

## E. PROGRESS REPORT

Period covered by Progress Report

From: 2010 To: 2011



### Declaration of constant support

As already mentioned in our subscription to the Global Pact in 2008, its ten principles have become part of our strategy, culture and day-to-day business. Human rights, labour rights, the environment and the struggle against corruption are of the utmost importance to Meliá Hotels International, and that is why we have made the principles of the Global Pact one of our four public commitments.

These four commitments represent a merger of the external dimensions of sustainability and corporate social responsibility with the operational and internal dimension, due to the actions plans that we have to introduce to maintain our commitments. All four focus on continuous improvement.

In this, our second Progress Report, we renew our commitment to these principles. We believe we have significantly improved in several areas, but we know there is still much work to be done, and we are confident that, with time and perseverance, we will become much more than just a leader in our industry. We will become an example of a sustainable and profitable business.

**Sebastián Escarrer Jaume**

Meliá Hotels International Vice Chairman

### E.1 HUMAN RIGHTS PRINCIPLES

**Principle 1:** Companies should support and respect the international protection of human rights; and

**Principle 2:** Make sure that they are not complicit in the abuse of rights human.

tion and Appointments along with the Human Resources Department. The points included are the following:

#### Evaluation, policy and objectives

Meliá Hotels International has a series of internal norms on human resources that regulate managerial behaviour and must be accepted by all managerial staff in the group, regardless of the legislation applicable. Compliance with these rules is supervised by the Delegate Committee of the Administrative Council on Compensation

- Conflict of interest.
- Non-discrimination (sex, race, religion...).
- Harassment (labour, sexual...).
- Dignity at work.
- Employment
- Equal opportunities.

In financial year 2011, there were no records of any incident related to discrimination of any

kind. In 2011, no specific training was conducted which discussed human rights protection for employees or in-house or subcontracted security staff.

Investment agreements and major formal contracts do not yet include human rights clauses. For the time being, these clauses are only signed in contracts with suppliers and tour operators in Spain.

A total of 44.17% of all operations performed were analysed for human rights matters.

Their distribution by country can be seen in the table Operations audited on human rights matters by country. These operations correspond to the internal audits conducted internationally in the hotels, in which a checklist is used that includes a revision of subjects that include everything from human rights to safety and health issues, products, corruption, etc.

#### Operations audited on human rights matters by country

COUNTRY	NR. OPS.	%
China	1	0.94%
Dominican Republic	1	0.94%
France	3	2.83%
Greece	1	0.94%
Germany	10	9.43%
Indonesia	1	0.94%
Malaysia	1	0.94%
Mexico	5	4.72%
Peru	1	0.94%
Puerto Rico	1	0.94%
Spain	80	75.47%
USA	1	0.94%
	<b>106</b>	<b>100.00%</b>

\* Distribution of the 44.17% of centres audited over the total number of hotels.

#### Implementation

Meliá Hotels International has a firm commitment to the well-being of children. For this reason, it is essential that all areas of the company guarantee that none of its activities involves any potential risks to the rights of children.

The company has signed an agreement to implement a Code of Conduct which protects children from sexual abuse in the tourism industry, condemning all forms of infant sexual exploitation and supporting all legal actions to prevent and punish these crimes.

This social commitment to children was strengthened with the signing of the alliance with UNICEF Spain, which leads us to work together on the objectives of the United Nations Children's Fund on matters related to education, child protection and the fight against child sexual exploitation and the trafficking of children.

#### Measurement of results

Meliá Hotels International does not employ anyone under the age of 16 and the Sustainable Development clause in the agreements signed with suppliers, in Spain, ensures they also commit not to use child labour in their production processes, accepting the possibility of being audited and the risk of cancellation of the contract FR they are found in contempt.

## E.2 LABOUR PRINCIPLES

**Principle 3:** Companies should respect freedom of association and the effective recognition of the right to collective negotiation

**Principle 4:** The elimination of any type of forced or compulsory labour;

**Principle 5:** The complete elimination of the exploitation of child labour; and

**Principle 6:** The elimination of discrimination with respect to employment and job-placement.

### Implementation

Due to its activity in more than 30 countries, the diversity of regulations means that a standard global labour rights and workplace health and safety policy for all employees would be very difficult to apply in the country. Even though the health and safety policies vary according to local legislation and the unique features of each site, the company policy always requires strict compliance with the law and the development of preventative measures for specific risks detected in each area.

