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## **MTR Sustainable Finance Framework**

Dated 3 August 2020

### **1. Introduction**

MTR Corporation Limited (“MTRC”) is one of the world's leading railway operators, carrying an average weekday patronage of over 5.5 million passengers in Hong Kong in 2019, and about 7.2 million passengers overseas through its subsidiaries and associate companies.

Established in 1975, MTR was formerly a Hong Kong government-owned entity constructing and operating an urban metro system to help meet Hong Kong's public transport requirements. MTR now has a diversified business profile focusing on railway consultancy, construction and operations, supplemented with station commercial, residential and commercial property development, investment and management. MTR's notable railway operations include the Hong Kong's rail network (including the Airport Express and High Speed Rail) and railway lines in Beijing, Hangzhou, Shenzhen, Macao, Melbourne, Sydney, Sweden and the United Kingdom. MTR's shares have been listed on the Stock Exchange of Hong Kong since 2000.

MTR's vision is to be a leading multinational company that connects and grows communities with caring service, with a focus on both the social and environmental benefits of rail networks to power the sustainable development of communities and society. Since 2001, MTR has annually published its Sustainability Report outlining these efforts and has been acknowledged through inclusion in a number of respected sustainability indices (for example, Dow Jones Sustainability Indices, FTSE4Good, STOXX ESG Leaders Indices) for its continued commitment and performance on sustainability matters.



The 2018 update of the ‘World Urbanization Prospect<sup>1</sup> by the United Nations estimated that 68% of the world’s population would live in urban areas by 2050 from 55% in 2018, as urbanization progresses further. This, together with an increasing focus on reducing greenhouse gas emission, calls for the continued expansion of efficient urban public transport infrastructure, particularly electric-powered mass transit railway system, generally acknowledged as one of the most environmentally sustainable modes of transportation, to bring around the world’s growing and urbanizing populations.

Fostering the sustainable development and energy efficiency of public transport infrastructure is fundamental to a low carbon economy. Operating an urban transportation system in Hong Kong that has regularly been ranked amongst the top in the world<sup>2</sup>, MTR is working closely with business partners and other stakeholders to ensure the continued delivery of efficient services in the most environmentally sustainable way possible to the benefit of the communities it operates in.

With the extension of the Island Line to the Western District, extension of the Kwun Tong Line to Whampoa and opening of the South Island Line and High Speed Rail (all under Rail Gen 2.0) in the past few years, the MTR network is providing better connectivity for the passengers in Hong Kong, with access to more areas and additional cross-boundary options. The upcoming full opening of the Shatin to Central Link will further enhance the system. Major replacement and upgrading of infrastructure and facilities such as rolling stocks and signaling systems are also underway to bring about a better railway network and improved customer experience. Ongoing digitalization efforts such as enhancing the MTR Mobile app will provide customers with more personalized smart mobility services.

MTR will continue to strive to bring superior connectivity, better facilities and enhanced customer experience to the Hong Kong public with the

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<sup>1</sup> United Nations, Department of Economic and Social Affairs, Population Division (2019). World Urbanization Prospects: The 2018 Revision (ST/ESA/SER.A/420). New York: United Nations.

<sup>2</sup> Arthur D. Little and UITP, “The Future of Urban Mobility 2.0 – Imperatives to shape extended mobility ecosystems of tomorrow”, 2014. Arcadis (2017). Sustainable Cities Mobility Index 2017.



implementation of the projects proposed in the Railway Development Strategy 2014 of the Hong Kong SAR Government.

## **2. MTR Green Bond Framework, Green Finance Framework and Sustainable Finance Framework**

MTR first established its Green Bond Framework in October 2016 to set out how the Company would issue green bonds and use the proceeds of such bonds to invest in projects and facilities that are consistent with MTR's strategy to make investments that will result in achieving enhanced service levels and environmental performance goals over the longer term.

MTR's Green Bond Framework was set up under the guidance of the Green Bond Principles issued by International Capital Market Association (ICMA). Sustainalytics reviewed the framework at inception and determined that MTR's Green Bond Framework aligns with the four core components of the Green Bond Principles, and is credible and robust.

In June 2018 MTR established its Green Finance Framework to extend the scope of the original Green Bond Framework to cover other forms of green financing, reflecting MTR's commitment to the development of the sustainable finance market and its continued investment in sustainable and green businesses.

The Green Finance Framework has taken into account components recommended in the Green Loan Principles issued by Asia Pacific Loan Market Association (APLMA) in March 2018.

