

Arena Hospitality Group, Responsible Business Report 2018

Responsible Business Report 2018 is a non - financial report of the Annual report and Accounts 2018.

Company ARENA HOSPITALITY GROUP being a part of a big PPHE Hotel Group family joins to the Group's efforts to be responsible doing the business, through inspiring the guests, creating centres of excellence, developing our people and being part of our communities.

Staying true to Group's Vision of 'Realizing our Growth Potential', we have committed to develop a responsible business strategy that creates a long-term sustainable responsible business model. Socially responsible business is the foundation of all strategic initiatives in the company, including systematic approach to environmental protection, sustainable development of destinations, employee development and training, local community investment and care for the our neighbors, as well as transparency and accountability of the company to its stakeholders, investors and shareholders.

Company with its subsidiaries is an international dynamic hospitality business with a portfolio of 26 owned, co-owned, leased and managed properties with approximately 10.000 rooms and accommodation units in Croatia, Germany and Hungary. Company operates in Croatia more than 40 years and today brand portfolio consists of Park Plaza, art'otel, Arena Hotels & Apartments and Arena Campsites.

Our unique model differentiates our business both in terms of our owner/operator approach and the diversity of our operations from coastal hotels and self-catering holiday apartment complexes to city centre hotels. Operating more than 40 years Company is the one of the leading hospitality company in Croatia.

As outlined in our 2017 Annual Report, our Company has created a responsible business strategy – Responsible Experiences – that builds on the corporate social responsibility (CSR) activity of previous years to create a long-term sustainable and responsible business model.

Responsible Experiences was developed by our team members using our current values and the way our properties and their teams already go about their daily work. We have defined a responsible business mission and the four pillars reflecting key areas of activity.

In aim to enforce all areas of activities divided in four pillars of Responsible business Strategy Company is preparing policies as follow:

ARENA HOSPITALITY GROUP SUSTAINABILITY POLICY
ARENA HOSPITALITY GROUP ENVIROMENTAL MANAGEMENT POLICY
ARENA HOSPITALITY GROUP HUMAN RIGHTS AND LABOUR STANDARD POLICY
ARENA HOSPITALITY GROUP HEALTH AND SAEFTY POLICY
ARENA HOSPITALITY GROUP COMMUNITY POLICY STATEMENT
ARENA HOSPITALITY GROUP FINANCIAL POLICY

Policies will be announced on the official web site and will be available in all premises across the Arena Group in Croatia, Germany and Hungary.

In 2018 we have been taking positive steps to integrate Responsible Experiences into our business model and day-to-day activity. This has involved setting ourselves goals under each pillar, the majority of which are based on existing activity within our Group, while others have been set to challenge the Group and introduce new areas of activity.

Our main goals in 2018 were numbered by main stakeholders, are :

1) Inspiring Guests

- Goal one: Improve guest experience
- Goal two: Futureproof our organisation
- Goal three: Ensure guest health and wellbeing
- Goal four: Ensure guest safety and security

2) Creating Centres of Excellence

- Goal one: Reduce carbon footprint
- Goal two: Reduce water usage
- Goal three: Reduce waste and recycle more
- Goal four: Increase the use of ethically sourced and eco-friendly materials
- Goal five: Increase diversity in the workplace

3) Developing our People

- Goal one: Linking development to learning
- Goal two: Attract and retain talent

4) Being Part of our Communities

- Goal one: Increase our charity initiatives and volunteering
- Goal two: Contributions and investments with our local community
- Goal three: Engagement with our local community

Each goal has a series of measures associated with it to help us monitor and evaluate our efforts. We are currently working on internal systems and processes to ensure we can accurately report on these and plan to report on this first set of measures in 2019. More information on measures could be found on the web address pphe.com/responsibility.

The Company has committed to working with its controlling shareholder, PPHE Hotel Group, to ensure that all systems, goals and measures align, which is a committed aim of the PPHE Hotel Group in 2019.

