

### Early Review of FAM Concluded All Passengers to Benefit

The MTR Corporation announced today (21 March 2017) that it has concluded the early review of the Fare Adjustment Mechanism (FAM) conducted jointly with the Government and that, as a result of the review, it will implement new arrangements that will benefit all passengers, while ensuring the financial sustainability of the Corporation to enable the continued provision of safe, reliable and efficient railway services.

The FAM review was conducted jointly with Government and took place one year earlier than originally scheduled. During the review process, the Corporation listened to the opinions of different stakeholders, including passengers, shareholders and academics.

Building on the foundation of the FAM formula, which remains unchanged, three key new measures will be introduced to further directly benefit passengers:

- **Special Adjustment for 6 years**  
The calculated fare adjustment rate will be reduced by 0.6 percentage points each year from 2017/18 to 2022/23 through a special annual adjustment outside of the FAM formula.
- **Rebate linked directly to Business Profit**  
A 3% rebate will be offered for each Octopus trip for at least six months each year from 2017/18 to 2022/23, by topping up where necessary the concession amount set aside in accordance with an enhanced Profitability-Linked Arrangement and Service Performance-Linked Arrangement.
- **Interchange Discounts for GMB Passengers**  
A new discount of \$0.3 for interchange between MTR and all Green Minibus (GMB) routes (over 500 routes in total) will be offered to Octopus users, subject to further discussion and agreement with the GMB operators. Discounts on existing routes remain unchanged.

On top of the above three key new measures, a further one-off 10% discount will be applied to the reduced overall fare adjustment rate for 2017/18.

The existing direct-drive FAM formula will be maintained to uphold the objectivity and transparency of the fare adjustment mechanism and to ensure stable fare income to support safe and reliable railway services.

“The existing mechanism is open, objective and transparent. Indeed, the affordability of the MTR fares compares very favourably with many other metros elsewhere in the world. We believe the newly introduced initiatives can benefit passengers, while the Corporation can maintain its financial health to provide safe, reliable and efficient railway services for passengers,” said Professor Frederick Ma, Chairman of MTR Corporation.

“The MTR network has been serving passengers for nearly 40 years and the Corporation has to make major investments to renew railway assets, including signalling systems and trains, so that it can continue to provide passengers with quality services,” Professor Ma added.

### Special Adjustment for 6 years

Due to the increase in train services and enhanced staffing to assist passengers at stations, as well as the significant increase in the cost of upkeep and upgrading railway assets, the calculated Productivity Factor<sup>1</sup> in the existing FAM formula<sup>2</sup>, based on data from 2012 to 2016, is zero. Notwithstanding this, the Corporation will offer, for the next six years, a special annual adjustment outside of the FAM formula, so that the calculated annual overall fare adjustment rate will be reduced by a fixed rate of 0.6 percentage points.

Therefore, the annual overall fare adjustment rate for the six-year period will be calculated as follows:

The Formula	Special Adjustment (2017/18 to 2022/23)
-----	-----
<p>0.5 X Year-on-Year % Change in Composite Consumer Price Index (in December of the previous year) + 0.5 X Year-on-Year % Change in Nominal Wage Index (Transportation Section) (in December of the previous year) – Productivity Factor (0%)</p>	<p>– (0.6%)</p>

For 2017/18, the overall fare adjustment rate will be further reduced by 10%.

<sup>1</sup> Productivity Factor is defined as the greater of (1) half of the compound annual growth rate of Output/Input ratio in the period of 2012-2016; and (2) zero.

“Output” is defined as the revenue from the Corporation’s Hong Kong transport operations, as set out in the Corporation’s audited financial statements.

“Input” is defined as the operating expenses (before depreciation, amortisation and variable annual payment expenses) relating to Hong Kong transport operations, as set out in the Corporation’s audited financial statements.

<sup>2</sup> Overall fare adjustment rate = 0.5 x Year-on-Year % Change in Composite Consumer Price Index (in December of the previous year) + 0.5 x Year-on-Year % Change in Nominal Wage Index (Transportation Section) (in December of the previous year) – Productivity Factor

## Profitability-Linked and Service Performance-Linked Arrangements

A number of enhancements will be made to the Profitability-Linked Arrangement and Service Performance-Linked Arrangement.