This **Sustainable Finance Framework** expands the scope of the Green Finance Framework to cover a wider range of financing transactions where the proceeds are used for the furthering of the development of sustainable urban infrastructure in support of the United Nations Sustainable Development Goals (SDGs).



### **3. Sustainable Finance Transactions under the Sustainable Finance Framework**

MTR or its subsidiaries may from time to time, enters into the following sustainable finance transactions pursuant to this framework.

#### *Sustainable Finance Transactions*

- Green Bonds, Social Bonds and Sustainability Bonds (including subordinated or convertible bonds).
- Green Loans (including but not limited to term loans and revolving credit facilities).
- Other form of financing (excluding equity based instruments, synthetic securitization capital securities) which conforms to sustainable or green finance principles as may have been established at the time of such financing transactions being undertaken.

The Sustainable Finance Framework might be subsequently revised or updated as the sustainable finance market continues to evolve.

The MTR Executive Committee will be responsible for reviewing and approving the execution of sustainable finance transactions based on the recommendations of the Treasury Department.

All sustainable finance transactions shall comply with the Use of Proceeds and Governance provisions set out in this MTR Sustainable Finance Framework.

### **4. Use of Proceeds**

The proceeds of MTR's sustainable finance transactions will be used to fund or refinance, in whole or in part, Eligible Green Investments and/or Eligible Social Investments in one or more of the categories set out below. Investments may be made in or outside of Hong Kong.

The proceeds of a Green Bond/Loan under the Sustainable Finance Framework will be allocated to projects that fall under the Eligible Green Investments set forth in Section 4.1 below. The proceeds of a Social Bond issued under the Sustainable Finance Framework will be allocated to projects that fall under the Eligible Social Investments set forth in Section 4.2 below. The proceeds of a Sustainability Bond will be allocated to a



combination of Eligible Green Investments and Eligible Social Investments set forth in Section 4.1 and Section 4.2 respectively below.

Pending allocation of the net proceeds from any sustainable finance transactions to the Eligible Green Investments or Eligible Social Investments, the net proceeds may be used to temporary repay borrowings under MTR's general credit facilities.

Green revolving credit facilities will also be earmarked to, in whole or in part, Eligible Green Investments.

#### **4.1 Eligible Green Investments**

4.1.1 Renewable Energy: Design, construction, installation and operation of renewable energy systems, including solar (photovoltaic) and wind, at transit stations, buildings, real estate properties, facilities and infrastructure

4.1.2 Low Carbon Transportation: Development, construction and operation of low carbon transportation solutions, including investment in:

- projects to build and operate electric mass transit rail system, as well as expansions, maintenance and upgrades of these infrastructures that result in improved service levels or extended asset lifespan with preserved capacity
- the creation or construction of infrastructure that supports low carbon transportation such as signaling equipment, network interfaces including passenger access, ancillary passenger services, facilities required for the safe, clean and efficient operation of the network, utilities and other enabling infrastructure

4.1.3 Energy Efficiency: Design, manufacture and installation of systems, products and technologies that reduce energy consumption or improve efficiency or mitigate greenhouse gas emissions in railway construction and operations, as well as property management, including investments:

- that enable energy performance monitoring and modelling such as design and installation of computer controls, sensors, or information systems as well as smart mobility applications for passengers
  - that optimise the amount and timing of energy consumption and minimise peak loads such as design and installation of metering, peak load shedding, regenerative braking systems, or trackside energy storage or conversation system
  - in the deployment of new and energy-efficient trains, light rail vehicles and buses
  - that involve installation, maintenance or replacement of energy efficient heating, ventilation, air-conditioning, cooling, lighting and electrical equipment such as light emitting diodes (LEDs), sensor systems, platform screen doors, variable frequency drives (VFDs), air or water cooled chillers
- 4.1.4 Sustainable Transit Stations and Real Estate Properties: Relevant existing or new buildings that has received, or expects to receive based on its design, construction and operational plans, certification according to third party verified green building standards such as BEAM and/or a standard equivalent, at minimum, that demonstrates energy and water efficiency in certified buildings
- 4.1.5 Adaptation to Climate Change: Projects for the design, construction, maintenance and upgrades of infrastructure for adapting to extreme weather events including but not limited to flood prevention, flood defense or storm-water management such as wetlands, retention berms, reservoirs, lagoons, sluice gates, drainage systems, tunnels and channels, protection from heat-stress, among others
- 4.1.6 Biodiversity and Conservation: Ecological restoration of forests and wetlands and soil remediation
- 4.1.7 Water Management: Rainwater collection, installation/upgrade of technologies to increase water efficiency including water treatment
- 4.1.8 Waste Management: Waste management support infrastructure within MTR premises such as recycling collection areas, technologies



that enable the separation, handling and processing of waste to recycled materials