During the summer of 2018 PPHE Hotel Group also conducted a comprehensive online materiality survey with over 4,000 key stakeholders. PPH is using the results of these findings to prioritise activity within the group and which measures to concentrate on first.

This report focuses on our progress in each of the four pillars across the last 12 months. Where possible, we have highlighted key facts and figures that are considered relevant by our stakeholders and are also important to the success of our business.

Managing Responsible Business at the Arena Hospitality Group

We have an effective top-to-bottom governance structure, providing an environment in which team members are encouraged and supported to do the right thing and to work responsibly according to the Company's strategy and main goals.

This starts at Management Board level with a dedicated Board sponsor and cascades to every part of our business via our Strategic corporate business functions led by divisional managers which make up the senior management team.

Management Board and the senior management team ultimately engaging with all team members at our properties.

We have a Responsible Experiences Project Manager who drives activity and governance and reports to both the PPHE Hotel Group and Management Board.

Our Responsible Business strategy is also part of the 'Feeling Welcome' induction programme for new team members. All colleagues are accountable for doing business responsibly, which is integral to the way we recruit, develop, assess, promote and reward them – from senior management to our trainees.

Our mission in 2019

We are very proud of the progress we have made with Responsible Experiences in 2018, but we realise that we are at the very start of this process and still have a long way to go before we have achieved our ambitions for this initiative.

Beside the Management Board policies and statement relates on sustainable and responsible business our aim is to build a digital data collection tool that ensures the data we collect is up-to-date and accurate. In creating this we will also produce better standards and procedures to define what the data is and its sources, this will enable us to create consistency across the Group, track our progress, celebrate our successes and identify areas for improvement. We can then work together to set targets and define group-wide initiatives that will help us achieve our Responsible Experiences goals.

1) Inspiring guests

Guests will always be the primary focus for all Group activity. As highlighted in the materiality survey, 'Inspiring Guests' was ranked as the most important Responsible Experiences pillar amongst our stakeholders. For this section, we focus on how responsible business activity is conducted with the specific aim of creating valuable memories by delighting our guests every day, through engaging service, quality products and inviting places.

Goals:

- 1) Improve guest experience
- 2) Futureproof our organisation
- 3) Ensure guest health and wellbeing
- 4) Ensure guest safety and security

The guest experience and futureproofing

One of our primary goals is to recognise and create opportunities and develop the properties in our portfolio to reach their full potential. Over the last twelve months we have invested HRK 128,7 million in major renovation projects. The feedback from our guests indicates that they appreciate these investments and our customer Average overall score increased on 84,3. The most important project is Glamping camp Pomer offering to our guest new, unique experience of stay in unforgettable preserved nature.

Health and wellbeing

We ensure that our products and services are advertised in strict conformity with legal requirements as well as with ethical and cultural standards. We comply with our own company-wide code of conduct, as well as with regulations, guidelines and rules laid down by national advertising boards. We commitment to complying with applicable consumer-protection regulations and to employing appropriate sales, marketing and information practises in communications with our customers.

Customer satisfaction and guest complaints are key to the development of our brands and services. We have a robust process in place that addresses the issue at hand and feeds directly into how we evolve the guest experience. This ensures we build a service offering that is tailored to our guests and is informed by guest feedback.

Safety and security

The health and safety of our team members and our customers is critical to the Group and is a major priority. We recognise the necessity of safeguarding the health and safety of our own team members while at work and of our our guests when staying at or visiting any of our properties, and operate so as to provide a safe and comfortable environment for team members, guests and the public. Our policy is to manage our activities to avoid causing any unnecessary or unacceptable risks to health and safety and our immediate environments. The Group has an excellent health and safety record and a culture of safety is deeply embedded within the Group.

We take the privacy of our customers very seriously. Over the last year we have reviewed our systems and policies to ensure we are GDPR compliant. In order to comply, we identified how we process data and have instituted policies to process it in line with this new European law. We have a system in place to identify when we deviate from the proscribed procedures of processing data, either by using technology or by self-reporting to one of our hotlines. We have implemented two hotlines, one for the public and one for employees, both of which are directed our compliance team. We have also designed and are currently implementing a new training system for our team members, enabling them to report any misuse of personal data to our hotline, enabling us to mitigate and prevent further risk.