A 3% rebate for each Octopus trip will be offered for a minimum of six months each year from 2017/18 to 2022/23. This will be funded by the concession amounts set aside from the Profitability-Linked Arrangement and Service Performance-Linked Arrangement topped up, if necessary, by the Corporation.

For the Profitability-Linked Arrangement, the existing concession amount will be increased by \$25 million for each band of underlying business profit of the preceding year. The highest concession amount under Profitability-Linked Arrangement will be increased from \$250 million to \$325 million. In addition, the cap on the concession amount at 50% of the corresponding fare increase value in the same FAM year will be removed. (See details on page 3 of the Fact Sheet)

With regards to the Service Performance-Linked Arrangement, the cap on the fare concession amount of \$15 million per incident will be raised to \$25 million per incident with effect from 2017/18.

The existing Affordability-Linked Arrangement, by which the fare increase rate is capped at the change in the Median Monthly Household Income for the corresponding year, has been an effective safeguard and therefore remains unchanged.

In addition to the above initiatives, other promotional arrangements include:

- a) The offer period for the 25% discount on connecting journeys on the existing four types of "Monthly Pass Extra" and "Monthly Pass Extra" for Tung Chung – Nam Cheong, as well as MTR City Saver will be extended up to June 2023.
- b) The extended validity of MTR City Saver from 30 days to 40 days.

The on-going fare concessions outside of the FAM<sup>3</sup> will continue. The next scheduled review of FAM will be carried out in 2022/23.

-End-

---

<sup>3</sup> A wide range of fare concessions and promotional schemes to benefit different sectors of the community, including the elderly, children, eligible students and persons with disabilities, as well as other interchange discounts, etc. will continue to be offered by the Corporation. These on-going concessions amount to some \$2.5 billion.

## About MTR Corporation

MTR Corporation is regarded as one of the world's leading railway operators for safety, reliability, customer service and cost efficiency. In its home base of Hong Kong, the Corporation operates ten commuter railway lines, a Light Rail network and a high-speed Airport Express link on which about 5.6 million passenger trips are made on a normal week day. Another 5.6 million passenger trips are made on the rail services it operates outside Hong Kong in the Mainland of China, the United Kingdom, Sweden and Australia. In addition, the Corporation is involved in a range of railway construction projects as well as railway consultancy and contracting services around the world. Leveraging on its railway expertise, the Corporation is involved in the development of transit-related residential and commercial property projects, property management, shopping malls leasing and management, advertising media and telecommunication services.

For more information about MTR Corporation, please visit [www.mtr.com.hk](http://www.mtr.com.hk).

## How to calculate the fare adjustment rate for the six-year period of 2017/18 to 2022/23

The overall fare adjustment rate for the six-year period can be calculated as follows:

The Formula	Special Adjustment (2017/18 to 2022/23)
-----	-----
0.5 X Year-on-Year % Change in Composite Consumer Price Index (in December of the previous year) + 0.5 X Year-on-Year % Change in Nominal Wage Index (Transportation Section) (in December of the previous year) - Productivity Factor (0%)	- (0.6%)

### EXAMPLE

Year-on-year % Change in Composite Consumer Price Index in December of the previous year = 2.0% \*

Year-on-year % Change in Nominal Wage Index (Transportation Section) in December of the previous year = 3.2% \*

Year-on-year % Change in Composite Consumer Price Index	Year-on-year % Change in Nominal Wage Index (Transportation Section)	Productivity Factor	Adjustment Rate based on FAM Formula
(2.0% x 0.5)	(3.2% x 0.5)	0.0%	+ 2.6%
			

1. Further reduction by Special Adjustment (-0.6%)  
= 2.6% - 0.6% = 2.0%
2. **For 2017/18 only**, further one-off 10% discount to the reduced fare adjustment rate  
= 0.9 x 2.0% = 1.8% (for illustrative purpose)

\* The numbers are solely for illustration, not the real figures.