4.1.9 Pollution Prevention - Improvement of Air Quality and Noise Reduction: Technologies related to enhancing air quality such as but not limited to increased air circulation, air filtration, noise reduction technologies such as noise barriers, modification of turnouts, rail dampers and insulation booths.

## **4.2 Eligible Social Investments**

4.2.1 Relief measures and programmes for employment generation and unemployment prevention for populations adversely affected by unexpected economic and financial disruptions caused by natural disasters and pandemics. Relief measures may include, but are not limited to, rent moratorium for tenants

4.2.2 Affordable basic infrastructure, including initiatives, subsidy or investments in:

- projects that support passengers affected by socioeconomic situation including but not limited to relief measures such as fare discount
- sanitation and infection preventative services and equipment at transit stations, trains, buildings, real estate properties, facilities and infrastructure
- projects for the design, construction, maintenance and upgrades of station facilities, services and train environment including but not limited to baby care and breast-feeding rooms for women, accessibility and barrier-free infrastructure and facilities for elderly and special need groups, among others.

## **5. Sustainable Finance Transaction Governance**

### **5.1 Project Evaluation and Selection**

Each investment case will be evaluated to assess that the investment falls into one or more of the categories of Eligible Green Investments or Eligible Social Investments and the investment can reasonably be



expected to deliver environmental and/or social benefits over the useful life of the investment.

The Treasury Department and the Sustainability Team of the Public Affairs Department of MTR will review and approve (as appropriate) each proposed use of proceeds.

## **5.2 Management of Proceeds of Sustainable Finance Transactions and Earmarking**

For bonds and term loans, the proceeds will be credited to the relevant general funding account, and, pending earmarking to Eligible Green Investments and/or Eligible Social Investments, such proceeds may be invested in accordance with MTR's Investment Guidelines (e.g. investments in money market instruments) or used to repay existing borrowings under its general credit facilities, in whole or in part.

For revolving credit facilities, the total amount of the facility will be earmarked against the identified Eligible Green Investments and/or Eligible Social Investment regardless of the actual drawings. This allows for the flexibility in repeated drawings and repayments of such facilities.

The earmarking to Eligible Green Investments and/or Eligible Social Investments will be carried out as soon as practical.

## **5.3 Sustainable Finance Register**

A new Sustainable Finance Register will be created and MTR will maintain the Sustainable Finance Register to keep track of the use of proceeds for each sustainable finance transaction governed by this Sustainable Finance Framework.

The Sustainable Finance Register will contain, for each sustainable finance transaction, information including:

- a. Details of the Sustainable Finance Transaction:** where applicable, ISIN, principal amount outstanding, transaction date, maturity date, lending bank(s)

**b. Use of Proceeds:** information including:

- Eligible investment category
- Summary details of investment made
- Amount of investment made/earmarked for undrawn facilities
- Other necessary information so that the aggregate of issuance proceeds allocated to Eligible Green Investments or Eligible Social Investments is recorded at all times
- An estimate of the beneficial impact of the investment, where possible

#### **5.4 Reporting on Use of Proceeds**

MTR shall prepare a Sustainable Finance Report on an annual basis to report on all Sustainable Finance Transactions carried out under this Sustainable Finance Framework.

Reporting as required on bonds issued under the Green Bond Framework dated 14 October 2016, and/or financing arranged under the Green Finance Report dated 8 June 2018 will be incorporated into the Sustainable Finance Report.

The report will be available online at [www.mtr.com.hk](http://www.mtr.com.hk).

#### Allocation reporting

The Sustainable Finance Report will disclose for each period:

- A list of sustainable finance transactions outstanding, including issuing/borrowing entity, ISIN and outstanding amounts at the beginning and end of the annual period, where applicable
- Sustainable finance transactions arranged and repaid / redeemed during the period
- For each sustainable finance transactions in existence during the period:
  - the amount of proceeds invested/earmarked into each category of Eligible Green Investments or Eligible Social Investments
  - description of the investments made including, where possible, the estimates of the beneficial environmental and/or social impact of



the investment where possible. Please refer to the Appendix for a list of example of key impact indicators

- the remaining balance of unallocated proceeds or revolving credit facility amounts at the end of the reporting period.

