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MTR CORPORATION LIMITED

香港鐵路有限公司

(the 'Company')

(Incorporated in Hong Kong with limited liability)

(Stock Code: 66)

VOLUNTARY ANNOUNCEMENT

First MTR South Western Trains Limited ("**SWR**") is a joint venture between the Company (which holds a 30% shareholding) and FirstGroup plc (which holds a 70% shareholding), which operates the South Western Railway franchise ("**Franchise**") in the United Kingdom pursuant to a franchise agreement ("**Franchise Agreement**") with the Department for Transport of the United Kingdom ("**DfT**").

As noted in the Company's 2018 annual report, the financial performance of SWR has been impacted by a number of adverse factors (and this has continued since March 2019). SWR continues to be engaged in discussions with the DfT and relevant third parties to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes.

Given the level of uncertainty in these outcomes, FirstGroup plc has today informed the Company that it will be treating the Franchise Agreement as an onerous contract and charging to its income statement its share of the maximum potential loss under the Franchise Agreement.

Given the above and taking into account the Company's share of net assets of SWR already reflected in the Company's consolidated accounts as at 31 December 2018, the Company will make a provision of approximately GBP43 million (being approximately HK\$430 million) in its consolidated profit and loss account which represents the Company's 30% share of the maximum potential loss under the Franchise Agreement.

South Western Railway Franchise

In March 2017, the DfT awarded the Franchise to SWR, a joint venture between the Company (which holds a 30% shareholding) and FirstGroup plc in the United Kingdom ("**FirstGroup**") (which holds a 70% shareholding). The period of the Franchise runs from 20 August 2017 for seven years, with an option for an eleven month extension at the discretion of the DfT.

Recent Issues

As noted in the Company's 2018 annual report:

- (i) the financial performance of SWR in 2018 was impacted by factors, including an industry-wide slowdown in growth in passenger numbers, industrial action, the delayed introduction of timetable changes, and incidents involving infrastructure under the control of a third party; and
- (ii) if the abovementioned factors continued to adversely impact SWR, and were not appropriately ameliorated under the Franchise Agreement or by the relevant third party, the long-term financial viability of SWR was expected to be impacted.

Since March 2019, SWR has continued to be impacted by the abovementioned factors. Progress has been made on discussions with the DfT and relevant third parties and SWR continues to be engaged in discussions to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes.

Given the level of uncertainty in these outcomes and the potential financial impact of some of the possible scenarios, FirstGroup has today informed the Company that it will be treating the Franchise Agreement as an onerous contract and that the maximum potential loss under the Franchise Agreement is estimated to be GBP145.9 million (being HK\$1,459 million) in total.

FirstGroup's 70% share of this estimated maximum potential loss is GBP102.1 million (being approximately HK\$1,021 million) and, accordingly, FirstGroup has today announced that it is charging GBP102.1 million (being approximately HK\$1,021 million) to its income statement.

Impact on the Company

Given the above and taking into account the Company's share of net assets of SWR already reflected in the Company's consolidated accounts as at 31 December 2018, the Company will make a provision of approximately GBP43 million (being approximately HK\$430 million) in its consolidated profit and loss account which represents the Company's 30% share of the maximum potential loss under the Franchise Agreement.

Way Forward

SWR will continue its discussions with the DfT and relevant third parties with a view to agreeing commercial and contractual remedies that are acceptable to all parties and will allow SWR to continue to operate the Franchise and to deliver its planned significant railway service and customer experience enhancements for its passengers.

Hong Kong, 30 May 2019

As at the date of this announcement:

Members of the Board: Professor Frederick Ma Si-hang (*Chairman*)**, Dr Jacob Kam Chak-pui (*Chief Executive Officer*), Rex Auyeung Pak-kuen**, Andrew Clifford Winawer Brandler*, Walter Chan Kar-lok*, Dr Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Dr Anthony Chow Wing-kin*, Dr Eddy Fong Ching*, James Kwan Yuk-choi*, Rose Lee Wai-mun*, Lucia Li Li Ka-lai*, Jimmy Ng Wing-ka*, Benjamin Tang Kwok-bun*, Dr Allan Wong Chi-yun*, Johannes Zhou Yuan*, James Henry Lau Jr (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Frank Chan Fan)**, Permanent Secretary for Development (Works) (Lam Sai-hung)** and Commissioner for Transport (Mable Chan)**

Members of the Executive Directorate: Dr Jacob Kam Chak-pui, Roger Francis Bayliss, Margaret Cheng Wai-ching, Dr Peter Ronald Ewen, Herbert Hui Leung-wah, Adi Lau Tin-shing, Gillian Elizabeth Meller, Linda So Ka-pik, David Tang Chi-fai and Jeny Yeung Mei-chun

* *independent non-executive Director*

** *non-executive Director*

This announcement is made in English and Chinese. In case of any inconsistency, the English version shall prevail.