

RISK COMMITTEE REPORT

As at the date of this Report, the Risk Committee of the Company (referred to as the “Committee” in this report) consists of seven non-executive Directors, five of whom are Independent Non-executive Directors of the Company (“INEDs”). Details of the Committee’s members and their attendance records during 2019 are set out on pages 96 to 97 of this Annual Report.

The Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company’s Enterprise Risk Management (“ERM”) system and considers that it is overall effective and adequate.

DUTIES OF THE COMMITTEE

The Committee’s Terms of Reference are available on the respective websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited.

The principal duties of the Committee include reviewing the Company’s ERM framework, guidelines, policy and procedures for risk assessment and risk management; reviewing the Company’s top risks and key emerging risks and the controls in place to mitigate such risks; monitoring the Company’s risk profile; conducting “deep dive” reviews on selected key risk areas; reviewing the effectiveness of the ERM function; and reviewing the Company’s crisis management arrangements.

The Committee assists the Board in overseeing the Company’s ERM system on an ongoing basis. The Committee reviews the effectiveness of the Company’s ERM system annually, and reports to the Board in relation to such review. More details of the features of the ERM system and processes, the significant areas of risk being managed, and the process used to review the effectiveness of the ERM system are set

out in the “Risk Management” section on pages 118 to 121 of this Annual Report. Each year, the Committee agrees on a list of reviews and presentations in respect of selected key risk areas to be considered for that year, taking into account the ongoing activities of the Company at the material time; and invites relevant management to present on the subjects and conduct interactive discussions. The list of matters to be considered is updated as required to include any topical subjects or risks that may emerge during the year. The Committee provides observations and, where applicable, recommendations to management, based on their reviews and discussions.

The secretary of the meetings draws up agendas for each meeting in consultation with the chairman of the Committee, making reference to the list of reviews and presentations determined by the Committee, as well as topical matters at the relevant time.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Committee meeting.

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members, including recommendations and any observations raised by the Committee Members. Draft minutes are circulated to the Committee Members before adoption. The Committee formally adopts the draft minutes at its next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes.

A total of four meetings have been scheduled to be held on a quarterly basis in 2020.

WORK PERFORMED BY THE COMMITTEE IN 2019

In 2019, the Committee held four meetings. During the year, the Committee reviewed the Company's ERM quarterly reports and the effectiveness of the Company's ERM system for the year ended 31 December 2018. A review of the Company's ERM annual report and ERM system effectiveness for the year ended 31 December 2019 was conducted by the Committee on 18 February 2020.

The Committee reviewed the Company's risk profile, top risks and key emerging risks at each of its meetings. At its first meeting, the Committee agreed on a list of "deep dive" reviews and presentations on selected key risk areas for the year (as adjusted during the course of year), which reviews and presentations took place as planned. Relevant Members of the Executive Directorate and managers were invited to present on the "deep dive" reviews to the Committee, with comments and recommendations provided by the Committee for appropriate action by management.

Acting through the Committee and the Audit Committee, the Board has mandated a review of the Company's internal control and risk management systems for Hong Kong operations, as the first phase, by PwC ("Review"). The first phase of the Review has been completed and the observations were presented to the Committee and the Audit Committee in September 2019. An action plan will be brought back to the Board in 2020 for implementing the recommendations, and one of the key recommendations is an in-depth review of ERM's positioning and structure.

The Legal and European Business Director, the General Manager – Governance & Risk Management and the Senior Manager – Enterprise Risk, representing the ERM function, attended all four meetings in 2019 to report and answer questions on ERM related matters.

The Committee considered the following key matters in 2019:

- Impact of pandemics on railway operations
- Handling of super typhoons and service resumption
- Signalling replacement project risks update
- Risk review of Tuen Ma Line phased opening options
- Readiness and preparation for opening of Sydney Metro Northwest, initial section of Hangzhou Metro Line 5 and Macao Light Rapid Transit Taipa Line
- High Speed Rail operations
- Financial sustainability risk update
- Insurance summary update
- Horizon scan on cyber threats
- Data protection, recovery and response
- Octopus cyber security
- Notable cyber incidents summary overviews
- Major global rail accidents summary overviews
- Boeing 737-Max case study

Andrew Brandler
Risk Committee Chairman
Hong Kong, 5 March 2020

The Risk Committee Report has been reviewed and endorsed by the Committee.