Human rights

The Group requires its team members to act fairly in their dealings with fellow team members, customers, suppliers and business partners. We introduced a Code of Ethics during 2013 which applies to all Group employees. The Group operates a confidential whistle-blowing policy, which was also introduced in 2013. We have a zero-tolerance Gift policy on bribery and corruption which extends to all business dealings and transactions in which we are involved. This includes a prohibition on making political donations, offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. Our robust policies and guidance in this area are routinely reviewed.

Every new team member is required to review and acknowledge our Code of Ethics and Gift policies.

2) Creating centres of excellence

As one of the most dynamic hospitality groups in the CEE region, owner and operator of 15 hotels, self-catering holiday apartment complexes, campsites and many restaurants, bars and spas in Croatia, Germany and Hungary, it is therefore critical that we develop a blueprint for long-term sustainable development and ethical operational practices.

Implementing our blueprint will form a critical part of our team member and guest education and engagement, having them contribute to our sustainability projects as and when appropriate. As highlighted in the materiality survey, 'creating centres of excellence' was ranked as the Responsible Experiences pillar with the most impact.

Goals:

- 1) Reduce carbon footprint
- 2) Reduce reasonably water usage
- 3) Reduce waste and recycle more
- 4) Increase the use of ethically sourced and eco-friendly materials
- 5) Increase diversity in the workplace

Carbon footprint

The management of our energy use has always been important to the Group and we have had success in reducing our carbon emissions over a long period of time. All our achievements in energy saving have been made possible by the commitment of our local hotel management teams and our regional general manager and management board. A key driver of this is our 'Save tomorrow, today' programme, where we actively engage our guests to reducing their impact on the environment through the reduction of water, electricity and cleaning materials used in our properties.

Whilst we are proud of our successes to date, we need to ensure that the Group continues to perform well. In 2018 we introduced an online energy monitoring tool for all our properties in the Germany. The online tool allows us to receive accurate updates on all our energy consumption. This information provides us with the ability to monitor peaks and troughs in usage. The benefits of this are not only commercial, but will also allow us to explore ways to reduce our carbon footprint.

Water end energy use

Alongside the online energy monitoring tool, we also plan to implement an online water usage monitoring tool for all properties in the Group in 2019. Whilst we already encourage all our hotels to minimise their water usage and this is also included in the 'Save tomorrow, today' programme, we feel the online tool will allow us to effectively monitor and manage water use in our properties.

In addition to the initiatives above, we use our own water sources and have waste-to-water recycling schemes in place, in-room towel and bed linen schemes, motion sensor lights, LED lights and combined heat and power (CHP) units, as well as solar thermal collectors. We have also switched our energy source at our centralised laundry site from oil to gas in order to be more environmentally friendly. Gas combustion produces less carbon dioxide (CO₂), carbon monoxide (CO), sulfur (S) and nitrogen oxides (NO₂) than the fuel oil we used before. These are just a few examples of the improvements we are constantly making within our business.

Monthly consume of the water and energy data are available to all our managers and employees on the Company intranet in aim to give to all opportunity to be informed about consumption.

Waste and recycling

As a Group, we encourage all our hotels to reduce their water usage and the amount of waste they produce. This is achieved in many different ways including reducing the use of consumables such as cleaning materials, packaging and paper, with a view to further minimising environmental impact.

As part of our responsible business initiatives, we have created a Green Team which promotes sustainability across all our properties in Croatia, Germany and Hungary. This will help us to reduce our carbon footprint and waste, as well as contribute to better water preservation.

In Croatia, under the Green Team project, 60,0 tonnes of paper and cardboard were collected and recycled in 2018. All other types of recyclable waste were separated into 20 different types, including glass, metals, energy saving lamps, batteries, waste oils and food residues from kitchens. Incentive schemes are in place to reward our hotels, self-catering holiday apartment complexes and campsites that achieve the best results in each category.