The Sustainable Finance Report will be reviewed by the MTR Executive Committee.

MTR will engage an independent third party to review the investment/earmarked amounts in the Sustainable Finance Report.



## Appendix – Impact Reporting

Where possible and relevant, MTR will look to report on the environmental and social impacts resulting from Eligible Green Investments and/or Eligible Social Investments. Subject to the nature of Eligible Green Investments and/or Eligible Social Investments, availability of information and feasibility, MTR will report using potential environmental and/or social impact indicators such as the following, and the relevant impact calculation methodologies and standards:

<b>Eligible Green Investments</b>	<b>Example Environmental Impact Indicators</b>
Renewable Energy	<ul style="list-style-type: none"> <li>• Installed capacity (MW) and renewable energy generated (MWh)</li> <li>• Carbon dioxide (CO<sub>2</sub>) and other greenhouse gas (GHG) avoided, in CO<sub>2</sub>e where appropriate (in tonnes)</li> </ul>
Low Carbon Transportation	<ul style="list-style-type: none"> <li>• CO<sub>2</sub> and other GHG avoided, in CO<sub>2</sub>e where appropriate (in tonnes)</li> <li>• Tracks built/repaired/modernized (in km)</li> <li>• Number of rolling stock, carriages/locomotives bought or repaired</li> <li>• Number of passengers carried/passenger trips</li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>• Annual reduction of energy consumption (% or MWh)</li> <li>• CO<sub>2</sub> and other GHG avoided, in CO<sub>2</sub>e where appropriate (in tonnes)</li> </ul>
Sustainable Transit Stations and Real Estate Properties	<ul style="list-style-type: none"> <li>• Number and types of green building certifications obtained</li> <li>• Rating level of certifications obtained</li> </ul>

	<ul style="list-style-type: none"> <li>• Total gross floor area (GFA of buildings concerned)</li> <li>• Amount of energy saved (MWh)</li> <li>• CO<sub>2</sub> and other GHG avoided, in CO<sub>2</sub>e where appropriate (in tonnes)</li> </ul>
Adaptation to Climate Change	<ul style="list-style-type: none"> <li>• Type/Number of climate adaptation projects constructed</li> <li>• Area conserved/restored/sustainably managed (in hectare)</li> <li>• Drainage areas covered (in km<sup>2</sup> or hectares)</li> </ul>
Biodiversity and Conservation	<ul style="list-style-type: none"> <li>• Area conserved/restored/sustainably managed (in hectare)</li> <li>• Number of nature conservation/biodiversity facilities constructed</li> <li>• Types/Number of endangered species conserved</li> </ul>
Water Management	<ul style="list-style-type: none"> <li>• Water and wastewater treated (in cubic meters)</li> <li>• Annual volume of rainwater/wastewater collected, conveyed, treated, reused and avoided (in cubic metres)</li> </ul>
Waste Management	<ul style="list-style-type: none"> <li>• Waste that is reused, recycled, or otherwise treated (in tonnes)</li> <li>• Share of waste reused, recycled or otherwise treated (in % of total tonnes per year)</li> <li>• Waste diverted from landfills (in tonnes)</li> <li>• Reduction of waste sent to landfill (%)</li> <li>• CO<sub>2</sub> and other GHG avoided, in CO<sub>2</sub>e where appropriate (in tonnes)</li> </ul>



Pollution Prevention	<ul style="list-style-type: none"> <li>• Reduction in NOx, PM10 and PM2.5 emissions (in tonnes)</li> <li>• Noise reduction level (in decibels)</li> </ul>
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<b>Eligible Social Investments</b>	<b>Example Social Impact Indicators</b>
Employment generation	<ul style="list-style-type: none"> <li>• Number of SMEs benefited</li> <li>• Estimated jobs created and/or retained through business relief initiative</li> </ul>
Affordable basic infrastructure	<ul style="list-style-type: none"> <li>• Number of passengers subsidised</li> <li>• Type/Number of target population benefited</li> <li>• Number of additional cleaning / disinfecting personnel recruited</li> <li>• Type/Number of sanitation and healthcare equipment for staff/customers provided</li> <li>• Number/Area of accessible infrastructure/facilities built (GFA of buildings concerned)</li> </ul>