## 2017 Review of the Fare Adjustment Mechanism Fact Sheet

### 1. Background

- The adoption of a more objective and transparent fare adjustment mechanism to replace the MTR Corporation's fare autonomy was one of the parameters set by the Hong Kong Government for the Rail Merger in December 2007. The Fare Adjustment Mechanism (FAM) was agreed by MTR and the Government at the time of the merger and approved by minority shareholders as part of the merger package. Hence, it is legally binding.
- The FAM is a direct-drive formula that takes into account the year-on-year change in Composite Consumer Price Index (CCPI), the year-on-year change in Nominal Wage Index (Transportation Section), and a pre-determined productivity factor, as follows:

Overall Fare Adjustment Rate	=	(0.5 × year-on-year percentage change in CCPI for December of the preceding year) + (0.5 × year-on-year percentage change in Nominal Wage Index (Transportation Section) for December of the preceding year) – productivity factor (0% before 2013, 0.6% from 2013 to 2017)
------------------------------	---	---

- The FAM formula is used once a year to calculate the overall rate of adjustment for MTR fares, with adjustments to be made in June each year, if applicable.
- As agreed with the Government, the next review of FAM will be carried out in 2022/23,
- According to the requirements relating to scheduled review as set out in the Operating Agreement, the FAM is subject to review once every five years upon request of either the Corporation or the Government. In March 2016, Government invited MTR to conduct the second review, a year earlier than scheduled.

### 2. Results of the FAM Review

As part of the FAM review, MTR and the Government agreed to a number of enhancement and new "Promotional Arrangements" for implementation with effect from the 2017 FAM up to 30 June 2023, as detailed below:

#### A. Productivity Factor and Special Adjustments

- The "Productivity Factor" is derived based on the financial data of the Reference Period, as follows.

**Productivity Factor<sup>#</sup>** = 0.5 x the compound annual growth rate in "Productivity" (as defined below) over the "Reference Period" (as defined below)

$$\text{Productivity} = \frac{\text{Revenue from Hong Kong transport operations}^*}{\text{Expenses relating to Hong Kong transport operations}}$$

**Reference Period** = in respect of the period 2017/18 to 2022/23, the Reference Period is the financial years 2012 to 2016

#Note: Productivity Factor is defined as the greater of (1) half of the compound annual growth rate of Output/Input ratio in the period of 2012-2016; and (2) zero.

\* Note: As set out in the Corporation's audited financial statements for the first and last financial years of the Reference Period subject to alignments due to changes in Accounting Standards and segmental reporting.

- For the period from 2017/18 to 2022/23, the value of the Productivity Factor is zero as the productivity change over the reference period is negative.
- To moderate the annual fare adjustment, a special reduction of 0.6 percentage points will be applied to the overall fare adjustment rate from the formula each year in the period from 2017/18 to 2022/23.
- For year 2017/18, a further one-off 10% discount will be applied to the overall fare adjustment rate (i.e. after the 0.6 percentage points reduction).
- Illustrative fare adjustment rate for year 2017/18 is shown below.

Example:

Year-on-year % change in Composite Consumer Price Index	Year-on-year % change in Nominal Wage Index (Transportation Section)	Productivity Factor <sup>#</sup>	Fare Adjustment Rate from Formula
2.0%	3.2%	0%	
(2.0 % x 0.5)	+ (3.2 % x 0.5)	- 0%	= +2.6 %

#Note: A productivity factor of 0% will be used in the FAM formula for 2017 to 2022.

One-off 10% Discount (2017/18)	Fare Adjustment Rate from Formula	Special Adjustment (2017/18 to 2022/23)	Fare Adjustment Rate
0.9	x [ +2.6%	- 0.6% ]	= +1.8%

## B. Promotional Arrangements

### (i) Profitability-Linked Arrangement and Service Performance-Linked Arrangement

- To share profits from its underlying business directly with all customers, the Corporation set aside money from its bottom line. This is the "Profitability-Linked Arrangement". **The concession amount in the Profitability-Linked Arrangement will be increased by \$25 million for each band of underlying business profit. The highest rebate amount reserved under the Profitability-Linked Arrangement will be increased from \$250 million to \$325 million, and the corresponding band of the underlying business profit will be raised to "\$15 billion or above".**

Underlying Business Profit in Preceding Year (HK\$)	Existing Arrangement (HK\$)	New Arrangement (HK\$)
Below \$5 billion	0	0
\$5 billion to <\$6 billion	\$50 million	\$75 million
\$6 billion to <\$7 billion	\$75 million	\$100 million
\$7 billion to <\$8 billion	\$100 million	\$125 million
\$8 billion to <\$9 billion	\$125 million	\$150 million
\$9 billion to <\$10 billion	\$150 million	\$175 million
\$10 billion to <\$11 billion	\$175 million	\$200 million
\$11 billion to <\$12 billion	\$200 million	\$225 million
\$12 billion to <\$13 billion	\$225 million	\$250 million
\$13 billion to <\$14 billion	\$250 million	\$275 million
\$14 billion to <\$15 billion	\$250 million	\$300 million
>=\$15 billion	\$250 million	\$325 million

Note: Includes profits from transport operations, station commercial, property management, property development and Mainland China and overseas businesses.