### Evaluation, policy and objectives

The human team at Meliá Hotels International is the company's main asset, and for this reason the group places special emphasis on making head-way in preventing workplace risks.

Meliá Hotels International is governed at all times by the corresponding labour legislation, the applicable collective bargaining agreement or the labour covenant or company contract signed. The company safeguards the right of association in the countries that are covered by any of these agreements mentioned above, with the exception of China and Cuba, which do not allow them. In 2011, the number of employees represented by a collective bargaining agreement, labour agreement or company contract was 98.3%, excluding China and Croatia. The company guarantees its workers' right to join a union or labour association.

Likewise, Meliá Hotels International abides by the legislation, agreement or labour covenant applicable in each region with regarding to minimum notice periods for organisational changes.

### Measurement

Throughout 2011, only two grievances related to human rights were filed, both of them internal and both in Spain: one for sexual harassment of an employee by three workers with the consequent dismissal; and an investigation into workplace harassment; after the deeds of this case were investigated, the conclusion was that there had been no workplace harassment. Meliá Hotels International protects its employees from suffering from any episode of forced labour; and no operations with this risk associated have been identified.

All told, in 2011 the average number of staff members that the company had under the responsibility of the Department of Workplace Health in Spain was 9,222, compared to 9,641 in 2010. In 2011, the company recorded 626 workplace accidents compared to 625 in 2010. These accidents meant 11,798 lost workdays, compared to 11,475 in 2010. The absenteeism rate was at 3.61% compared to 4.36% in 2010. Throughout 2011, there were no records of workplace-related deaths on either the Meliá Hotels International staff or sub-contracted staff.

Table of Workplace Health Indexes

	INCIDENCE	FREQUENCY*	SERIOUSNESS	AVERAGE DURATION**	ABSENTEEISM
Men	59.08	33.69	0.73	21.63	2.94
Women	77.24	44.43	0.74	16.57	4.33
<b>TOTAL</b>	<b>67.87</b>	<b>38.87</b>	<b>0.73</b>	<b>19.11</b>	<b>3.61</b>

\* Bearing in mind accidents in itinere. \*\* In calendar days..

With regard to the minimum salary that Meliá Hotels International pays its employees, on average it is 15.6% higher than the legal minimum in European countries, calculated in euros, and 2.85% higher in the other countries, calculated in US dollars. In 2010 these differences were 47% and 30.3%, respectively. This difference is due to the fact that the global economic crisis has led there to be more competition in the

job market, boosting the demand for jobs and lowering costs.

The table **Difference in average salaries by sex (male vs. female)** shows the salary differences by professional categories between men and women in the countries for which we have reliable information to calculate it.

#### Minimum gross monthly salary: Meliá Hotels International vs. Minimum legal salary

	EMEA* (€)	
	2011	2010
Bulgaria	50%	108%
Egypt	0%	205%
France	0%	0%
Greece	24%	22%
Germany	Not Applicable	Not Applicable
Italy	Not Applicable	Not Applicable
Luxembourg	0%	0%
Spain	23%	82%
United Kingdom	0%	Not Available
Tanzania	32%	0%

\* EMEA: Europe, Middle East & Africa

	AMERICA (\$)	
	2011	2010
Argentina	0%	15%
Brazil	48%	36%
Dominican Republic	0%	0%
Mexico	0%	0%
Panama	Not Available	Not Available
Peru	0%	0%
Puerto Rico	0%	0%
Uruguay	42%	Not Available
USA	0%	0%
Venezuela	0%	31%

	ASIA (\$)	
	2011	2010
China	Not Available	Not Available
Indonesia	0%	18%
Malaysia	Not Available	Not Applicable
Vietnam	0%	67%

2011 figures. For the USA, the federal minimal salary was used as the reference.

