

GREEN BOND REPORT 2016



caring for life's journeys



Introduction

To integrate MTR’s environmental, social and corporate governance into its financing and decision-making process, we decided to issue a Green Bond and, in October 2016, established our Green Bond Framework, which is in line with the core components of the Green Bond Principles set out by the International Capital Market Association, to guide our future issuance.

The Green Bond helps us diversify and tap into a new and fast-growing bond investor base. It provides the same cost effective financing as a traditional bond for our environmentally friendly service and network enhancements envisaged in Rail Gen 2.0. The Green Bond also helps promote the local green bond market in line with the Hong Kong Government’s Climate Action Plan 2030+, which supports the Financial Services Development Council’s recommendations to establish “Hong Kong as a regional green finance hub”.

Inaugural Green Bond Issuance

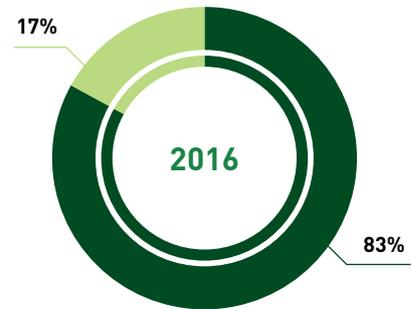
We issued our debut US\$600 million 10-year Green Bond in November 2016. Launched in late October at US\$500 million, the issue met with strong interest from institutional investors from across Asia and Europe, many of whom are dedicated green bond investors. This resulted in an order book in excess of US\$1.4 billion, allowing the deal to be upsized to US\$600 million and priced at 80 basis points, at the tight end of the indicated price range, over the benchmark 10-year US Treasury yield of 1.737% p.a. for an overall yield of 2.537% p.a. The bond was awarded “Best Green Bond” deal in the “FinanceAsia Achievement Awards 2016”.

Issuance Details	
Issuer:	MTR Corporation (C.I.) Limited
Guarantor:	MTR Corporation Limited
Nominal Principal Amount:	US \$600 million
Issue Price:	99.675%
Net Proceeds:	US \$598.05 million
Pricing Date:	24 October 2016
Issue Date:	2 November 2016
Maturity Date:	2 November 2026
Coupon:	2.50% per annum payable semi-annually in arrears
ISIN Code:	XS1509084775
Listing:	Hong Kong Stock Exchange

ALLOCATIONS & DISTRIBUTION STATISTICS

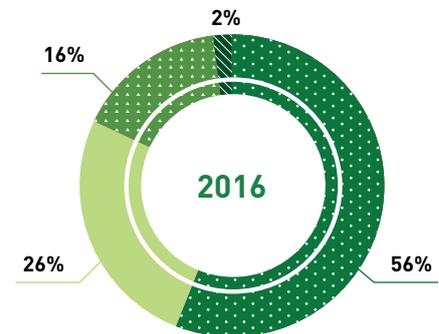
By Geography

- Asia
- Europe



By Investor Type

- Asset Manager
- Bank
- Insurance
- Other/PB



Green Bond Indices

MTR’s first green bond has been included in the following green bond indices:

- Barclays MSCI Green Bond Index
- BofA Merrill Lynch Green Bond Index
- Solactive Green Bond Index
- S&P Green Bond Index

MTR Green Bond Framework

Our [Corporate Responsibility Policy and Framework](#) specifies our broad environmental objectives. The MTR Green Bond Framework was developed to provide guidance specifically on the issuance, use of proceeds and reporting of the Green Bond.

MTR Green Bond Framework

- Established in October 2016
- Proceeds of MTR Green Bonds will be used to fund or refinance, in whole or in part, Eligible Investments
- Proceeds of MTR Green Bonds may be used to repay borrowings under MTR’s general credit facilities pending allocation to Eligible Investments
- Eligible Investments include projects in the following sectors:
 - » Low Carbon Transportation
 - » Energy Efficiency
 - » Sustainable Transit Stations and Real Estate Properties
 - » Adaptation to Climate Change
 - » Biodiversity and Conservation
 - » Water Management
 - » Waste Management
 - » Pollution Prevention

Alignment with Green Bond Principles

MTR’s Green Bond Framework aligns with the Green Bond Principles (GBP) of the International Capital Market Association.

