

## CHAPTER

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## Ethical Corporate Management

Photo Courtesy of Po-yen Liu / Wei-zhi Wang (Flight Operations Division)

## HIGHLIGHTS



### 5<sup>th</sup> Time selected for DJSI Emerging Markets Index

The only Taiwanese airline selected for DJSI Emerging Markets for five consecutive years and ranked in 3<sup>rd</sup> place among the world's airlines.



### 5<sup>th</sup> Time selected for FTSE4Good Emerging Index

Selected in the FTSE4Good Emerging Index for five consecutive years.



### 4<sup>th</sup> Time selected for Taiwan EMP 99 Index and Taiwan HC100 Index

Selected in the Taiwan Employment Creation 99 Index and the Taiwan High Compensation 100 Index for four consecutive years.



### Top 6% - 20% of TWSE / TPEX listed companies

Selected as the top 6%-20% of the excellent corporation award in the sixth Corporate Governance Review.



### 2<sup>nd</sup> Time in GCSA Award

Awarded in the Global Corporate Sustainability Award for the second year.



### 7<sup>th</sup> Time in TCSA Award

Awarded in the Taiwan Corporate Sustainability Award for seven consecutive years along with four TCSA awards.





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3-1-1 Regulatory Compliance GRI 102-16, 103-1, 103-2 103-3, 205-2, 412-2

Internal Regulations and Code of Conduct

As regulatory compliance and integrity are the basis of business management, CAL shapes its corporate culture and value through the formulation of internal regulations and codes of conduct that attach great importance to business integrity. To establish sound corporate governance as its business foundation, CAL has set the Code of Corporate Governance, the Board Directors Code of Ethical Conduct, the Executive Code of Ethical Conduct, the Procedure for Handling Material Inside Information, the Ethical Corporate Management Best Practice Principles, and the Procedures for Ethical Management and Guidelines for Conduct. CAL adheres strictly to the laws and regulations, and makes an explicit commitment to uphold six principles, which are to protect shareholder rights and interests, to strengthen the board's roles and powers, the board meeting procedure and the decision making process (including recusal), to respect stakeholder rights and interest, and to increase information transparency. In addition, according to Article 9 of the Procedures for Ethical Management and Guidelines for Conduct, CAL is to be politically impartial and does not provide political contributions, and therefore has not provided political contributions. Furthermore, to ensure that CAL directors and all CAL employees adhere to ethical conduct including anticorruption rules, CAL has implemented the Board Directors Code of Ethical Conduct (10 directors of the CAL Board have completed the course of Developing Trends and Prevention of Corporate Corruption with a 91% completion rate) and the Employee Code of Conduct. A three-year awareness campaign was launched in 2017 to make sustainability an integral part of CAL's corporate culture. Therefore, the CAL Code of Conduct was established, followed by relevant education and training (training details for 2017-2019 as shown under 3-1-2 Compliance in the [2019 CSR Report](#)). Training was provided in

2020 to 211 employees who had not completed the requirement and 115 (Note 1) new employees. The total completion rate was 100% (Note 2). In addition, CAL sent a letter to affiliated enterprises to require that the affiliated enterprises provide such code of conduct training as well as corporate sustainability training to raise CSR awareness. A total of 5,140 trainees completed the training. Given suppliers are also important to CAL's success, CAL requires that its suppliers enter into and comply with the Supplier Code of Conduct (including compliance and anticorruption principles).

