CEO's Review of Operations and Outlook

"The Listening • Responding programme is an important commitment to our passengers and our efforts continued in 2013 to deliver enhanced services and facilities..."

Jay H Walder
CEO

Dear Shareholders and other Stakeholders,

I am pleased to report that the Company has delivered solid financial results in 2013, supported by good operational performances and world-class safety standards. Our strategy remains to invest in Hong Kong to enhance our services and corporate citizen reputation, while building on our established hubs in the Mainland of China and overseas to pursue faster growth in markets outside of Hong Kong.

The Company's recurrent businesses in Hong Kong showed sustained growth momentum in 2013. Our rail and bus passenger services saw a steady increase in ridership while our station retail and property rental portfolio benefited from positive rental reversions. Property development profits were more modest than in 2012 and comprised mainly the sale of inventory units at The Riverpark. Meanwhile, we achieved strong pre-sale at The Austin (Austin Station Site C), with all 576 units sold, and profit will be recognised upon issuance of the Occupation Permit, which is expected later this year.

In Hong Kong, our professional and motivated staff continued to deliver highly reliable train services and strengthen our corporate citizen reputation. The Listening • Responding programme is an important commitment to our passengers and our efforts continued in 2013 to deliver enhanced services and facilities to lines and stations across our network in direct response to our passengers' feedback. Since the programme commenced in 2012, it has helped to ease crowding and reduce waiting time through adding over 93,000 additional train trips. It has also improved access and enhanced convenience through renovation of our station facilities, installation of five new lifts, as well as adding 52 wide gates and extra seats.

Enhancements in communication were achieved through an upgraded "MTR Mobile" app, as well as free Wi-Fi hotspots and provision of 4G mobile services at all stations. The feedback we have been receiving from passengers in response to our efforts is very encouraging and our initiatives are clearly bringing tangible benefit to the community.

Maintaining high safety standards across all our operations in Hong Kong, the Mainland of China and overseas remains an absolute priority for the Company. We continue to benchmark our safety performance against the best international standards and have increased our sharing of best practices through more programmes among our business units and with other organisations. As our recent Staff Attitude Survey in Hong Kong attested, the message of "safety first" is well understood at every level of our organisation.

In April 2013, the review of the Fare Adjustment Mechanism ("FAM") came to a successful conclusion. The outcome has ensured the Company's sustainable development over the long term and, while safeguarding the Company's interests, our passengers are now enjoying lower fares than would otherwise have been the case.

Our growth strategy is progressing well. The Company's five network expansion projects in Hong Kong continue to progress on time and within budget, and we are on target to open the West Island Line this year. Beyond the current programme, we are working closely with Government on planning the next phase of railway expansion arising from the Review and Update of the Railway Development Strategy 2000 ("RDS-2U"). With these current and future projects, the vision of a sustainable future for mobility in Hong Kong is coming into sight.

Outside of Hong Kong we continue to invest in a focused way in rail and rail-related property projects, where we believe that our expertise gives us an edge. The latest expansion of our rail network has been Phase 1 of Beijing Metro Line 14 ("BJL14"), which commenced passenger service in May 2013. We are currently developing Shenzhen Metro Longhua Line Depot Site Lot 1, and pre-sale may take place as early as the fourth quarter of 2014, subject to market conditions. In August 2013, Tianjin TJ-Metro MTR Construction Company Limited, a company formed by a wholly-owned subsidiary of the Company and Tianjin Metro (Group) Company Limited, successfully bid for the land use right of a site at Beiyunhe Station on Tianjin Metro Line 6. In the UK, recognising the excellent performance of London Overground Rail Operations Limited ("LOROL"), Transport for London ("TfL") has extended our franchise there for a further two years. We are also pursuing other opportunities in the Mainland of China and overseas using our existing hubs as a platform.

