

Chairman's Letter

"MTR performed well in 2013, with our recurrent businesses showing steady growth and our growth strategy making good progress."

Dr Raymond Ch'ien Kuo-fung
Chairman



Dear Shareholders and other Stakeholders,

MTR performed well in 2013, with our recurrent businesses showing steady growth and our growth strategy making good progress. Hong Kong transport operations recorded increases in both patronage and market share. Our station commercial and property rental businesses achieved higher revenues. Modest Hong Kong property development profits were booked, mainly from the sale of inventory units at The Riverpark, and we achieved strong pre-sale at The Austin (Austin Station Site C), for which profit will be recognised upon the issuance of the Occupation Permit, which is expected later this year. Our franchises outside of Hong Kong made a stronger contribution and more railway operations were added to our Mainland of China and international portfolio.

MTR's recurrent profit after tax, being all underlying profit before property development profit and investment property revaluation, increased by 7.6% to HK\$7,437 million. However, as a result of lower property development profit, underlying profit before investment property revaluation decreased by 10.6% to HK\$8,600 million. Including investment property revaluation, net profit attributable to shareholders was HK\$13,025 million, representing earnings per share after revaluation of HK\$2.25. Your Board has proposed a final dividend of HK\$0.67 per share, taking the full year dividend to HK\$0.92 per share, as compared with HK\$0.79 per share in 2012, with a scrip dividend option offered, subject to shareholders' approval.

Our passengers are now benefiting from the review of the Fare Adjustment Mechanism ("FAM") which we announced with Government in April 2013. The overall FAM formula and direct drive mechanism were left unchanged, but an objective and transparent methodology to calculate the value of the productivity factor was agreed. This resulted in the overall fare adjustment rate in 2013 being reduced to 2.7% from what would have been 3.2%. As part of the FAM review and to encourage usage of our network by various passenger groups, we announced additional fare concessions, including the "Monthly Pass Extra" and "MTR City Saver". A new profit-related fare concession scheme to share our success each year with passengers, as well as the Service Performance Arrangement, will provide funds for fare concessions under the "10% Same-Day Second-Trip Discount" scheme.

In addition, an Affordability Discount will be offered in future years when the FAM rate in any given year triggers a fare increase that is higher than the year-on-year percentage change in Median Monthly Household Income for the fourth quarter of the preceding year as published by Government.

This well-balanced package addresses the travelling public's desire to spend less on fares, while at the same time assures our shareholders of the Company's long-term sustainable development.

Creation of Long Term Value

MTR started its first passenger service on 1 October 1979, with an eight-kilometre line serving nine stations. Since then, the network has grown hand-in-hand with Hong Kong to encompass 84 stations that link old-established communities, while also serving as the public transport backbone for the development of new, seamlessly integrated communities atop and around stations, as well as the international airport.

Our shared journey with Hong Kong has been underpinned by our commitment to provide passengers with a safe and reliable public transport service and we are proud that, with our consistent 99.9% on-time performance, MTR has been voted more than ten years in a row as Hong Kong's best public transport operator and is recognised internationally as one of the world's best metro systems.

Our long-term vision is to be a leading multinational company that connects and grows communities with caring service. We are aiming to raise recurrent earnings, expand our network to serve more people and commuters around the world, and to be the undisputed leader in service quality.

To remain a leader in global best practice in urban mass transit development and operations, we need to invest in financially sustainable new projects, which we are doing continuously in Hong Kong, the Mainland of China and overseas. We are partnering with other transport companies and recognised research institutions to increase our level of research and development related to railway systems. We also continually benchmark our operations through involvement with bodies such as UITP (International Association of Public Transport), CoMET (Community of Metros) and through sponsoring and supporting iESM, the international Handbook on Engineering Safety Management for the rail industry.