In 2007, some U.S. travelers claimed that AAPA member airlines started colluding with each other on passenger fare and fuel charges in 2000, and these travelers, therefore, filed an antitrust class action to demand three times the collusion-inflated charges in punitive compensation. Given the litigation costs and the loss minimization rule, CAL paid a total of US\$ 19.5 million (TWD 622 million) in settlement of the U.S. passenger transportation antitrust class action. The amount was to be paid in four installments over three years starting in 2018. The first three installments were US\$5 million each to be paid in 2018 and 2019, and the last was US\$ 4.5 million, which has been paid this year (2020). The lessons learned from this case has prompted CAL to strengthen compliance with the Fair Trade Act and antitrust regulations by an increasing degree in recent years. In addition to using important international antitrust cases to remind the management team and all employees to stay alert, CAL organized an offline training course, "compliance with the Fair Trade Act", in 2020. As an effort to reduce future risks, CAL invited the Fair Trade Commission to speak to CAL employees at the head office and branch offices and the employees of affiliated enterprises on compliance under the Fair Trade Act. In addition, starting in 2013, first line employees are required to complete the Antitrust Audit Checklist, which is on the list of key items for the audit departments.

Note 1: Trainees include terminated employees.

Note 2: It's only applicable to CAL.

List of Internal Regulations

Name	Regulating Object(s)	Objective
<a href="#">Code of Corporate Governance</a>	CAL and its subsidiaries	To establish a sound corporate governance system
<a href="#">Ethical Corporate Management Best Practice Principles</a>	Directors, managers, employees, and appointees of CAL and those having substantial control	To strengthen CAL's corporate culture that values business integrity and to improve the business environment for sustainable development
<a href="#">Procedures for Ethical Management and Guidelines for Conduct</a>	Directors, managers, employees, and appointees of CAL and its subsidiaries and those having substantial control	To implement the policy of business integrity, to actively prevent fraudulent conduct, and to regulate matters that should be taken care of by employees when performing business
<a href="#">Procedure for Handling Material Inside Information</a>	Directors, managers, and employees of CAL and those knowing CAL's material inside information due to their identity, occupation or control	To avoid improper disclosure of information and to ensure the consistency and correctness of information published by CAL
<a href="#">Board Directors Code of Ethical Conduct</a>	All directors	To regulate the ethics and conduct of directors when performing their duties in pursuit of CAL's maximum benefits and sustainable development
<a href="#">Executive Code of Ethical Conduct</a>	CAL's representative (Chairman) and managers (including President, Senior Vice President and equivalents, head of Finance Department, head of Accounting Department, and officers managing affairs and having the right to sign on behalf of the Company)	To guide executives to follow the ethics and conduct and to help stakeholders better understand the Company's code of ethics
<a href="#">Employee Code of Conduct</a>	All employees	To guide employees to follow the codes of conduct covering anti-corruption in the workplace
<a href="#">CAL Code of Conduct</a>	Employees and suppliers of the Company and its subsidiaries, any foundation to which the Company's direct or indirect contribution of funds exceeds 50 percent of the total funds received, and other institutions or juridical persons which are substantially controlled by the Company	To guide the CAL Group to follow related laws and regulations and shape a corporate culture that creates sustainable value for stakeholders
<a href="#">Supplier Code of Conduct</a>	All suppliers and contractors	To achieve the goal of sustainable supply chain management, so as to increase the sustainability of a large number of suppliers

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## Risk Management

GRI 102-15

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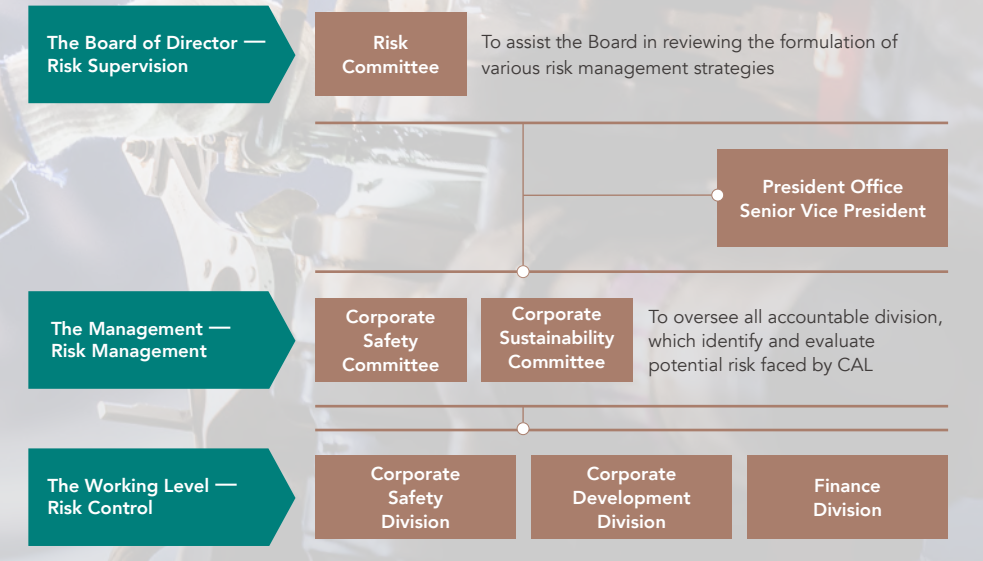
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### 3-2-1 Risk Management Mechanisms