Looking at our financial performance, total revenue for 2013 grew by 8.3% to HK$38,707 million. Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payments also increased by 11.7% to HK$14,399 million. Excluding contributions from our Mainland of China and international subsidiaries, revenue increased by 10.9% and operating profit by 10.7%, while operating margin decreased slightly by 0.2 percentage point to 53.4%. Profit from

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Hong Kong property developments was HK$1,396 million, compared with HK$3,238 million in 2012, and was derived mainly from the sale of inventory units at The Riverpark at Che Kung Temple Station. Excluding the revaluation of investment properties, net profit from underlying businesses attributable to equity shareholders decreased by 10.6% to HK$8,600 million, representing earnings per share of HK$1.48. The gain in revaluation of investment properties was HK$4,425 million, as compared with HK$3,757 million in 2012. As a result, net profit attributable to equity shareholders was HK$13,025 million, equivalent to earnings per share of HK$2.25 after the revaluation of investment properties. Your Board has proposed a final dividend of HK$0.67 per share, giving a full year dividend of HK$0.92 per share, an increase of 16.5% over 2012, with a scrip dividend option offered, subject to shareholders' approval.

Hong Kong Transport Operations

Total revenue in 2013 from our Hong Kong transport operations was HK$15,166 million, 4.4% higher than in 2012, while operating costs increased by 5.4% to HK$8,449 million, resulting in the operating profit for this business rising 3.2% to HK$6,717 million, with an operating margin of 44.3%.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong increased by 3.0% to a record 1,823.4 million in 2013. Excluding the Intercity service, total patronage also increased by 3.0% to 1,819.1 million.

For the Domestic Service (which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and Ma On Shan lines), total patronage reached 1,474.7 million, a 3.0% increase over 2012. The increase was driven by continued growth in the economy and inbound tourism, as well as our service enhancements.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported a 1.5% increase in patronage to 111.4 million for the year 2013.

Passenger traffic on the Airport Express rose by 7.6% over 2012 to 13.7 million, supported by a rise in air travel and effective marketing campaigns.

Passenger volume on our Light Rail and Bus services during 2013 was 219.3 million, a 2.9% increase, while patronage on the Intercity service was 7.3% higher at 4.3 million.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 3.5% to 5.25 million during 2013. The Domestic Service accounted for the majority of this patronage rise, recording a 3.6% increase to 4.30 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased from 46.4% in 2012 to 46.9% in 2013. Within this total, our share of cross-harbour traffic was 66.7%. The Company's market share of Cross-boundary business for the year declined from 54.2% to 53.4%, while market share to and from the airport rose slightly to 22.0% from 21.8%.

Fare Revenue

Total Hong Kong fare revenue in 2013 was HK$15,021 million, a 4.4% increase over 2012. Within this total, the Domestic Service accounted for HK$10,511 million or about 70%. Average fare per passenger on our Domestic Service increased by 1.6% to HK$7.13.

Fare revenue from the Cross-boundary Service in 2013 was HK$2,923 million, an increase of 2.7% over 2012. Fare revenue from the Airport Express was 6.0% higher for the year at HK$843 million. Light Rail and Bus fare revenue in 2013 was HK$600 million, a 3.8% increase over 2012, while fare revenue from the Intercity service was HK$144 million, increasing by 7.5% over the 12 months.

In April 2013, we concluded the first five-yearly review of the FAM with Government. The overall FAM formula and the direct drive mechanism were left unchanged, but an objective and transparent methodology was agreed for calculating the productivity factor. The productivity factor, under the new calculation method, was 0.6% for the five years from 2013 to 2017, resulting in a fare adjustment in 2013 of 2.7% instead of 3.2%. Thus passengers are enjoying fares which are lower than they otherwise would have been.

As a supplement to the FAM review, passengers have received additional concessions. These include an enhanced monthly pass programme called "Monthly Pass Extra", which provides an additional 25% discount for connecting domestic journeys to stations beyond those covered by individual monthly passes, as well as a new "Tung Chung - Nam Cheong Monthly Pass Extra". An "MTR City Saver" ticket scheme allowing frequent medium-distance travellers to purchase discounted multi-ride tickets for use within the designated urban area will be introduced in the second quarter of 2014.

Passengers will also be able to share directly in the profits of the Company through a profit-related fare concession scheme. In addition, under the new Service Performance Arrangement, concessions will be made directly to passengers when an operational fault on our network deemed to be within the Company's control causes a lengthy service disruption. Both of these concessions will be given in the form of the "10% Same-Day Second-Trip Discount" promotion.