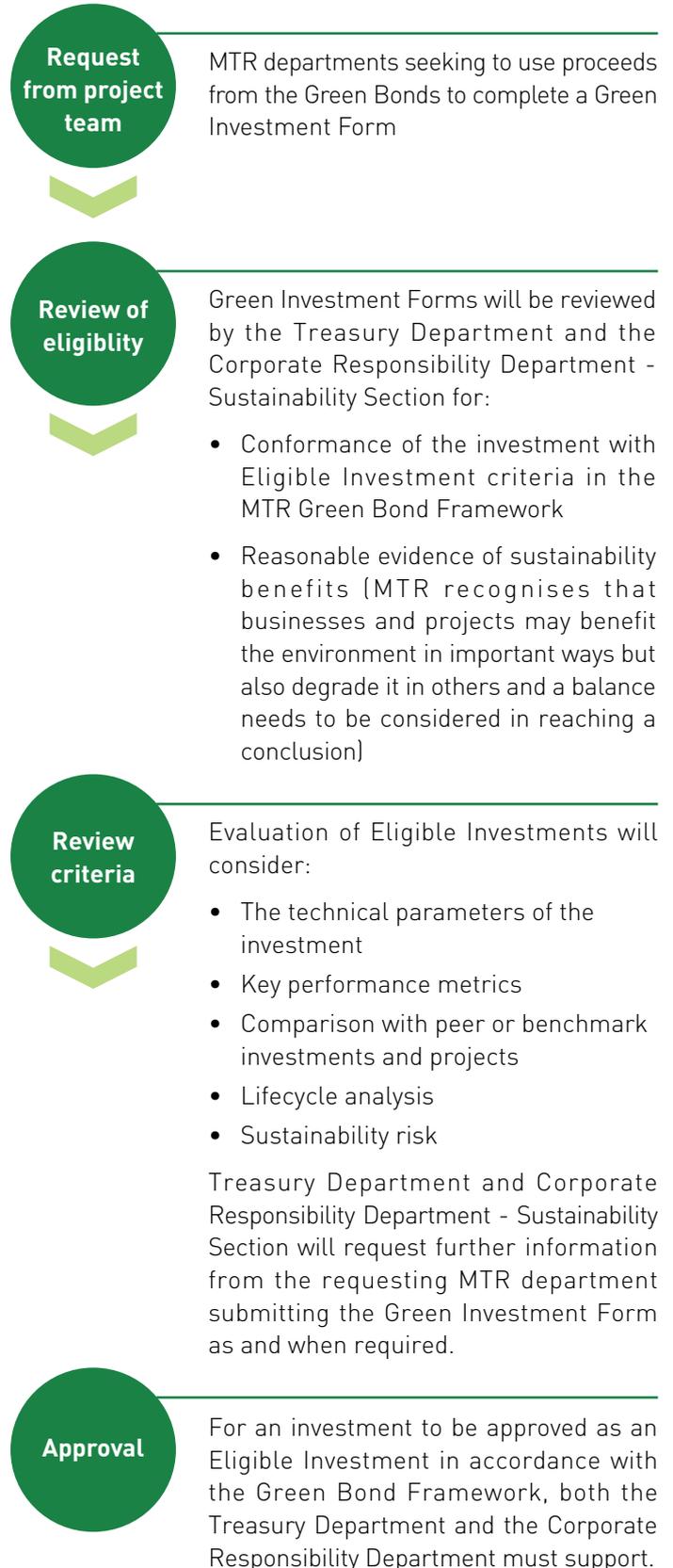
The GBP, updated as of June 2016, are voluntary process guidelines that recommend transparency and disclosure, and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond.

Framework Overview and Second Opinion

[Sustainalytics has provided a second opinion](#) on MTR’s Green Bond Framework, and has determined that it aligns with the four pillars of the GBP and is credible and robust.

Process for identification and determination of eligibility of use of proceeds

Potential uses of proceeds of MTR Green Bonds will be reviewed and earmarked in accordance with the following process:



Use of Proceeds and Green Bond Project Update

The net proceeds from the Green Bond have been fully earmarked against capital expenditure spending under

two major projects as summarised below. Updates on each of these projects can be found on the next two pages.