GRI 102-11

#### Risk Governance and Structure

Risk management is at the core of a company's sustainable development. Facing increasingly new types of risks, the Board of Directors has set up the Risk Committee to help review the formulation, implementation, and countermeasures of risk management strategies; units in charge are also required to manage and control the major types of risks. In addition, risks involving safety and business operations are at the management level and cross-departmental. The Corporate Safety Committee and the Corporate Sustainability Committee have been established under the President; units in charge are responsible to identify and evaluate potential risks faced by CAL, propose countermeasures, and report results to related committees and meetings on a regular basis. Senior Vice President (Finance) is our highest level in charge of risk management and Senior Vice President (Flight Operation) is our highest level for auditing risk management.



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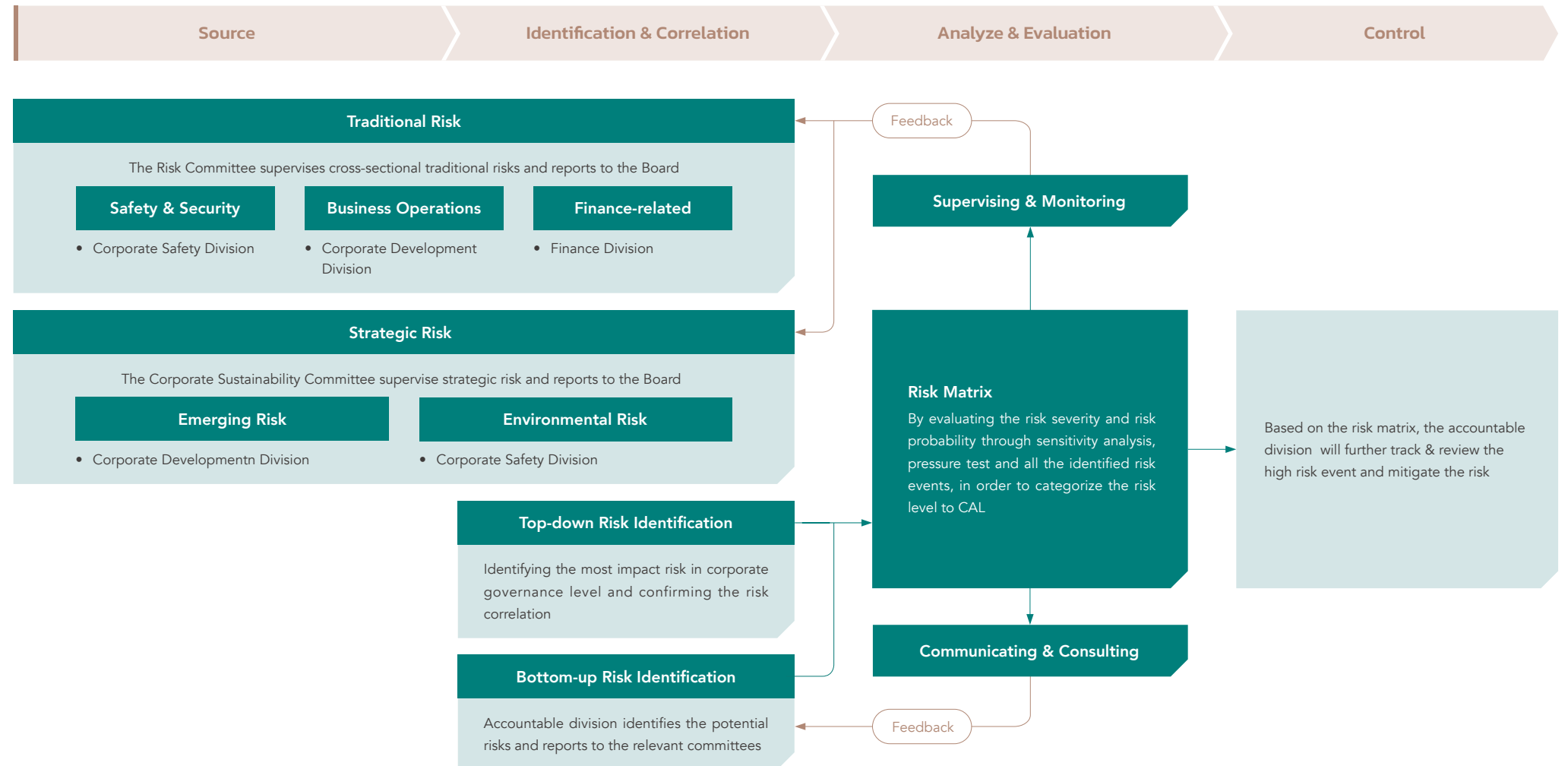
#### 3-2 Risk Management