Service and Performance

During 2013, our train service delivery and passenger journeys on time across the network were maintained at a world-class standard of 99.9%, which exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Our continuing service excellence gained both local and international recognition. The many awards we received in Hong Kong included "Top Favourite Service Brand Voted by Hong Kong Consumer" for the seventh year in a row and "Top Favourite Advertisement Commercials Voted by Hong Kong Consumer" in "Prestigious Corporate Brand Awards 2013" presented by Ming Pao Daily News and the MSc Marketing Programme of the Chinese University of Hong Kong, as well as "Top Service Awards 2013 in Public Transportation Category" for 15 years in a row presented by Next Magazine. The Airport Express achieved international recognition with the "North Star Air Rail Link of the Year" award in The Global AirRail AWARDS 2013. Our "MTR Mobile" app also won the 2013 APICTA (Asia Pacific Information and Communication Technology Alliance) Awards - Merit award in the Government & Public Sector category.

Our successful Listening • Responding programme is delivering enhancements to services in direct response to passengers' feedback. Our focus in 2013 has been to make MTR travel more comfortable and pleasant, enhancing train services to ease crowding, catering to the needs of senior citizens and persons with disabilities, and enhancing communication.

We continued to make improvements to service frequency in 2013, with an increase in train frequencies on the Tsuen Wan, Kwun Tong, Island, East Rail and West Rail lines during the year. We are now running an additional 1,300 train trips per week, with over 93,000 additional train trips operated since the launch of the Listening • Responding programme in 2012.

For Light Rail, more coupled-set vehicles have been deployed to provide additional capacity on busier routes. A new train schedule for the Guangdong Line Through Trains took effect in our Intercity service, with the departure time of the last Mainland-bound train from Hung Hom being pushed later, while Through Train capacity was enhanced by the addition of a ninth coach to our *Ktt* service. The introduction of brand new Mainland Through Trains for Guangdong Line also significantly improved service quality.

To enhance passengers' comfort and overall travelling experience, we are embarking on a programme to upgrade our trains through fitting inflatable door seals. Three trains on the Tseung Kwan O Line were retrofitted in 2013 and 90 train sets will be retrofitted by 2020. Our project to upgrade Light Rail vehicles continued in 2013 and, by year end, more than 50 refurbished vehicles had been put back into service.

Work on improving connectivity for passengers and enhancing the station environment also continued. Re-layout works at Kwun Tong Station were completed. Major renovations were substantially completed at Fanling and Sheung Shui stations. Improvement work commenced at Fo Tan Station in 2013 and is targeted for completion in 2015.

Journeys have been made more convenient for senior citizens, people with disabilities and those travelling with baby prams or luggage. Since the Listening•Responding programme was launched in 2012, an additional 52 wide gates have been installed in 30 stations, and five new lifts have entered into service. We remain firmly on course to deliver independent barrier-free access at 80 out of 83 existing full-time stations by 2016. A total of 326 new sets of seats will have been installed in stations by the first quarter of 2014 under the programme that began in 2012.

More accessible Customer Service Centres with a new look have replaced existing service centres at 15 of our busiest stations. We have also deployed additional station assistants and installed giant way-finding signboards to improve navigation. In 2013 a new and more convenient Single Journey Smart Ticket was rolled out at 41 stations, as part of the programme to replace all magnetic single journey tickets by the first half of 2014.

With over 1.8 million users, our "MTR Mobile" app has been integrated with our "Traffic News" app, which provides timely information on special train service arrangements or adjustments, while the "MTR Tourist" app helps visitors to navigate the MTR system by providing a simple point-to-point travel guide. Our real-time train schedule information service "Next Train" app was extended in September 2013 to the West Rail Line. Since July 2013, free Wi-Fi hotspots have been available at all 84 MTR stations.

We continue to invest in our existing railway assets to improve performance and capacity. In 2013, we started the tender process for a replacement signalling system for six existing MTR lines as well as the Airport Express. To be installed over the next several years, the system will increase reliability and passenger carrying capacity on these lines.

Enhancing Safety Performance

Our emphasis on safety in all aspects of our operations has resulted in a 20% reduction in reportable incidents on the Domestic Service, Cross-boundary Service and Airport Express in 2013. The improvement was particularly noticeable in relation to the number of incidents on escalators, showing a 27% reduction.

Following an incident on our Light Rail service in May 2013, we have increased the number of speed checks on Light Rail vehicles and are providing more structured reminders to train captains on the importance of adhering precisely to safe driving practices. Furthermore, we are installing fixed speed cameras specially designed for Light Rail operations.