## Difference in average salaries by sex (male vs. female)

	SPAIN			MEXICO	DOMINICAN REPUBLIC
CORPORATE	2011	2010	2009	2011	2011
EVP	Not Applicable	Not Available	Not Available	Not Applicable (the position does not exist)	Not Applicable (the position does not exist)
SVP	47.0%	Not Available	Not Available	Not Applicable (the position does not exist)	Not Applicable (the position does not exist)
VP	16.0%	Not Available	Not Available	Not Applicable (the position does not exist)	Not Applicable (the position does not exist)
Director	12.0%	Not Available	Not Available	17.6%	Not Applicable (only men)
Manager	16.0%	Not Available	Not Available	107.5%	Not Applicable (only women)
Executive	16.0%	Not Available	Not Available	Not Applicable (only men)	Not Applicable (only women)
Assistant	-4.0%	Not Available	Not Available	19.0	25.4
HOTEL	2011	2010	2009	2011	2011
Director	13.6%	18.6%	15.0%	Not Applicable (only men)	Not Applicable (only men)
Assistant Managers	-0.9%	1.7%	17.0%	Not Applicable (the position does not exist)	Not Applicable (the position does not exist)
Heads of Department	11.2%	11.9%	0.0%	30.1%	-10.8%
General Staff	3.0%	4.3%	6.0%	8.5%	1.1%

The positive figures are in favour of men while the negative ones are in favour of women. EVP (Executive Vice President), SVP (Senior Vice President) and VP (Vice President).

## E.3 ENVIRONMENTAL PRINCIPLES

**Principle 7:** Companies should support a focus on preventative measures to face the challenges of the environment;

**Principle 8:** launching initiatives to promote greater responsibility towards the environment; and

**Principle 9:** Promote the development and diffusion of technologies which respect the environment.

### Evaluation, policy and objectives

Travel and tourism generate considerable pressure on the natural environment, not so much due to the danger of their impact, but rather the sheer size of the industry. Hotels must minimise their consumption of natural resources and their impact on local ecosystems, harmonising their

business activity with respect for and protection of the natural environment.

For this reason, sustainability is an integral ingredient in the corporate position of Meliá Hotels International, both present and future. As part of the 2008-2010 Strategic Plan, sustainability was permanently included in the corporate strategy, and Meliá Hotels International's Sustainability Policy was made public. In the new 2012-2014 Strategic Plan, sustainability has become strategic lever which impacts all the strategic avenues in a cross-cutting fashion. We aim to promote a sustainable business model, leading our interest groups to choose us because we are a responsible hotel company.

Likewise, if we do not care for the most important asset of the tourism industry, the environment, tourist destinations will be left without a

product to sell. The 2010 Climate Vulnerability Monitor has calculated that more than 2.5 million people live under the threat of desertification – a danger it particularly highlights in the United States and Spain – and that this figure will multiply by four by 2030. Innovation and sustainable management will become the key to dealing with this environmental situation. For this reason, Meliá Hotels International has taken on the commitment to contribute to preserving the environment and landscape, ensuring the impact of its activities and fostering the awareness of sustainability in all its stakeholders.

### Implementation

Environmental management is included in the company's Global Sustainability Policy, which is the source of a series of principles and actions that are part of the company's strategy.

The different activities aim to respect the principle of "thinking globally – acting locally". To achieve this, on the one hand we aim to preserve the natural environment in the destinations where the Company operates, and on the other hand we attend to our activities on a global level, aiming to reduce the overall effect of our activity on the planet.

With regard to the initiatives aimed at mitigating the impact of our activity and adhering to the principle of precaution, the Company has been developing a product, which was not yet finished as of the close of 2011, whose goal is to include sustainability criteria in two key processes, namely hotel design and construction and the supply chain.

### Measurement of results

Included within the SAVE project is a series of water-saving measures which not only lower consumption but also mean energy savings due to the lower volume of hot water circulating.

Total water consumption in 2011 in the 166 hotels participating in the SAVE project was 7,763,447 m<sup>3</sup>, compared to 3,503,699 m<sup>3</sup> in 2010 in the 130 hotels in Spain. The volume of water saved in 2011 was 274,188 m<sup>3</sup>, compared to the 266,797 m<sup>3</sup> in 2010.

Likewise, as an overall strategy to lower the environmental impact generated by spills coming from our activity, we control spills both when they are treated by our own purifier and when they are derived from a public sanitation system. In 2011, 97% of the company's establishments pumped their waste water into the municipal sanitation systems, just as in 2010, to be transported and treated properly in the water purification plants assigned to each zone by the public administrations.

In 2011, 3% of Meliá Hotels International hotels had their own water purification system. The waste water is treated and purified in accordance with the levels stipulated in conformance with the laws in effect in every country. The total volume of this waste water treated by the establishments was 1,538,149 m<sup>3</sup>, compared to 1,662,053 m<sup>3</sup> in 2010. According to the information available, of this volume a total of 244,194 m<sup>3</sup> or 16% was reused, mainly to water gardens and golf courses, compared to the 831,356 m<sup>3</sup> in 2010, which account for 50%.