- When a fault on the railway causes a lengthy service disruption (of 31 minutes or more), MTR will put aside a pre-determined amount to give back to passengers directly. This is the "Service Performance-Linked Arrangement". **The concession amount in the Service Performance-Linked Arrangement which is currently capped at a maximum of \$15 million per incident will be raised to a maximum of \$25 million per incident.**

	Existing Arrangement	New Arrangement
<b>Train service disruption including all delays and suspensions for Heavy Rail and Light Rail attributable to equipment fault or human error</b>	<b>Amount per incident subject to a maximum of \$15 million per incident (HK\$)</b>	<b>Amount per incident subject to a maximum of \$25 million per incident (HK\$)</b>
Equal to or more than 31 minutes but less than or equal to one hour	\$1 million	\$1 million
More than one hour but less than or equal to two hours	\$2 million	\$2 million
More than two hours but less than or equal to three hours	\$3 million	\$3 million
More than three hours but less than or equal to four hours	\$5 million	\$5 million
Each additional hour (or part thereof) exceeding four hours	\$2.5 million	\$2.5 million

- The concession amount set aside from the Profitability-Linked Arrangement and Service Performance-Linked Arrangement will be returned to customers through a new “3% Rebate for Each Octopus Trip”. The Corporation will, when necessary, top up the concession amount to offer “3% Rebate for Each Octopus Trip” for a minimum of 6 months each year. The “3% Rebate for Each Octopus Trip” will replace the existing “10% Same-Day Second-Trip Discount”. It will be implemented each year whether or not there is a fare increase, fare reduction or no fare change based on the FAM formula in that year. The number of beneficiaries of the new “3% Rebate for Each Octopus Trip” is about 5 million Octopus passenger trips daily.
- The concession amount set aside from the Profitability-Linked Arrangement and Service Performance-Linked Arrangement will be applied in full. The existing arrangement of capping the concession amount at 50% of the corresponding fare increase value in the same year will cease.

(ii) **Monthly Pass Extra**

<p>Benefits: Long-distance travellers</p> <p>Number of beneficiaries : about 280,000 daily trips</p>	<ul style="list-style-type: none"> <li>● Existing Monthly Pass Extra will continue.</li> <li>● Existing unlimited rides within one calendar month between designated stations remain unchanged</li> <li>● Extra 25% discount on fares for onward domestic journeys taken beyond the valid stations of the relevant Monthly Pass remains unchanged.</li> <li>● Applicable to the existing Sheung Shui - East Tsim Sha Tsui, Tuen Mun - Nam Cheong, Tuen Mun - Hung Hom, Tung Chung - Hong Kong and Tung Chung – Nam Cheong Monthly Pass Extra.</li> </ul>
--	--

(iii) **MTR City Saver**

<p>Benefits: Medium-distance travellers</p> <p>Number of beneficiaries : about 110,000 daily trips</p>	<ul style="list-style-type: none"> <li>● 40 MTR rides within the pre-designated urban area (see map below)</li> <li>● <b>Starting from July 2017, the validity period for use will be extended from existing 30 days to 40 days counted from the day of first use.</b></li> </ul>
--	---

**(iv) Interchange Discount between MTR and Green Minibus (GMB)**

- The Corporation will introduce a new interchange discount of \$0.3 for Octopus users making interchange between MTR and all GMB routes in both travel directions. This is subject to the further discussion and agreement with the GMB operators.

\*\*\*\*\*



# 港鐵都會票 使用範圍 COVERAGE OF MTR CITY SAVER

- 東鐵綫 East Rail Line
- 港島綫 Island Line
- 觀塘綫 Kwun Tong Line
- 南港島綫 South Island Line
- 將軍澳綫 Tseung Kwan O Line
- 荃灣綫 Tsuen Wan Line
- 東涌綫 Tung Chung Line
- 西鐵綫 West Rail Line

- 隧道(已付車費區域) Subway (Paid area)
- 隧道(未付車費區域) Subway (Unpaid area)
- 轉綫站 Interchange