To continue to promote safety awareness across all businesses, in addition to divisional safety promotion programmes, the Corporate Safety Month was held in June 2013. Over 30 seminars and promotional events were organised in Hong Kong, the Mainland of China and overseas offices under the theme "Keep SAFETY-FIRST in our hearts and minds, connect communities with better safety performance".

In February 2013 we engaged an external consultant to conduct an assessment of our Operations Division Safety Management System, using the Railway Management Maturity Model developed by the Office of Rail Regulation in the UK. Our performance far exceeded the 2012 average for UK train operating companies. Benchmarking of safety performance, safety management best practices and lessons learned from incidents has continued with other major metros around the world through the Community of Metros ("CoMET") and with our own subsidiaries and associates. Peer reviews of safety and operation and maintenance practices were held at MTR Stockholm AB ("MTRS") and LOROL in May 2013 and at Metro Trains Melbourne Pty. Ltd. ("MTM") in November 2013, bringing together experts from Hong Kong and across different subsidiaries and associates to share best practices.

Our efforts to maintain the highest levels of safety secured two important awards in 2013. In Hong Kong, we received the "Bronze Award for Safety Promotion" in the 12th Hong Kong Occupational Safety & Health Award Forum jointly organised by the Occupational Safety and Health Council and the Labour Department. In the UK, we also received the "British Safety Council International Safety Award 2013 – Merit Award".

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial business increased by 24.7% in 2013 to HK$4,588 million. The increase was driven mainly by the rise in station retail revenue. Operating costs for this business increased by 16.9% to HK$464 million. Operating profit rose by 25.6% to HK$4,124 million, with an operating margin of 89.9%.

Station retail revenue in 2013 increased 36.9% to HK$2,933 million. The increase was due to significant rental increases at the Duty Free Shops at Lo Wu and Hung Hom stations under the new licence that commenced in January 2013, as well as higher rentals generated by trade mix refinements and favourable renewal rates in station shops. As at 31 December 2013, the number of station shops was 1,336, occupying a lettable area of 56,350 square metres, marginally higher than in 2012.

Advertising revenue in 2013 increased by 5.3% to HK$1,053 million. The number of advertising units increased by 407 to 45,058. Our continuing innovation in formats included a "Supernova Zone" in Hong Kong Station, blended advertising panels with interactive devices. 103" TV format advertising panels were introduced in the concourses at Kowloon Tong and Lo Wu stations. The upper platform and Jardine's Bazaar exits of Causeway Bay Station were enhanced to improve their advertising potential, while advertising panels in the concourses of Causeway Bay and Kowloon Tong stations have been revamped.

Revenue from telecommunications in 2013 increased by 12.9% to HK$447 million mainly due to incremental revenue from the launch of 4G mobile phone services and mobile data capacity increases by telecom operators along our network. By the end of 2013, 4G mobile services were made available at all stations.

Hong Kong Property and Other Businesses

In 2013, the sales activities of Hong Kong's property market continued to reflect Government measures intended to stabilise prices and curb speculation. Sales volumes for both residential and commercial property contracted sharply from the previous year, though residential flat prices remained relatively stable, supported by the low interest rate environment. The pace of sales launches of new residential projects slowed for some time after the Residential Properties (First-hand Sales) Ordinance took effect in late April 2013, which led to primary flat sales falling to a historical low. Office leasing in Central saw moderate activity, amid weaker demand from financial services companies. The retail property market remained solid as a result of inbound tourism, despite this sector also witnessing slowing growth in 2013 as compared with previous years.

Property Development in Hong Kong

Profit from Hong Kong property development in 2013 was HK$1,396 million. This mainly comprised the sale of inventory units at The Riverpark at Che Kung Temple Station and car parking spaces at various developments.

We launched the pre-sale of The Austin (Austin Station Site C), with all 576 units sold by November 2013. Profit will be recognised upon issuance of the Occupation Permit, which is expected later this year. For West Rail projects, where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), we launched the pre-sale of Century Gateway II (Phase 2 of the Tuen Mun Station property development), with 99% of the total 911 units sold by January 2014. Meanwhile, Century Gateway (Phase 1 of the Tuen Mun

Station property development) was completed, with units sold handed over to purchasers in August 2013.