Investment	Amount Earmarked	Category
Kwun Tong Line Extension	US\$167.74 million	Low Carbon Transportation
South Island Line (East)	US\$430.31 million	Low Carbon Transportation Energy Efficiency
Total Balance of earmarked proceeds:	US\$598.05 million Nil	

Green Bond Project Update

Name of Investment 1	Kwun Tong Line Extension
Total Investment Amount	HK\$6.9 billion
Investment Amount Funded by Green Bond	HK\$1.3 billion (US\$167.74 million)
Category of Eligible Investment	Low Carbon Transportation
Description of Investment	<p>On 17th May 2011, the Company entered into a project agreement with the Hong Kong SAR Government for the financing, design, construction and operation of the Kwun Tong Line Extension. This 2.6-kilometre Kwun Tong Line Extension commenced service on 23rd October 2016 and is an extension of the existing Kwun Tong Line from Yau Ma Tei Station to Whampoa Station with one intermediate station at Ho Man Tin.</p> <p>With the completion of the Kwun Tong Line Extension, Whampoa Station is now the terminus of Kwun Tong Line, while Ho Man Tin Station will be an interchange station for the Shatin to Central Link currently under construction.</p> <p>With the extended MTR Kwun Tong Line, it takes only about 5 minutes to travel between Whampoa and Yau Ma Tei stations, which would otherwise take about 15 to 20 minutes using other public road transport. The new MTR extension is expected to significantly alleviate road traffic congestion in the areas of Ho Man Tin and Whampoa.</p>
Beneficial Environmental Impact Estimate	<ol style="list-style-type: none"> 1) 19,000 tons of CO₂ emissions avoided per year 2) Other beneficial impacts: <ul style="list-style-type: none"> Reduction of road traffic and congestion leads to lower environmental impacts from ground vehicles such as roadside air pollution. The Hong Kong Government has identified poor roadside air quality and worsening congestion as one of the reasons for air quality challenges in Hong Kong, including impacts on public health 3) In all our new underground stations including those along this extension, we have implemented initiatives such as regenerative braking, full platform screen doors and efficient chiller equipment, which have energy saving and pollution reduction features

Name of Investment 2	South Island Line (East)
Total Investment Amount	HK\$17.2 billion
Investment Amount Funded by Green Bond	HK\$3.3 billion (US\$430.31 million)
Category of Eligible Investment	Low Carbon Transportation and Energy Efficiency
Description of Investment	<p>On 17th May 2011, the Company entered into a project agreement with the Hong Kong SAR Government for the financing, design, construction and operation of the South Island Line (East). Construction commenced immediately thereafter. The 7-kilometre South Island Line (East) commenced service on 28 December 2016 and is a medium-capacity metro line connecting the current MTR network from Admiralty Station to the Southern District of Hong Kong via new stations at Ocean Park, Wong Chuk Hang, Lei Tung and South Horizons. This new line is designed with features responding to the transport needs of the community. It will also promote tourism and economic activities in the Southern District.</p> <p>It takes about 4 minutes to ride between Admiralty and Ocean Park stations and 11 minutes between Admiralty and South Horizons stations. The South Island Line (East) is expected to significantly alleviate road traffic congestion in the Aberdeen Tunnel.</p>
Beneficial Environmental Impact Estimate	<ol style="list-style-type: none"> 1) 18,900 tons of CO₂ emissions avoided per year 2) 629,600 kWh of electricity saved with the regenerative braking and trackside energy storage system annually^(Note 1) 3) Initiatives such as upgrading and extending noise barriers in selected areas to accommodating special needs of the neighbourhood, green roof and wall design, as well as providing green open space in Kellett Bay for the public, have also been implemented 4) Other beneficial impacts: <p>Reduction of road traffic and congestion leads to lower environmental impacts from ground vehicles such as roadside air pollution. The Hong Kong Government has identified poor roadside air quality and worsening congestion as one of the reasons for the air quality challenges in Hong Kong, including the public health of its residents</p>

Note 1: Annual savings projected based on on-site measurement during Q1 2017.