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## Enterprise Risk Management Framework and Procedures

CAL's risk management framework complies with the framework of Enterprise Risk Management (ERM), where a multi-level organizational approach is adopted to manage and control the overall risks of CAL. The framework emphasizes the inter-correlations between different risks to reduce the overall impact. Following the materiality principle, the CAL ERM framework identifies traditional risks and risks of medium / long-term strategies. All risk impacts and countermeasures are analyzed and proposed through event identification, risk analysis, risk assessment, and risk control, and then followed up and reviewed by the Risk Management Committee and the Corporate Sustainability Committee. CAL has implemented effective accounting and internal audit systems. The internal control system consists of five elements, which are the control environment, risk assessment, control process, information and communication, and supervision procedure. To evaluate the internal control system and the effectiveness of its execution, CAL devises risk-based annual audit plans every year. The General Audit Office conducts regular and ad hoc audits in order to enforce ethical corporate management, reduce related risks to an acceptable level, and prevent corruption and fraud.

### CAL ERM Model and Procedure







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3-2-2 Risk Identification and Countermeasures

CAL manages risks with consideration of the business environment and daily operations in the aviation industry. Risk incidents have different impacts on business operations, in terms of their regions, degrees, and timeliness; risk incidents fall into certain categories and periods of time. If risks are monitored by a single mechanism, doing so may compromise the risk control results. In view of this, CAL divides risk sources by medium-term / long-term strategic risks and traditional risks, and then monitors the risks through the existing Business Strategy Management and Annual Business Plan / Operational Risk Management.

Risk Management Analysis

**Level of Risk: Traditional Risks**

Short-term Business or Operational Impact  
Less than One Year

Annual Business Plan / Operational Risk Management (reported by the Risk Management Committee)	
Monitoring Mechanisms	
Risk Identification	Review internal and external environments; identify regular risk incidents that may have short-term impacts on business operations
Risk Analysis	Analyze the impact of risk incidents on business operations in terms of two aspects: Importance to Stakeholders (impact on society and economy / aviation industry; correlation with CAL or relevant departments); and Impact on CAL (impact on finances, operations, or sales; possibility of violations or fines; impact on corporate brand or reputation)
Risk Assessment	Create an operational risk matrix based on two risk analysis aspects, to assess degree of risk for each incident
Risk Control	Develop countermeasures to mitigate impact of high-risk incidents on business operations

