

Chairman's Letter



"MTR's financial results for 2012 showed further strength, as our recurrent businesses maintained their momentum and our growth strategy moved ahead."

Dr Raymond Ch'ien Kuo-fung
Chairman

Dear Shareholders and other Stakeholders,

MTR's financial results for 2012 showed further strength, as our recurrent businesses maintained their momentum and our growth strategy moved ahead. Our Hong Kong transport operations achieved record patronage and market share while our station commercial and property rental businesses saw strong revenue increases. Property development profits were lower than 2011. In 2012, we had profit bookings from The Riverpark, as well as from the sale of inventory units at Festival City, Lake Silver and The Palazzo. Our rail franchises outside of Hong Kong increased their overall contribution.

Operationally, we have begun to see increasing rewards from our Listening • Responding programme in Hong Kong, which more specifically focuses on the views and needs of our passengers. As a result, we are spending HK\$1 billion on targeted improvements that are already making a positive impact. The more than 1,200 train trips added per week in 2012 have helped reduce waiting time for our passengers as well as ease crowding on platforms and in trains. Even with a more frequent train service, we have not only been able to maintain our world-class on-time performance of 99.9%, but there has also been a considerable reduction in the number of delays when compared to the year before. Stations too have benefited from more lifts, ramps, and seating, as well as the addition of toilet facilities.

MTR's operating profit before property development, depreciation, amortisation and variable annual payment increased by 7.9% to HK\$13,083 million, with recurrent profit after tax, being all underlying profit before property development and investment property revaluation, increasing by 13.3% to HK\$7,071 million. However, as a result of the lower property development profit, underlying profit before revaluation of investment property decreased by 6.6% to HK\$9,775 million. Including investment property revaluation, net profit attributable to shareholders was HK\$13,532 million, representing underlying earnings per share of HK\$2.34. In line with our progressive dividend policy, your Board has proposed a final dividend of HK\$0.54 per share, giving a full year dividend of HK\$0.79 per share, which is an increase of 3.9% compared to the previous year.

We are also pleased to note that thanks to the Company's strong performance, Government will be entitled to over HK\$5.1 billion for 2012, in the form of paid and proposed dividends as well as fixed and variable annual payments, to enter the community's coffers.

Fare Adjustment

In June 2012, an overall fare increase of 5.4% was applied under the Fare Adjustment Mechanism ("FAM"), which was based on the annual changes in inflation as measured by the composite consumer price index as well as wage levels in the transportation sector. In putting together our fare promotion package for the year, the Company listened very closely to the views of the community regarding MTR fares and fare promotions. The package was designed to be attractive and effective, benefiting a wide range of customers with different travel patterns. These fare promotions included the popular "Ride 10 Get 1 Free", "10% Discount for Every Same-day Second-Trip", "Free Child Travels on Weekends and Public Holidays" and "Tung Chung – Hong Kong Monthly Pass". These are in addition to the many existing fare promotions and concessions for children, the elderly, eligible persons with disabilities and Hong Kong students that already benefit our society to the tune of over HK\$1.8 billion in 2012.

Under our Operating Agreement, the FAM is subject to review once every five years and Government initiated the first such review in August 2012. We believe that the current FAM, with its transparency and objectivity, has served MTR and the travelling public well over the last five years. We continue to discuss the review with Government in order to reach a solution acceptable to all stakeholders.

Creation of Long Term Value

One of the most important tasks we accomplished during the year was a review of our Corporate Strategy, which was completed in July 2012. While re-affirming the direction we have taken in recent years, we have increased our focus on future growth. The strategy recognises that Hong Kong



is our home base, where we will continue to improve and invest in our services and enhance our corporate citizen reputation, whilst looking to achieve further growth and maximise the value of our core businesses. Outside of Hong Kong, we will build on our achievements and accelerate expansion.

During 2012, we furthered these strategic goals. In Hong Kong, construction work has commenced or continued on the five major projects that will bring the benefits of our integrated rail and property network to new parts of Hong Kong. These five projects, namely the West Island Line, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, South Island Line (East), Kwun Tong Line Extension and the Shatin to Central Link, are of great significance not just to the Company but also to the community, as they will generate enduring economic, social and environmental benefits. Apart from these five new lines, Government is also undertaking a Review and Update of the Railway Development Strategy 2000 ("RDS-2U") to map out the long-term railway development blueprint of Hong Kong. Stage 1 public consultation on this study was completed in July 2012 with positive responses from the public and other stakeholders and stage 2 public consultation was launched earlier in February 2013. As Chief Executive, Mr CY Leung, highlighted in his Policy Speech, our railway network is the backbone of Hong Kong's public transport system. Hence, we will continue to work with Government on the RDS-2U to fulfil public aspirations for a sustainable rail development that not only enhances movement across the city, but also unleashes the economic potential of areas along the railway lines.

In the Mainland of China, Hangzhou Metro Line 1 commenced operation and our 49% owned joint venture company, Beijing MTR Corporation Limited, initialled the concession agreement for Beijing Metro Line 14.

In the UK, we submitted a bid for the Essex Thameside franchise in 2012, as well as being shortlisted for the Thameslink franchise. However, due to an independent review of the UK's entire franchise process, the tender process for these two franchise opportunities has been deferred until later this year.

Sustainability and Corporate Responsibility

The Company's integrated "Rail plus Property" model enables us to be a financially sustainable urban transport system.