To the Board of Directors of MTR Corporation Limited

We have been engaged by MTR Corporation Limited (the "Company") to perform a limited assurance engagement in relation to the following information (collectively the "Subject Matter") on the green bond it issued on 2 November 2016 (the "Green Bond") and that is contained in the Green Bond section on page 115 of its Sustainability Report 2016 (the "Sustainability Report"):

- The monetary amounts of investments from the Green Bond proceeds that were earmarked to eligible projects in the period from 2 November 2016 to 31 March 2017, as disclosed in the Green Bond section on page 118 of the Sustainability Report;
- The earmarking of the above monetary amounts in accordance with the criteria for Eligible Investments, as set out in the Company's Green Bond Framework and as disclosed in the Green Bond section on page 116 of the Sustainability Report;
- The internal controls established for managing the use of Green Bond proceeds, which we reviewed for implementation and compliance with the Company's Green Bond Framework for the period from 2 November 2016 to 31 March 2017, as described in the Green Bond section on page 117 of the Sustainability Report and summarized as follows:
 - Requests for the earmarking of the proceeds of the Green Bond to specific projects; and
 - Review of the eligibility and approval of the earmarking of funds by the Treasury and Corporate Responsibility Departments.
- The "*Estimated CO₂ emissions avoided per year*" for the Kwun Tong Line Extension and South Island Line (East) and the "*Estimated electricity saved annually with the regenerative braking and trackside energy storage system*" for the South Island Line (East), as disclosed in the Green Bond section on page 119 of the Sustainability Report, and the reasonableness of standards, assumptions and formulae applied in calculating these estimations and projections.

Responsibilities

Deloitte Touche Tohmatsu

It is our responsibility to express a conclusion on the Subject Matter based on our work performed and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility or accept liability to any other person for the contents of this report.

MTR Corporation Limited

The Directors are responsible for the preparation and presentation of the Subject Matter, in accordance with the Company's Green Bond Framework issued on its website http://www.mtr.com.hk/archive/corporate/en/mtr_green_bond_framework2016.pdf (the "Green Bond Framework"). These responsibilities include designing, implementing and maintaining appropriate systems and internal controls from which the reported information is derived.

Reporting framework

We conducted our work in accordance with the International Standard on Assurance Engagements 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, and the International Standard on Assurance Engagements 3410, Assurance Engagements on Greenhouse Gas Statements (the "Standards"), issued by the International Auditing and Assurance Standards Board. The Standards require that we comply with ethical requirements, and plan and perform the engagement to obtain limited assurance about whether the Subject Matter is free from material misstatement and complied with the Green Bond Framework.

Procedures performed

Our work comprised of the following limited procedures:

- Interviews with relevant management and personnel involved in providing information relating to the Subject Matter;
- Review and sample testing of documentary evidence relating to the Subject Matter;
- Analytical procedures; and
- Recalculation.

Our work did not include reviewing the effectiveness of systems and equipment that generated the information relating to the Subject Matter. Thus, our work was not performed for the purposes of expressing an opinion on the effectiveness and performance of the Company's management system, procedures and internal controls, except those described in the Subject Matter, and not for the purposes of expressing an opinion on any statutory financial statements.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that caused us to believe that:

- The monetary amounts of investments from the Green Bond proceeds that were earmarked to eligible projects in the period from 2 November 2016 to 31 March 2017, as disclosed in the Green Bond section on page 118 of the Sustainability Report were materially misstated;
- The earmarking of the above monetary amounts as disclosed in the Green Bond section on page 116 of the Sustainability Report was not in accordance with the criteria for Eligible Investments set out in the Company's Green Bond Framework;
- The internal controls established for managing the use of Green Bond proceeds, which we reviewed for the period from 2 November 2016 to 31 March 2017, were not implemented and operated as set out in the Company's Green Bond Framework, as described in the Green Bond section on page 117 of the Sustainability Report; and
- The "*Estimated CO₂ emissions avoided per year*" for the Kwun Tong Line Extension and South Island Line (East), and the "*Estimated electricity saved annually with the regenerative braking and trackside energy storage system*" for the South Island Line (East), as disclosed in the Green Bond section on page 119 of the Sustainability Report, were materially misstated and standards, assumptions and formulae applied in calculating these estimations and projections were not reasonable.