**Level of Risk: Medium-term / Long-term Strategic Risks**

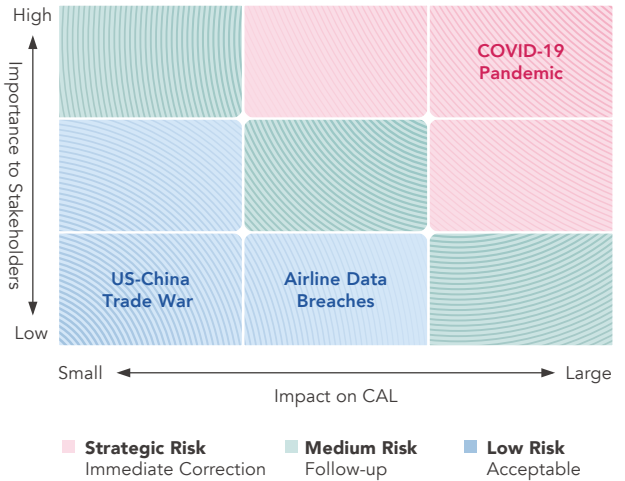
Medium-term / Long-term Strategic or Structural Impact  
More than One Year

Business Strategy Management
Monitoring Mechanisms
1. Collect industry information, such as internal and external forecasts on market trends and competitor dynamics, every three to five years; conduct SWOT analysis
2. Develop the company vision, mission, and medium-term/long-term strategies, based on the results of SWOT analysis



CAL has established an emerging risk identification process, completed a risk matrix for emerging risks, regularly conducted risk assessment and develop countermeasures to mitigate the impact of emerging risks in the aviation industry.

Emerging Risk Matrix



Traditional Risks

Traditional risks refer to short-term risk incidents that have an impact on business operations for less than one year and can be solved in a short period of time. CAL manages traditional risks — divided into safety, operational, and financial — with the goals of mitigating risks, strengthening resilience to crises, protecting stakeholders' interests, and enhancing corporate sustainability.

1. Safety Risk Management

Safety is the foundation of the aviation industry. Customer trust can only be earned by having an outstanding record of flight safety. Based on the Safety Management System (SMS) and the procedures for safety risk management, the Corporate Safety Office reviews and evaluates internal and external operational risks with respect to flight operations, maintenance, cabin services, and ground operations, then proposes corrective measures. (Refer to 2-1 Trust)



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2. Business Operational Risk Management

The aviation industry faces an ever-changing business environment. Apart from major political and economic turmoil, internal and external contingencies may also have considerable impact on CAL. The Corporate Development Office analyzes potential risk incidents that may have an impact on business operations, and develops concrete countermeasures based on the analysis results in order to reduce risks' impact on the Business Strategies and on the Annual Business Plan. [\(Refer to 1-1-2 Analysis of Business Environment in the Aviation Industry\)](#)

3. Financial Risk Management

Economic and financial situations at home and abroad can also affect CAL's business results. Interest rates, exchange rates, inflation, and fuel represent the major costs to airlines; such costs are very sensitive to external factors and can become quite volatile. Therefore, the Finance Division confines these major costs within a certain range using financial hedging instruments, monitors financial risks on a regular basis, and develops relevant strategies and measures to achieve the goals of financial risk management. [\(Refer to 1-1-2 Analysis of Business Environment in the Aviation Industry\)](#)

Medium-term / Long-term Strategic Risks

Medium-term / Long-term strategic risks refer to risk incidents that have a strategic or structural impact on business operations for more than one year, and which cannot be solved in a short period of time. CAL reviews and analyzes its market position and collects industry information, such as internal and external forecasts on market trends and competitor dynamics, every three to five years, then conducts SWOT analysis, and develops the company vision, mission, and medium-term / long-term strategies based on the analysis results.