In 2013, our growth strategy has made good progress. In Hong Kong, our five railway expansion projects, which will add 56 km to our network by 2020, are moving ahead simultaneously and are all on target. These lines are strategically planned and designed to expand capacity, upgrade services and bring the MTR to previously unserved communities on Hong Kong Island, in Kowloon and in the New Territories. The West Island Line is already connected to the existing network and will be the first to open this year. Over the course of the next six years it will be joined by the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the South Island Line

Chairman's Letter

(East), Kwun Tong Line Extension and Shatin to Central Link. These new lines will generate significant economic, social and environmental benefits as they enter service. Apart from these five new lines, Government has recently undertaken the Review and Update of the Railway Development Strategy 2000 ("RDS-2U") to map out the long-term railway development blueprint of Hong Kong. As the Chief Executive, Mr CY Leung, highlighted in his Policy Address in January 2014, 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 sustainable rail development that not only enhances movement across the city, but also unleashes the economic potential of areas along the railway lines.

In our Mainland of China and international growth activities, work has now begun on the next phase of Beijing Metro Line 14, as well as our rail-related property development projects in Shenzhen and Tianjin. In Sweden, we will launch a new service connecting Stockholm and Gothenburg. Last year, we submitted bids for the Essex Thameside and the Thameslink (Thameslink, Southern and Great Northern) franchises in the UK and the North West Rail Link in Sydney, Australia. We are exploring further opportunities in the Mainland of China, Europe and Australia, seeking to identify profitable opportunities that align with our expertise in rail operations and rail-related property development.

Corporate Sustainability

A unique Sustainable Competitive Advantage model is the management framework that guides our approach to sustainable development. It integrates the dynamics of risk management and stakeholder engagement to balance business risks and contribute to the long term development of communities. To this end, we focus on our sustainability priorities that reflect a longer-term focus for our business, ranging from resources management to societal development and climate change.

Our rail network expansion projects address these criteria from design through to construction. Currently, for example, we are monitoring the carbon footprint of the South Island Line (East) as its construction moves forward. A carbon assessment is also being implemented for the construction of the Shatin to Central Link. This will be the first time a carbon assessment has been undertaken on our projects from the design phase through to construction, which will improve the assessment methodology and allow for necessary mitigation measures to be adopted early in the project cycle.

Our property businesses are also taking a lead in sustainable practices in design, construction and management. In 2013, The Riverpark obtained a "Platinum" rating, the highest level obtainable, under Hong Kong's Building Environmental Assessment Method for New Buildings (4/04 Version). The new entrance at University Station received a certification rating of "Silver" under the US Green Building Council's Leadership in Energy and Environmental Design ("LEED") rating scheme. This award follows the "Gold" LEED certification that was granted to Two International Finance Centre.

As a signatory to Hong Kong's Energy Saving Charter, between June and September 2013 we maintained an average indoor temperature of 24-26 degrees Celsius in the common areas of our shopping malls, main office buildings and the common areas of office buildings managed by the Company. We have also stopped procuring incandescent light bulbs for general lighting purposes for MTR office buildings and the common areas of MTR shopping malls since June 2013.

Responding to concerns about food waste, we became one of the first organisations to sign the "Food Wise Charter" under the Food Wise Campaign initiated by the Environment Bureau. We have since supplemented this with our own "MTR Malls Food Waste Reduction Pledge 2013", an MTR sponsored incentive scheme to encourage food and beverage tenants to reduce food waste at source.

Underpinning our sustainable approach to business is our integrated rail and property development model, which has a long track-record in Hong Kong and is establishing itself globally. Recognition for the model's effectiveness came during the year from the prestigious International Business Model Award at the UITP (International Association of Public Transport) World Congress in Geneva in May 2013 and from the World Bank in November in Beijing. Visits to our network by the Secretary of State for Transport of the United Kingdom, the Governor of the State of Massachusetts in the United States and the Mayor of London also testify to our growing profile internationally.

Our Sustainability Report 2013 will be published in May 2014. Together with a dedicated website, it will follow the new Global Reporting Initiative G4 Guidelines, including performance data and a discussion of material issues arising from our subsidiaries.