In our tendering activities, for West Rail projects where we act as agent for the relevant subsidiaries of KCRC, the Long Ping Station (South) site was tendered in May 2013 and awarded to a member company of Chinachem Group on 5 June 2013. We invited tenders for the Tin Wing Stop (Light Rail) property development site, with three tenders received upon tender closing on 21 January 2014. As none of the tenders received met the financial requirement, we decided not to accept any of the tenders. We are also currently examining the development packages at the LOHAS Park and Tai Wai Station sites, with a view to putting these sites out to tender, subject to market conditions.

Plans for future development sites, including the Wong Chuk Hang Depot site along the South Island Line (East), continued to progress well.

We continue to explore opportunities for other new developments along our railway lines, in response to market conditions as well as Government's request.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and management businesses in 2013 grew by 11.1% to HK$3,778 million. Operating costs rose by 7.3% to HK$673 million, resulting in operating profit increasing 11.9% to HK$3,105 million, representing an operating margin of 82.2%.

Total property rental income in Hong Kong was HK$3,547 million, 10.9% higher than in 2012. Our shopping mall portfolio achieved an average 16% increase in rental reversion for the year. At the end of December 2013, our shopping malls in Hong Kong and the Company's 18 floors of office space at Two International Finance Centre ("Two ifc") remained close to 100% let.

As at 31 December 2013, the Company's attributable share of investment properties in Hong Kong comprised 213,334 square metres of lettable floor area of retail properties, 40,969 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

We continue to invest in our retail properties to enhance their attractiveness, financial return and environmental performance. To ensure the branding and experiential consistency of PopCorn, renovation works for the ceilings and floors of the common areas of PopCorn 2 (rebranding of "The Edge") commenced in October 2013, with a target for completion in 2014.

Building on the success of Maritime Square in Tsing Yi, we shall convert the relevant portion of the adjacent Tsing Yi Lorry Park into a shopping mall, which will add another 12,100 square metres of gross floor area to Maritime Square. The conversion works are planned to commence in 2014, with a target completion in end 2017.

Hong Kong property management revenue in 2013 rose by 13.8% to HK$231 million. As at 31 December 2013, the number of residential units under the Company's management had risen to 90,523, following the addition of 4,257 units from The Wings, Century Gateway, The Riverpark and La Splendeur. The area of managed commercial and office space was 763,018 square metres. Also during 2013, MTR managed properties made use of Government's Buildings Energy Efficiency Funding Schemes by implementing a number of projects designed to lower energy consumption and CO_2 emissions.

Other Businesses

The Ngong Ping cable car ("Ngong Ping 360") and associated theme village achieved a 26.9% increase in revenue in 2013 to HK$316 million. Visitor numbers in 2013 reached approximately 1.65 million, while reliability exceeded target and reached 99.8%. The growth in ridership was driven by innovations in ticketing schemes, such as the "360 Sky-Land-Sea Overnight Package", as well as lively themed events, ranging from the "360 Martial Arts Extravaganza" over the summer months, to the "360 Breadtacular" event in autumn, to the "Ngong Ping 360 Glittering Christmas Village" over the festive season. The new Galaxy Ticketing Systems that were introduced in December 2012 have helped increase efficiency and business growth, as well as enhance customer service.

Revenue from our consultancy business in 2013 was HK$128 million, 25.5% higher than in 2012. The Company entered into a new seven-year Maintenance Agreement for the Automated People Mover System at Hong Kong International Airport in July 2013.

Octopus continued to expand in Hong Kong's retail sector and the Company's share of Octopus' net profit for 2013 grew by 6.6% to HK$225 million. As at 31 December 2013, more than 5,000 service providers in Hong Kong were using the Octopus service. The total number of Octopus cards and other stored-value Octopus products in circulation during the year was 24.84 million. The average daily transaction volume and value reached 13.0 million and HK$139.6 million respectively.

Income from providing project management services to Government, predominantly for entrustment works on the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link, was HK$1,461 million in 2013, an increase of 50.9% over 2012. Income from the entrustment works is currently booked on a cost recovery basis.

Mainland of China and International Businesses

Revenue in 2013 from our Mainland of China and international subsidiaries was HK$13,246 million, of which our railway subsidiaries outside of Hong Kong, namely MTM, MTRS and MTR Corporation (Shenzhen) Limited ("SZMTR"), contributed HK$13,100 million. Our Mainland of China property rental and management businesses also contributed revenue of HK$146 million. Operating costs for our railway subsidiaries outside of Hong Kong were HK$12,332 million, resulting in a 31.5% increase in operating profit to HK$768 million and an operating profit margin of 5.9%.