Procurement

A key area of impact we have on the environment and the communities in which we operate is our supply chain – this being the goods and services which we buy both in the countries where we operate and from elsewhere.

It is important that all procurement decisions ensure that our hotels get the goods and services they need to operate effectively, and at the right price, whilst ensuring that robust due diligence has been performed to ensure that any social and environmental issues are properly understood and addressed. As a key component of the continuous development of our management processes, we plan to implement a centralised e-procurement system (Procure to pay) across our properties in Germany and Hungary throughout 2019. The system provides complete transparency of all our suppliers for all outlets in all regions and allows us to include a strict audit and supply chain process that can be developed as our business grows and our requirements change.

The issues we face with our supply chain are constantly changing and evolving. It is a continuing process to improve and strengthen our procurement activity to ensure that relevant issues are properly understood and managed in each buying decision we make. Our responsible business strategy will help us to identify and prioritise the areas to concentrate on.

Strategic partners/suppliers

Teamwork is a key value and we like to collaborate with our strategic partners and business suppliers. It will never be our intention to reject strategic partners and business suppliers because they present environmental or social challenges, but only if they refuse to address these. Where issues do emerge, we will always endeavour to work together to address them.

In 2019 we will be introducing a strategic partner and supplier “code of conduct” policy which will require our partners to be transparent with us and provide relevant information about the goods or services they provide. The “code of conduct” will outline how we expect all our strategic partners and business suppliers to comply with all relevant legislation in the countries where we operate or in those countries where goods or services are sourced. This includes legislation relating to the environment, health and safety and employment, as well as any other regulations relating to the goods or services they provide.

Our supplier contract management also provides us with the information we need to monitor and manage supplier activities across the Group and help improve accountability for all.

Equality and diversity

Company is fully committed to respect and fair treatment for everyone, eliminating discrimination and actively promoting equality of opportunity and delivering fairness to all. In addition to being compliant with equality laws, public duties, and Human Rights Acts (universal and European), the Company supports diversity and promotes equality of opportunity for all team members, students and customers regardless of their:

- Protected Characteristics (Equality Act):
 - age;
 - disability;
 - gender reassignment;
 - marriage and civil partnership;
 - pregnancy and maternity (including paternity);
 - race (colour, ethnic or national background);
 - religion or belief (including non-belief);
 - sex/gender; and
 - sexual orientation,
- caring responsibilities for a 'protected characteristic' including dependants;
- socio-economic background/grouping;
- union activity; and
- unrelated spent criminal convictions.

3) Developing our people

We are an international company which employs team members from different nationalities. With such a diverse workforce, it is important that the Company has a strong company culture and leadership that inspires our team members to share our passion to perform.

We recognise that our team members are central to the success of the Company and how we operate. Our company culture is one of openness, trust, support, caring and connecting, and is also about personal growth, which the overall Group's context of 'placing the guest experience at the heart of everything we do' supports. It is critical that we invest in our talent and encourage their growth by delivering an exciting and forward-thinking workplace for them to develop their skills and knowledge, providing them with the opportunities to grow with our business.

Goals:

- 1) Linking development to learning
- 2) Attract and retain talent

Learning and development

We see our learning and development programmes as key to the development of our team members and to support the professional and personal growth of every team member, PPHE Hotel Group have developed the 'you:niversity'. This is an extensive resource of learning and development programmes created to enable our leaders and team members to develop the individual and organisational capability needed to achieve their personal growth, career progression potential and our overall business strategy.

205 training programmes were undertaken in 2018 across the Company, of which 60 were conducted internally. The rest of the programmes were provided by external companies or our suppliers. Of the internal training sessions, nearly 53% fell under the category of statutory training. The rest of the training programmes conducted were mainly induction training, guest experience training, technical skills training and management and leadership training.