1. Environmental Risk Management

As we are aware of the direct impact and materiality of climate issues in the aviation industry, and in response to the voluntary carbon reduction initiatives of the International Civil Aviation Organization (ICAO), the International Air Transport Association (IATA), and the MOTC Civil Aeronautics Administration, CAL has set three major phased objectives for flight and ground operations. Since 2018, CAL has further established the Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD is in charge of identifying risks and opportunities, as well as strengthening company-wide carbon management and adaptation to climate change. [\(Refer to 2-4-2 Climate Change Mitigation and Adaptation\)](#)

2. Emerging Risk Management

The Global Risks Report published by the World Economic Forum (WEF) every January divides risks into five categories: Economic, environmental, geopolitical, social, and technological. New risk categories arising from the rapid development of emerging technologies, climate, demographic changes, information security, and cyber attacks have increased, along with gradually increasing likelihood of such risk incidents. In view of this, CAL has incorporated these identified emerging risks within the scope of risk management, and reviews emerging risks on a regular basis, as well as developing relevant countermeasures.

Global Airline Industry Severely Affected by COVID-19 Pandemic

Since it broke out in Wuhan, China in December 2019, the COVID-19 virus has claimed nearly 1.9

million lives worldwide with more than 88 million confirmed cases by December 31, 2020. As the COVID-19 virus spread across the globe, countries implemented lockdown to keep the virus at bay. These measures have had a huge impact on political, economic, trade, finance, and employment conditions. The pandemic is sending shock waves through the airline industry. Passenger air transport has dropped in free fall. The top priority for the airline industry is "fighting for survival against COVID-19" and "fighting the coronavirus first". Airlines create complete antivirus networks and introduce "safe flying plans" that take enhanced measures to safeguard passenger health and aviation health and safety. CAL tries to grab market share in the air freight transport market through flexible capacity management. The company also takes measures to control costs and gain access to cash flows and relief programs in order to maintain financial stability and build up the momentum for reopening. [\(Detailed countermeasures as shown in COVID-19 Special Column\)](#)

Countermeasures: The Risk Committee under the board of directors will conduct quarterly emerging risk review, and implements countermeasures.

Airline Data Breaches

The growing global demand for privacy protection and personal data security in recent years is making personal data protection one of the key tasks in business management. Since the General Data Protection Regulation (GDPR) came into effect in 2018, there has been a string of extremely large fines, which exceed €100 million in total. As IT systems become more commonplace, CAL keeps refining its information security governance system and raising its protective strength in order to meet the information security regulations in different countries. In addition to releasing regular personal data protection announcements, CAL provides employee training courses through the e-Learning system to raise data protection awareness in the workplace and ensure effective protection of personal data and customer privacy. Information security loopholes on the British Airways website and mobile app were exploited by hackers, and led to a data breach with more than 500,000 customer records stolen. The Information Commissioner's Office (ICO) initially imposed a fine at 1.5% of British Airways' annual revenue in 2018. The amount was calculated as £183 million (TWD 6.4 billion). ICO made an announcement on October 16, 2020 that stated given British Airways' attitude in resolving the issue and COVID-19's impact on business, the fine would be reduced to £20 million (TWD 760 million).

Countermeasures: CAL will organize training on "personal data management and case study" for middle managers, and conduct "annual personal data inventory and update". In addition, CAL will provide audit training, and launch the EU audit procedures and provide online personal data training.

US-China Trade War and Uncertainties in Global Economy

A slowing global economy and the US-China trade war led to a 3.3% annual decrease in global air cargo transport in 2019. The decrease was particularly significant in Asia at 5.7%. The trade war eased after China and the United States signed a phase one trade agreement in mid-January 2020. However, according to the International Monetary Fund (IMF) World Economic Outlook (October 2020), the global economic growth was projected at -4.4% for 2020, far below +2.8% for 2019 due to the COVID-19 pandemic. Looking forward to 2021, slow recovery leaves many uncertainties in the US-China trade war and in the development of the global economy and the pandemic.

Countermeasures: The Risk Committee under the board of directors will conduct quarterly emerging risk review, and implements countermeasures.