Our associates outside of Hong Kong, namely Beijing MTR Corporation Limited ("BJMTR"), LOROL and Tunnelbanan Teknik Stockholm AB ("TBT"), continued to generate profit. Following the commencement of our operation of Hangzhou Metro Line 1 ("HZL1") on 24 November 2012, we have included the results of our 49% owned associate, Hangzhou MTR Corporation Limited ("HZMTR"), which incurred an operating loss in 2013. The loss is due mainly to lower than expected patronage. Plans have been put in place to enhance patronage on this line. Our overall share of losses from these four associates in 2013 was HK$74 million.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was 1,355 million in 2013, as compared with approximately 1,171 million in 2012.

Railway Businesses in the Mainland of China

Beijing Metro Line 4 ("BJL4") and the Daxing Line again exceeded their service targets. Combined ridership in 2013 reached 454 million passenger trips, with an average weekday patronage of more than 1.28 million. The two lines have 35 stations and a combined length of 50 km.

Phase 1 of BJL14 opened on schedule on 5 May 2013. The service performance has been satisfactory. This section of the new line has seven stations, running for 12.4 km. Total passenger trips since its opening to year-end 2013 were 11.4 million. BJL14 is currently operated by BJMTR on an "O&M" (Operation and Maintenance) fee basis. The Public-Private-Partnership ("PPP") terms will start once the full line is open, estimated to be in 2015.

BJMTR received several awards during the year, including "Outstanding Safety Performer in Transport Sector 2012" from the Beijing Municipal Transport Committee.

The operational performance of Shenzhen Metro Longhua Line ("SZL4") also exceeded targets and contractual commitments during the year. Ridership for the year was 140 million, with average weekday patronage reaching 380,300. The line runs 20.5 km and has 15 stations. During the year, SZMTR was awarded ISO14001:2004 by Bureau Veritas.

HZL1 celebrated its first full year of operation in November 2013, with operational performance exceeding targets. Following the opening of the Hangzhou East high speed rail station and in response to our marketing initiatives, which are contributing to changing patterns of behaviour among commuters, the patronage has shown significant improvement. The average daily patronage in December 2013 reached over 318,000, far exceeding the 168,000 seen in January 2013. Total ridership for the year was 92.4 million. The last station on the line, East Railway Station, opened on 30 June 2013. HZL1 has 31 stations with a route length of 48 km.

International Railway Businesses

In the UK, LOROL continued to deliver excellent service to the nation's capital. A significant staff efficiency initiative was successfully delivered with the extension of driver-only operations to the North London and West London lines from November 2013. LOROL is also working with TfL to support a GBP320 million project to increase train lengths from four cars to five cars. Construction work to support this began in April 2013 and the first five-car train is scheduled to enter service in the second half of 2014.

The network of LOROL extends to 57 stations over 124 km. Ridership in 2013 increased to 101 million.

LOROL won some impressive awards during the year, including "European Commuter Operator of the Year" at the inaugural European Rail Congress Awards in London. In recognition of LOROL's excellent performance, TfL has extended our concession for a further two years to November 2016.

In Stockholm, MTRS's operational performance in the Swedish capital continues to improve, receiving recognition from the Swedish Institute of Quality for "Successful Business Development in 2013". Ridership for the year was 329 million, with average weekday patronage reaching 1.2 million. The metro system comprises three lines and 100 stations, and runs for 110 km.

In Melbourne, patronage on MTM held steady for the year at 227 million. The network has 218 stations and runs for 390 km, making it the largest contributor to revenue among our international businesses. Service delivery has continued to improve and record performance was achieved during the year. In February 2013, MTM's safety related advertising campaign won the prestigious "Ad Campaign of the Year" and "Ad of the Year" awards at the AdNews Agency of the Year Awards.

Property Development, Rental and Management Businesses in the Mainland of China

MTR Property Development (Shenzhen) Company Limited is currently developing Shenzhen Metro Longhua Line Depot

Site Lot 1. The total developable gross floor area of the site is approximately 206,167 square metres. The ground-breaking ceremony was held on 16 December 2013, marking the start of construction of this development project.