In our Corporate Sustainability programmes we focus on Youth Development, Art & Culture, Green & Healthy Living and Community Outreach.

A total of 100 students from 71 secondary schools participated in “Train’ for life’s journeys”, a ten-day summer programme that focuses on the individual skills and the responsibilities of Hong Kong’s youth. The mentoring programme “Friend’ for life’s journeys”, now in its fifth year, took on 140 new students in November 2013. Additionally, the “MTR-Chinese University of Hong Kong (CUHK) Youth Quality of Life Index” and “MTR – CUHK Youth Quality of Life Champions Competition”, both of which we sponsor, have been encouraging positive attitudes and civic engagement among young people. In addition, we continue to bring art into our railway network through our “art in mtr” initiative which includes the roving art programme, introducing new art pieces to light up our station environments, and hosting various performances in Hong Kong Station under our living art programme.

Our flagship annual event to promote healthy living, MTR HONG KONG Race Walking, which we co-organise with the Hong Kong Amateur Athletic Association, was held in October 2013 and raised a record HK\$1.38 million. The funds raised support the Hospital Authority Health InfoWorld’s work on disease prevention and health education.

During 2013, 239 community projects were organised under the “More Time Reaching Community” scheme, involving more than 6,000 volunteers. In addition, the Company and staff together donated more than HK\$7 million to charitable and other organisations, such as the Community Chest.

To underline our commitment as an equal opportunity employer, we signed the Talent-Wise Employment Charter in September 2013 and participated in the Inclusive Organisations Recognition Scheme organised by the Labour and Welfare Bureau, to extend our corporate support to the employment of persons with disabilities.

Recognition for Sustainability and Corporate Responsibility

The Company’s strong performance in corporate sustainability has been recognised through its selection as a constituent of the Hang Seng Corporate Sustainability Index (“HSCSI”), the Dow Jones Sustainability Index (“DJSI”) Asia Pacific and the FTSE4Good Index Series. In 2013, our sustainability performance ranked number two out of 30 eligible Hong Kong companies on the HSCSI.

To increase the transparency of our sustainability reporting, we have participated in the Carbon Disclosure Project (“CDP”) for eight consecutive years. CDP provides public information on corporate carbon emissions and strategies from the

world’s largest companies by market capitalisation for use by investors worldwide.

Since 2011, we have been awarded the “5 Years Plus Caring Company Logo”, and in 2013 MTR gained numerous other awards that demonstrate the regard in which our commitment to sustainability is held. Most notable among them were *EastWeek’s* “Hong Kong Services Awards 2013 – the Corporate Social Responsibility Award” and the “Platinum Award for Eco Transportation Systems” in the “Prime Awards for Eco-Business 2013” given by *MetroBox magazine*. The Company also performed outstandingly on the Hong Kong Quality Assurance Agency HSBC Corporate Social Responsibility Index in 2013, receiving an overall score of 5/5, the highest attainable.

Board Appointments

I would like to welcome Professor Frederick Ma Si-hang, Mrs Pamela Chan Wong Shui and Dr Dorothy Chan Yuen Tak-fai, who joined the Board in July 2013 as Independent Non-Executive Directors of the Company. I am also happy to report that Mr Jay Walder has extended his contract with us as CEO for a further two years.

Conclusion

It has been another year of all-round progress for MTR as we strive to create sustainable shareholder value while improving the lives of the communities we serve. I wish to thank my fellow directors for their contributions, all of our staff for their commitment to excellence and our other stakeholders for their solid support.

Over the past 35 years, the MTR has become part of the lives of Hong Kong people, journeying with the public via our expanding rail network, and reliable and caring services. We look forward to continuing this journey as we celebrate our 35th Anniversary in 2014.



Dr Raymond Ch’ien Kuo-fung, *Chairman*
Hong Kong, 11 March 2014