

NONFINANCIAL REPORT

RESPONSIBLE BUSINESS 2018

Doing business responsibly

A shifting landscape

As one of the most dynamic hospitality groups in the CEE region, the Group is fully aware of the impact our actions have on people, the environment and the communities in which we operate. Our primary activity of developing, owning and operating hotels, resorts and campsites creates an increased level of responsibility to our guests, team members, partners, shareholders and the communities in which we operate. In turn, these stakeholders are placing a higher value on a brand's responsible initiatives and the impact it is making on the world.

A responsible business strategy

Responsible Experiences

As outlined in our 2017 Annual Report, the Group has elected to participate in a responsible business strategy, Responsible Experiences. It has been developed by PPHE Hotel Group and

builds on the Responsible business (RB) activity of previous years across the PPHE Hotel Group, to create a long-term sustainable and responsible business model.

Developed by PPHE Hotel Group's team members, the approach is aligned to their current values and the way the properties and their teams already go about their daily work. Responsible business mission and the four pillars reflecting key areas of activity and impacts are shown on page 57. Croatian, German and Hungarian teams part of the PPHE Hotel Group, are involved in strategy implementation.

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.



ART'OTEL BERLIN MITTE



INSPIRING GUESTS

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



DEVELOPING OUR PEOPLE

1. Linking development to learning
2. Attract and retain talent



CREATING CENTRES OF EXCELLENCE

1. Reduce carbon footprint
2. Reduce 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



BEING PART OF OUR COMMUNITIES

1. Increase our charity initiatives and volunteering
2. Contributions and investments with our local community
3. 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. For more information on our goals and measures visit pphe.com/responsibility.

The Company has committed to working with its indirect 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.

Materiality in 2019

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

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

Being a truly responsible business requires PPHE Hotel Group and our Group being responsive to the views of our stakeholders and the needs of an ever-changing world.

Managing Responsible Business at Arena Hospitality Group

We have an effective top-to-bottom two tiers governance structure, providing an environment in which team members are encouraged and supported to do the right thing and work responsibly. This starts at Supervisory Board and Management Board level with dedicated Board members. Management Board and the senior management team ultimately engage with all team members at our Group. We have a Responsible Experiences Project Manager who drives activity and governance and reports to both PPHE Hotel Group and the 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. This induction programme includes tailor-made training in areas such as data privacy (GDPR).

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 and integrate ourselves in the PPHE Hotel Group model more widely.

The PPHE Hotel Group has an ambitious plan: "Over the next 12 months 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 standards and procedures to define what the data is and its source, this will enable us to create consistency across the PPHE Hotel Group, track our progress, celebrate our successes and identify areas for improvement. We can then work together to set targets and define initiatives that will help us achieve our Responsible Experiences goals". The Group will work in 2019 on progress in each of the four pillars of Responsible Experience concept:



Inspiring guests

Providing excellent guest experiences will always be in the focus for all Group activity. As highlighted in the materiality survey, which PPHE Hotel Group did in 2018, 'Inspiring Guests' was ranked as the most important Responsible Experiences pillar amongst 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) Future-proof our organisation
- 3) Ensure guest health and well-being
- 4) Ensure guest safety and security

128.7 M HRK

Of investments over the
last 12 months

The guest experience and future proofing

One of our primary goals is to recognise and create opportunities and develop the properties in our portfolio to reach their full potential. We are committed to investing in the renovation and development of our hotels, self-catering holiday apartment complexes and campsites. 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 is 84.3.





Health and well-being

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 the national Statement of Advertising and Market Communication. We commit 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 responds directly to guest feedback.

Safety and security

The health and safety of our team members and our customers 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 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 team and record, and a culture of safety which 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 embedded policies to process it in line with this new European law. We nominated responsible GDPR officer whose duty is to put a system in place to identify when we deviate from the proscribed procedures of processing data and to put in place a training system for all our team members, enabling them to report any misuse of personal data and 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 policy and guidance in this area are routinely reviewed by PPHE Hotel Group.

Every new team member is required to review and acknowledge our Code of Ethics and Gift policy which are seen by the HR department.



Creating centres of excellence

As one of the most dynamic hospitality groups in the CEE region, owner and operator of 14 hotels, four self-catering holiday apartment complexes, eight campsites and many restaurants, bars and spas in Croatia, Germany and Hungary, it is 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 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, our technical team, room division manager and Management Board. 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 as well as on waste disposal rules.

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 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 use

We already encourage all our hotels, campsites and self-catering holiday apartment complexes to minimise their water usage. We are monitoring on a daily basis the water consumption across the Company in Croatia and we managing water use in our properties through new technical solutions applied directly on the consumption places (bathrooms, sanitary blocks and kitchens) or on the water supply infrastructure. We plan to implement on line control water usage in Germany, which will be an excellent tool.

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), sulphur (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.

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 and packaging and paper, with a view to further minimise environmental impact.

