

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”).

Members of the Committee during the year

INEDs

Mr Alasdair George Morrison (Chairman)

Mr James Kwan Yuk-choi

Mrs Lucia Li Li Ka-lai

Mr Ng Leung-sing

Mr Benjamin Tang Kwok-bun

Non-executive Directors

Permanent Secretary for Development (Works) (Mr Wai Chi-sing)
(up to 6 April 2015)

Permanent Secretary for Development (Works) (Mr Hon Chi-keung)
(since 7 April 2015)

Commissioner for Transport (Mrs Ingrid Yeung Ho Poi-yan)

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 Enterprise Risk Management (“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 process, the significant risks being managed, and the process used to review the effectiveness of the ERM system are set out in the “Risk Management” section on pages 101 to 103 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 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 February, May, July and November 2016.

Work Performed by the Committee in 2015

In 2015, the Committee held four meetings. During the year, the Committee reviewed the Company’s ERM annual report and the effectiveness of the Company’s ERM system for the year ended 31 December 2014. A review of the Company’s ERM annual report and ERM system effectiveness for the year ended 31 December 2015 was conducted by the Committee on 26 February 2016.

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, 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 or presentations to the Committee, with comments and recommendations provided by the Committee for appropriate actions by management.

The Committee, in particular, reviewed the Company's position in handling risks as part of its business operations, with findings submitted to the Board which have, in turn, been endorsed.

The Legal Director & Secretary, the General Manager – Governance & Risk Management and the Senior Manager – Enterprise Risk, representing the ERM function, attended all four meetings in 2015 to report and answer questions on ERM related matters.

The major work performed by the Committee in 2015 included:

“Deep dive” reviews

- Safety risk due to over-emphasis on train service reliability and punctuality;
- Preparation for addressing the pandemics threat;
- Managerial organisation and workforce transition challenges;
- Light Rail platform crowdedness and safety risks;
- Energy cost optimisation;
- Cyber threats and operations systems security; and
- Communication of safety issues to the Government and passengers.

Other reviews

- Governance on ERM implementation in subsidiaries / affiliated companies;
- Crisis management system and implementation;
- Insurance portfolio, insured sums, annual premiums and loss ratios;
- Risk of driving over cracked rails;
- Early adoption of the new Corporate Governance Code provisions in relation to risk management; and
- The Company's risk appetite.

Site visit

- Light Rail train ride and visit to a Light Rail stop to gain better understanding of the physical operational environment.

The attendance record of each Committee meeting is shown on pages 110 to 111 of this Annual Report under the “Board and Board Committee Meetings” section of the Corporate Governance Report.

Alasdair George Morrison
Risk Committee Chairman
Hong Kong, 11 March 2016

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