In 2012, we continued to formalise the engagement process to understand and reflect the interests of our stakeholders better. Specifically, in a financially prudent manner, we have sought progress in areas such as asset enhancements, customer service, environmental protection and community engagement.

Addressing climate change, the Company signed the World Business Council for Sustainable Development's "Manifesto for Energy Efficiency in Buildings" during the year, joining leading global businesses in a commitment to reduce energy use and carbon emissions in the building sector. All of our shopping malls also participated in the Hong Kong Government's "Energy Saving Charter" by setting the indoor temperature at between 24 and 26 degrees Celsius during the summer months.

Our Sustainability Report 2011, which we published in June 2012, discusses our progress towards sustainability in detail. Our 2012 report will be available by May 2013.

Community Care Action

Our Community Care Action programme focuses on Youth Development, Art & Culture, Green & Healthy Living and Community Outreach.

To help encourage young people to meet life's many challenges, we run an eight-month mentoring scheme called "Friend' for life's journeys" for secondary school students every year. The latest of these kicked off in November 2012, involving over 120 secondary school students in Kwun Tong. Alongside this, our 10-day "Train' for life's journeys" programme has given another 100 senior secondary school students new insights into their personal and social responsibilities.

Art was a particular focus during the year. In July 2012 we announced our "MTR New Railway Lines Art in Station 2012" programme, which builds upon our long-running "Art in MTR" initiative. Public art is for everyone to enjoy on a daily basis and in the context of MTR, this means millions of people seeing it each day. Through the programme, we will look for new icons and inspirational works that will light up our station environments. The art we display will thus signify our commitment to delivering a world-class environment as well as a world-class service.

The MTR HONG KONG Race Walking, held in October which we co-organise with the Hong Kong Amateur Athletic Association, has become one of the most significant annual events promoting healthy living in Hong Kong. The 2012 event attracted over 1,500 enthusiastic participants and raised more than HK\$1.27 million for the Hospital Authority's Health InfoWorld to support its "Ideal BMI" disease prevention project.

These are just some of the most significant ways in which we reached out to communities during the year. Overall in 2012, 239 community projects were organised under our "More Time Reaching Community" banner, involving over 5,800 volunteers.

Recognition for Sustainability and Corporate Responsibility

Recognition for our efforts towards sustainability continues to increase. We now rank as the leading Hong Kong company on the Hang Seng Corporate Sustainability Index. The Company remains listed on the Dow Jones Sustainability Indexes and the FTSE4Good Index, and is one of the 16 companies designated a "New Sustainability Champion" by the World Economic Forum. We were also awarded a "Sustainability Excellence Award" by The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University. For the first time, in 2012 we scored full marks in the Corporate Social Responsibility Index launched by the Hong Kong Quality Assurance Agency and The Hong Kong and Shanghai Banking Corporation Ltd. This result marks a significant milestone in recognition of our Corporate Responsibility best practices. Our contribution towards the environment was recognised in many awards, including the "Prime Awards for ECO-Business" for the fifth consecutive year, where this year, the Company was awarded the Platinum Award in the Logistics Sector. We have again received the "5 Years Plus Caring Company Logo" from the Hong Kong Council of Social Service and gained a "Corporate Social Responsibility Award" in the Hong Kong Service Awards from East Week Magazine.

Management Transition and Board Appointments

The changes over the last 18 months in senior management and at the board level have gone smoothly with all of us focused on implementing our new strategy.

I wish to take this opportunity formally to welcome Professor Anthony Cheung Bing-leung who was appointed to the post of Secretary for Transport and Housing on 1 July 2012, and

by virtue of his appointment, becomes a non-executive Director of the Company. He replaces Ms Eva Cheng whom we thank for her contribution.

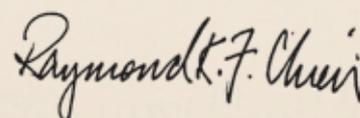
I also welcome Mrs Ingrid Yeung Ho Poi-yan, who was appointed to the post of Commissioner for Transport with effect from 8 October 2012, and by virtue of her appointment, also becomes a non-executive Director of the Company. We would also like to thank Mr Joseph Lai Yee-tak and Miss Susie Ho Shuk-ye for their contributions during the year.

I was honoured to be re-appointed Non-Executive Chairman of MTR for a further term of three years from 1 January 2013 to 31 December 2015 and I look forward to working with the Board and all the dedicated men and women of MTR globally to deliver on our exciting strategy.

As part of the process of strengthening our team, Mr Lincoln Leong, MTR's Finance and Business Development Director, was appointed Deputy Chief Executive Officer with effect from 16 July 2012. Mr Leong will take primary responsibility for realising our growth strategy in the Mainland of China and overseas. Mr Morris Cheung was appointed Human Resources Director on 17 July 2012 upon the retirement of Mr William Chan. Ms May Wong was appointed General Manager – Corporate Relations on 10 January 2013 upon the retirement of Mrs Miranda Leung. I welcome Morris and May to the senior management team and express my deep appreciation to William and Miranda for their contributions over their many years of service.

Conclusion

2012 was another year of achievement for MTR in delivering sustainable shareholder value whilst contributing to the well-being of our communities. I would like to thank my fellow directors for their work during the year, all of our staff for their commitment to excellence, and our other stakeholders for their invaluable support.



Dr Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 11 March 2013