As part of the responsible business initiatives, PPHE Hotel Group has created a Green Team which promotes sustainability across all properties. 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.

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.

PPHE Hotel Group itself is developing a centralised e-procurement system that aims to ensure that procurement activity in the PPHE Hotel Group is properly managed and organised under responsible business strategy principles.

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 PPHE Hotel Group, will be introducing a strategic partner and supplier “code of conduct” policy which will require the partners to be transparent and provide relevant information about the goods or services they provide. The PPHE Hotel Group’s team pointed to: “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”.

Equality and diversity

The Group is accepting the PPHE Hotel Group’s approach regarding equality and diversity, so it 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 Group supports diversity and promotes equality of opportunity for all team members, students and customers regardless of their:

- 1) 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,
- 2) Caring responsibilities for a ‘protected characteristic’ including dependants;
 - 3) Socio-economic background/grouping;
 - 4) Union activity;
 - 5) Unrelated spent criminal convictions.



Developing our people

We are an international, dynamic hospitality 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 PPHE Hotel Group’s context of ‘placing the guest experience at the heart of everything we do’ supports. The Company accept PPHE Hotel Group’s opinion that 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

The Group is a part of PPHE Hotel Group's learning and development programmes and team members have the opportunity to be included actively in these programmes.

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 has 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, of which approximately 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. Foundation in Management was attended by eight Group's team members last year who have now become a part of the larger group of team members who completed the very high quality program. Some of the young team members in 2019 will take a few of the leading positions in the Company.

Talent management

We place a great amount of effort in recognising and retaining our talents as well as supporting them to grow within the Company. We offer various training programs, such as Foundation in Management, and tuition payments for university programs to those employees that are recognised as talents within the organisation.

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. Our workforce age structure is as follows: 18 - 30 (25%), 31 - 40 year olds (27%). Approximately 19% of

people are aged between 41 - 50. We employ approximately 24% of people aged between 51 - 60. Only 4% of people are older than 60. We are a dynamic Company and in 2018 we had 129 permanent team members start their career with the Company.

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 September, 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 Engagement index 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 80.4. 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)	469	370	366	354
Part-time members (on 31 December)	80	117	114	184
Part-time members (on 31 August)	615	1,005	848	819
FTE ¹	812	776	806	758
Employee satisfaction/engagement (%)	83,6	85,0	84,9	84,6
TEAM MEMBER IN GERMANY AND HUNGARY ³	2018	2017	2016	2015
Full-time members (on 31 December) ²	269	278	258	225
Part-time members (on 31 December) ²	28	21	21	43
FTE ¹	217	215	222	263
Employee satisfaction/engagement (%)	85.7	86.4	84.1	84.4

¹ 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.

² 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.

³ 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.



Being part of our communities

As an 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, the Company 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, the Company sponsored the humanitarian Christmas gala concert traditionally held at the Istrian National Theatre in Pula. Funds collected from ticket sales were donated to "GEA", Association for Support to Breast and Breast Cancer Associates, located in Pula.

The Company also supported an art exhibition to raise funds for the Cerebral Palsy Association of the Istria 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 (Golden Hands).

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. This association is giving medical and psychological support to the members. Some of whom are also our female employees or ex-employees.

In Germany the Group's Regional Office arranged a day-trip to Berlin Zoo for 50 children from the Malteser 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.

Contributions and investments

Apart from 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 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 and 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 style event at a Job Fair held at the Rhein-Energie-Stadion Köln, in the city of 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. art'otel berlin mitte partnered with a refugee project in Berlin to encourage and support refugees back into the workplace. This enabled the Group to place candidates into operational roles within its outlets.

And aforementioned collaboration with the Faculty of Economics Juraj Dobrila, Pula and the Law Faculty in Rijeka.

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 Responsible Business 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 Park Plaza Arena Park Plaza Verudela Park Plaza Belvedere art'otel Budapest art'otel berlin mitte Park Plaza Waltreet Berlin Mitte Park Plaza Nürnberg	Certificate of Excellence
	Travelers' Choice	Park Plaza Verudela	Travelers' Choice 2018 Winner
	GreenLeader Program	art'otel berlin kudamm art'otel berlin mitte Park Plaza Berlin Kudamm Park Plaza Wallstreet Berlin Mitte	GreenLeader Gold Level GreenLeader Bronze Level GreenPartner GreenLeader Bronze Level
Croatia Camping Union	Croatia's Best Campsites	Arena Kažela Campsite Arena One 99 Glamping	Croatia's Best Campsites 2019
Croatian National Tourist Board and Croatian Chamber of Economy	Turistički cvijet	Arena One 99 Glamping	Best Campsite with Glamping offer
Istria Tourist Board	Golden Goat Award	Arena One 99 Glamping	Best Tourist Product of 2018
Croatian Association of Women in Business and Croatian Chamber of Economy	Mostsuccessful Women in business in Croatia	Milena Perković Member of Management Board and Chief Financial Officer	Top Woman Manager award 2018