Talent management

We continue to offer a talent management programme to the management teams of the Park Plaza® branded and non-branded properties following the introduction of the programme in 2016. This programme enables our management teams to recognise employee talent and plot them on a training matrix, allowing the Group to keep track of our talent as a resource and further support and develop our team members. Successful talent management will allow us to utilise our talent and enable better succession planning.

Employment

Arena Hospitality Group employs a diverse workforce, with a gender mix of 56% women and 44% men. The average age of permanent employees is 44 years which shows the trend of the Company getting younger due to our aging policy. Our workforce age structure is as follows: from 18 to 30 (25%), from 31 to 40 year olds (27%). Approximately 19% of people are aged from 41 to 50. We employ approximately 24% of people from age 51 to age 60. Only 4% are older than 60.

We are a dynamic Company and in 2018 we had 129 new team members start their career with the Company. The Company is providing to its team members all rigs according work legislation in Croatia, Germany and Hungary working constantly on condition improvement which includes increase of salaries, incentive system, and health and safety improvements, succession plans.

Team member engagement survey

In 2018, we are proud to report that our colleagues once again recognised our efforts through high team member engagement survey scores. In June, we conducted our sixth annual climate analysis–employee engagement survey. Overall, the results for the Group showed a high level of team member engagement with an index score of 84,1 (on a scale of 1-100). The total index derived from the drivers – My Job, My Manager, Our Team and Our Company – was 79.7. These results show a high average of team member engagement and overall satisfaction with employment in the Group. From the results, teams are able to identify areas for improvement and, through action plans, set objectives to improve their working climate.

Team member in Croatia	2018	2017	2016	2015
Full-time members (on 31 December)		370	366	354
Part-time members (on 31 December)		117	114	184
Part-time members (on 31 August)		1,005	848	819
FTE*		855	806	758
Employee satisfaction/engagement (%)	83,6	85,0	84,9	84,6
Team member in Germany and Hungary***	2018	2017	2016	2015
Full-time members (on 31 December)**		208	301	225
Part-time members (on 31 December)**		59	35	43
FTE*		254	264	263
Employee satisfaction/engagement (%)	85,7	86,2	83,9	84,4

* The FTE number is an estimate based on the total hours paid for all team members divided by the hours paid for an average full time employee to arrive at a total for Full Time Equivalent Employees.

** The employee numbers for Germany and Hungary include all the employees for art'otel berlin mitte and Park Plaza Berlin Kudamm which are owned in joint ventures.

*** Germany and Hungary were not part of the Group for the three years ended 31 December 2016 and the table above is included for information.

4) Being part of our communities

As a owner and operator of hotels, resorts and campsites it is important we care about our neighbourhoods and make a positive contribution to our local communities and the people who live there. We do this in a number of different ways. We are actively involved with a number of fundraising activities throughout the year that make a big difference to people's lives and the environment, we also engage our local communities through volunteering and local resourcing partnerships and charities.

Although 'Being part of our communities' ranked the pillar with the lowest importance and impact, we still have a strong commitment to it and are constantly reviewing our community and charitable activity to ensure that it has maximum impact at a local level, but also resonates globally and supports the Group in meeting its objectives and responsibilities

Goals:

- 1) Increasing our charity initiatives and volunteering
- 2) Contributions and investments with our local community
- 3) Engagement with our local community

Charity initiatives and volunteering

In the last 12 months, Arena Hospitality Group (AHG) in Croatia sponsored the Sa(n)jam knjige u Istri (Book Fair(y) in Istria), an important cultural festival of books and authors, and is the patron of the Libar za Vajk award (Book for Ever), awarded at the festival for a fourth year in a row.

This year again, in partnership with the City of Pula, AHG sponsored the humanitarian Christmas gala concert traditionally held at the Istrian National Theatre in Pula. Funds collected from ticket sales were donated to an institution or individuals in need from Pula or the surrounding region.

The Group also supported an art exhibition to raise funds for the Cerebral Palsy Association of the Istra County, donated a new incubator for the Department of Paediatrics at the General Hospital Pula and supported the education of physiotherapists at local healthcare institution and physical therapy centre, Zlatne Ruke.