The difference in the percentage of waste water reused between 2010 and 2011 comes mainly from the fact that this figure is unavailable from the Playa Bávaro and Paradisus Punta Cana complexes in 2011.

The volume of reused water over the total water consumed by the organisation is 3.0%.

## Total volume of water treated in in-house purifiers and reused

ESTABLISHMENTS	m <sup>3</sup> SPILLED		m <sup>3</sup> REUSED		%	
	2011	2010	2011	2010	2011	2010
Meliá Purosani	45,138	103,678	13,735	31,100	30%	30%
Gran Meliá Jakarta	101,358	128,164	8,113	8,211	8%	6%
Meliá Gorriones	101,930	116,439	101,930	98,973	100%	85%
Meliá Golf Vichy Catalán	17,516	15,993	17,516	15,993	100%	100%
Paradise Playa Conchal <sup>1</sup>	--	176,508	--	176,508	--	100%
Complejo Playa Bávaro <sup>2</sup>	966,550	1,070,171	NA	449,471	NA	42%
Gran Meliá Palacio de Isora	81,000	51,100	81,000	51,100	100%	100%
Paradise Punta Cana	202,757	--	NA	--	NA	--
Meliá Zanzibar <sup>3</sup>	21,900	--	21,900	--	100%	100%
<b>TOTAL</b>	<b>1,538,149</b>	<b>1,662,053</b>	<b>244,194</b>	<b>831,356</b>	<b>16%</b>	<b>50%</b>

NA = Not Available

(1) Establishment no longer affiliated in 2011

(2) The following business units fall under this name: Meliá Caribe Tropical, Paradise Palma Real & The Reserve, Centro Comercial Sierra Parima, Palma Real Villas and Cocotal Golf

(3) Estimated figure

The company does not yet have a centralised management system to record the volume of waste water and water pumped in the environment.

Throughout 2011, there were no significant accidental spills in any of Meliá Hotels International's business units.

Finally, to ensure the proper management of the waste generated by the company, the waste is duly sorted in accordance with the laws in effect.

In 2011, the company has been working to develop a system to quantify and report on the waste generated at its establishments. The purpose of this system would be to have reliable, consistent figures which more accurately reflect the scope of this environmental impact, since much of the waste is removed by the municipal authorities, therefore leaving us without the possibility of precisely quantifying it and instead only able to make approximate estimates of the amounts generated.

## E.4 PRINCIPLES OF ANTICORRUPTION

**Principle 10:** companies should work to combat corruption in all its forms, including extortion and bribery.

### Evaluation, policy and objectives

Meliá Hotels International has a process of self-evaluation by which the Board assesses its own performance annually. With regard to the potential conflicts of interest that may arise within the Board, article 28 of the Regulation of the Board of Directors includes a control mechanism which requires directors to report any

direct or indirect situation or conflict directly or indirectly which may affect the company.

In 2011 a total of 168 internal<sup>1</sup> global audits were carried out, compared to 170 in 2010, 139 in hotels and 29 in other business units and corporate offices. During 2011, the Internal Audit Department detected four cases of fraudulent use of assets or company funds for the private benefit of certain employees. This circumstance gave rise to the immediate adop-

<sup>1</sup> These audits evaluate compliance with the processes and procedures, and both internal and external compliance with a total of 181 points divided into 25 categories.

tion of disciplinary action (dismissal) in only one of the cases, and in response to the lawsuit filed by the dismissed employee for improper dismissal legal actions were undertaken, which were resolved in favour of the company.

Likewise, in 2011 the company was not sanctioned with significant fines<sup>2</sup> for anti-competitive practices or for noncompliance with the laws and regulations, and there were no cases in which judicial arbitration mechanisms were needed.

As of today, the company's own evolution has led it to become aware of the need to revise and improve its framework of behaviour in or-

der to align it with the new values and thus ensure greater cohesion and protection of all its employees, while also contributing to improving the company's day-to-day relations with its stakeholders.

In 2011, the company completed the design phase of the Meliá Hotels International Ethical Code, and in 2012 it will finish writing the text and a training and communication plan for it will be designed and implemented.

<sup>2</sup> Significant sanction: A sanction of more than 5,000 euros in amount, or one that seriously affects the operations of a business unit, hindering it from operating normally.