:

Villa	
CSF	831.93
VAT 16%	133.11
Occupancy tax 3%	24.96
Total	990.00

In private session the Advisory Council appointed James Layman and Daniel S. Hamblet to replace retiring members Brenda Harrington and William Nitch.

In closing, the Advisory Council thanked management for maintaining The Royal Caribbean at the highest levels of excellence while keeping the Club Service Fee lower than similar resorts in Cancún and elsewhere. Council is confident that 2016 will be another successful year for The Royal Caribbean and Royal Resorts.

THE ROYAL CARIBBEAN		INCOME STATEMENT COMPARISON BETWEEN 2015 AND 2016 (US Dlls.)					NUMBER OF INTERVALS	10,557
Club Service Fee	\$832					Club Service Fee	\$832	
V.A. Tax	\$133					V.A. Tax	\$133	
Occupancy Tax	\$25					Occupancy Tax	\$25	
Total	\$990					Total	\$990	
2015		% DIF.	DESCRIPTION	2016		% DIF. VS. FORECAST '15	% Vert.	\$/INTVAL.
BUDGET	FORECAST			BUDGET				
GENERAL REVENUE								
10,451,382	10,451,382	0.0%	Dues Income	10,451,382	0.0%	99.5%	990.00	
10,181	13,673	34.3%	Other Income	13,604	-0.5%	0.1%	1.29	
10,461,563	10,465,055	0.0%	Subtotal	10,464,986	0.00%	99.6%	991.28	
RESORT REVENUE								
31,661	28,531	-9.9%	Guest Laundry	32,708	14.6%	0.3%	3.10	
18,092	9,897	-45.3%	Other Income	10,527	6.4%	0.1%	1.00	
49,753	38,428	-22.8%	Subtotal	43,234	12.5%	0.4%	4.10	
10,511,316	10,503,483	-0.1%	Total Revenue	10,508,221	0.0%	100.0%	995.38	
RESORT OPERATING EXPENSES								
1,105,153	912,981	-17.4%	Housekeeping Services	1,024,938	12.3%	9.8%	97.09	
383,170	308,742	-19.4%	Housekeeping Maintenance	306,379	-0.8%	2.9%	29.02	
1,114,871	728,956	-34.6%	Electricity	726,627	-0.3%	6.9%	68.83	
1,123,473	957,801	-14.7%	Maintenance & Machine House	977,955	2.1%	9.3%	92.64	
398,112	310,905	-21.9%	Water & Sewage	345,179	11.0%	3.3%	32.70	
377,101	315,072	-16.4%	Security	306,582	-2.7%	2.9%	29.04	
337,600	290,704	-13.9%	Front Desk	325,193	11.9%	3.1%	30.80	
251,367	221,871	-11.7%	Int. & Guest Laundry	225,589	1.7%	2.1%	21.37	
414,712	358,048	-13.7%	Fixed Assets & Major Repairs	361,047	0.8%	3.4%	34.20	
148,276	124,354	-16.1%	Landscaping	123,589	-0.6%	1.2%	11.71	
96,119	100,039	4.1%	Sport Services	91,426	-8.6%	0.9%	8.66	
80,319	70,743	-11.9%	Telephone (Net Result)	70,829	0.1%	0.7%	6.71	
100,857	80,116	-20.6%	Social Activities	77,360	-3.4%	0.7%	7.33	
45,423	43,585	-4.0%	Operational Services	44,403	1.9%	0.4%	4.21	
22,898	22,144	-3.3%	Resort Insurance	21,070	-4.8%	0.2%	2.00	
57,688	42,181	-26.9%	Courtesy Shuttle	54,434	29.0%	0.5%	5.16	
83,839	70,554	-15.8%	High Speed Internet Connection	69,927	-0.9%	0.7%	6.62	
6,140,979	4,958,796	-19.3%	Total Operating Expenses	5,152,527	3.91%	49.0%	488.07	
GENERAL & ADMIN EXPENSES								
878,267	878,267	0.0%	Management Fee	878,267	0.0%	8.4%	83.19	
456,899	379,107	-17.0%	Corporate Services	383,609	1.2%	3.7%	36.34	
178,030	149,023	-16.3%	Accounting	151,558	1.7%	1.4%	14.36	
117,529	94,975	-19.2%	Administration	97,108	2.2%	0.9%	9.20	
45,971	33,968	-26.1%	Training	34,339	1.1%	0.3%	3.25	
63,812	54,347	-14.8%	Human Resources	55,637	2.4%	0.5%	5.27	
22,246	25,578	15.0%	Other Expenses	25,629	0.2%	0.2%	2.43	
26,911	19,736	-26.7%	Auditing	20,851	5.6%	0.2%	1.98	
317,970	297,303	-6.5%	Membership Services	308,520	3.8%	2.9%	29.22	
2,107,635	1,932,305	-8.3%	Total General & Admin Expenses	1,955,519	1.2%	18.6%	185.23	
2,262,702	3,612,382	59.6%	Operating Income	3,400,175	-5.9%	32.4%	322.08	
FINANCIAL EXPENSES/INCOME								
-6,216	-7,997	28.6%	Interest Earned	-7,787	-2.6%	-0.1%	-0.74	
92,928	88,891	-4.3%	Credit Card Commission CSF	96,291	8.3%	0.9%	9.12	
86,712	80,894	-6.7%	Total Financial Expenses/Income	88,505	9.4%	0.8%	8.38	
2,175,990	3,531,487	62.3%	Income Before Taxes	3,311,670	-6.2%	31.5%	313.69	
TAXES								
1,405,228	1,405,228	0.0%	V. A. Tax	1,405,228	0.0%	13.4%	133.11	
263,480	263,480	0.0%	Occupancy Tax	263,480	0.0%	2.5%	24.96	
60,338	363,847	503.0%	Income Tax & Others	190,100	-47.8%	1.8%	18.01	
148,279	111,780	-24.6%	Property Tax & Other Exp.	135,910	21.6%	1.3%	12.87	
1,877,325	2,144,335	14.2%	Total Taxes	1,994,718	-7.0%	19.0%	188.95	
298,666	1,387,153	364.4%	Net Income	1,316,952	-5.1%	12.5%	124.75	
	1,132,548		Peso Exchange Adjustment					
298,666	254,605	-14.8%	Net Income Operation	1,316,952	417.3%	12.5%	124.75	
-545,004	-379,551		Provision for Uncollectible Accounts	-42,751				
(246,338)	1,007,601		Net Income After Provision	1,274,201				
4,559,045	5,897,860		Accounting Reserves	7,172,061				
2,022,226	2,024,957		Hurricane Cash Reserve	2,024,957				
3,437,440	4,403,100		Club Cash Reserve	5,233,110				