The company has been sponsoring and participating in the humanitarian operations of the GEA Association for Support to Breast and Breast Cancer Associates for a number of years, since the structure of the employees is predominant part of the woman, and unfortunately, a number of patients who need support from the association.

In Germany, AHG's Regional Office arranged a day-trip to Berlin Zoo for 50 children from Maltese Family Centre, Manna. Christmas trees were also placed in all hotels for Manna and were filled with children's wishes which team members helped fulfil. Finally, Park Plaza Nuremberg hosted a charity Flea Market for the children of day care centre Lichtenhof of the Rummelsberger Diakonie.

A full list of all the charities we support can be found on our website .

Contributions and investments

Outside of the financial contributions we make to our local communities via charity initiatives and fundraising, we work with a number of local organisations on a benefit basis. We are proud that this year we have hosted and supported the International Sound & Film Music Festival held at the Park Plaza Histria Hotel in Pula. The ISFMS festival focuses on the promotion of film sound and music as well as education and each year offers a programme composed of lectures, panels and workshops with international guests, music professionals from around the world. This year, for the first time in Croatia, European Camille Awards for the best film composers were awarded at the festival.

Engagement with our local communities

Employing team members who live near our properties is not only good for the environment, but supports our objective to be part of our local communities.

In Germany, art'otel cologne hosted a Speed Dating event at a Job Fair held at the Rhein-Energie-Stadion Köln) by the city Cologne, and attended several large-scale Job fairs organised by national employment agencies across the country.

Further outreach includes a cooperation with the International University of Applied Sciences Bad Honnef (IUBH) to commence a dual apprenticeship program, while art'otel Berlin Mitte has partnered with a refugee project in Berlin to recruit across several operational roles.

Recognition and Certification

While we are developing our new responsible business strategy, it is important for us to know if we are on the right track with our current activities and we therefore highly value external accreditation.

Several of our hotels have worked with relevant CSR authorities and have received a number of required accreditations. We will continue to review similar initiatives for all our hotels.

Awarded by	Type of award/recognition	Awarded to	Award/recognition name
Trip Advisor	Certificate of Excellence	Park Plaza Histria	Certificate of Excellence
		Park Plaza Arena	Certificate of Excellence
		Park Plaza Verudela	Certificate of Excellence
Park Plaza Belvedere		Certificate of Excellence	
art'otel budapest		Certificate of Excellence	
art'otel berlin mitte		Certificate of Excellence	
Travelers' Choice	GreenLeaders Program	Park Plaza Wallstreet Berlin Mitte	Certificate of Excellence
		Park Plaza Nürnberg	Certificate of Excellence
		Park Plaza Verudela	Travelers' Choice 2018 Winner
		art'otel berlin kudamm	GreenLeader Gold level
		art'otel berlin mitte	GreenLeader Bronze level
		Park Plaza Berlin Kudamm	GreenPartner
		Park Plaza Wallstreet Berlin Mitte	GreenLeader Bronze level
Croatian Camping Union	Croatia's Best Campsites	Arena Kažela Campsite	Croatia's Best Campsites 2019
		Arena One 99 Glamping	Croatia's Best Campsites 2019
Croatian National Tourist Board and Croatian Chamber of Economy	Turistički cvijet	Arena One 99 Glamping	Kamp sa najboljom glamping ponudom
Croatian Association of Women in Business and Croatian Chamber of Economy	Most successful Women in business in Croatia	Milena Perković, Member of Management Bord	Top Woman Manager award 2018

Financial responsibility

Corporate Governance Report complies with Corporate Governance Code of the Zagreb Stock Exchange, Capital Market Law and Croatian Companies Act. Company publicly announced on ZSE and its corporate web page its statutory Financial Statements in aim to insure transparency.

Financial results are according strategic documents and Management Board projections. Company Arena Hospitality Group d.d. realized stable moderate increase of EBITA and investment in improving the products and services. Company improved its cash position. Detailed report is announced on corporate web site.

Management Board

Reli Israel Gavriel Slonim, President