On 5 August 2013 Tianjin TJ-Metro MTR Construction Company Limited, a company formed by a wholly-owned subsidiary of the Company (49%) and Tianjin Metro (Group) Company Limited (51%), successfully bid for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 in Tianjin, at a price of RMB2,075 million. The total developable gross floor area of the site is approximately 278,650 square metres. The site will be developed for residential and commercial use. The land premium was fully settled in November 2013 and detailed planning and design for the development is currently in progress.

Revenue from our property rental and property management businesses in the Mainland of China increased by 7.4% to HK$146 million in 2013. Our shopping mall in Beijing, Ginza Mall, had an occupancy rate of close to 100% at the end of 2013. The Company's managed gross floor area of commercial and residential space in the Mainland of China remained steady at 256,000 square metres.

Future Growth

In 2013, we made steady progress on our railway network expansion projects in Hong Kong, as well as in our businesses in the Mainland of China and overseas.

Growth in Hong Kong

The 3-km West Island Line is an extension of the Island Line. As at 31 December 2013, the project was 84% complete and remains on schedule to open in late 2014. It will be the first metro service to serve the major population and employment centres in Western District, adding a catchment population of 140,000 and catchment employment of an estimated 60,000 in 2016.

Major structural works and installation of platform screen doors at all three new stations, namely Sai Ying Pun, HKU and Kennedy Town, are complete, along with trackwork and overhead line installation. The AC power supply systems in all stations were energised in August 2013. Architectural Builders Works & Finishes ("ABWF") and Electrical and Mechanical ("E&M") installation works are progressing well.

The 7-km South Island Line (East) project will extend MTR services from Admiralty to the Southern District of Hong Kong Island, and will also include a train depot at Wong Chuk Hang. As at 31 December 2013, the project was 55% complete and is on target for completion in 2015. It will be the first metro service to the Southern District, adding a catchment population of 121,000 and catchment employment of an estimated 46,000 in 2016.

Work on the stations and related infrastructure has continued. Structural works for the new Ocean Park and Wong Chuk Hang stations have been completed and ABWF works are now in progress. Excavations continued for the Admiralty Station extension, the Nam Fung Tunnel and South Horizons Station, while erection of the noise barriers at the Aberdeen Channel Bridge was substantially completed. Construction of the Wong Chuk Hang Depot has continued and ABWF works are currently under way. Manufacturing of equipment and software development for the railway E&M systems are also in progress.

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from its existing terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. As at 31 December 2013, the project was 54% complete and remains on schedule for completion in 2015. It will be the first metro service to link Ho Man Tin and Whampoa, adding a catchment population of 146,000 in 2016.

At Ho Man Tin Station, excavation was 95% complete by year end and construction of the station structure had commenced. At Whampoa Station, piling works were nearly complete and excavation work was in progress. Tunnel excavation between Yau Ma Tei and Whampoa stations is well advanced and lining works have commenced.

The 26-km Express Rail Link, funded by Government, will provide high-speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high-speed rail network in the Mainland of China. Served by the West Kowloon Terminus, it is targeted for completion in 2015. As at 31 December 2013, the project was 51% complete.

Excavation work for the West Kowloon Terminus and approach tunnels is progressing and work is also under way on casting the concrete structures. All Tunnel Boring Machines are now in operation and excavation work has made satisfactory progress. Ten out of 14 building structures for the Shek Kong Stabling Sidings were completed during 2013. Trackwork and overhead line installations are under way in Shek Kong and in the sections of tunnel from Nam Cheong to Kwai Chung. Building services installation is in progress at the West Kowloon Terminus, the ventilation buildings, the Shek Kong Stabling Sidings and the main tunnels. Production of the first eight-car train set was completed in September 2013 and testing is in progress.

The 17-km Shatin to Central Link, funded by Government, has two sections and ten stations, including six interchange stations linking existing and future railway lines. The first phase is scheduled for completion in 2018 and the second phase in 2020. It will provide much needed new links across the New Territories, adding a catchment population of 380,000 and catchment employment of an estimated 260,000 in 2021.

During 2013, site clearance and mobilisation commenced at Hin Keng Station, while construction of diaphragm walls and panels progressed at Diamond Hill and To Kwa Wan stations. At Kai Tak Station, following completion of sheet pile wall installation, pumping tests are in progress. The modification works for the Ma On Shan Line moved ahead, while construction of platform extension slabs at Che Kung Temple, Shek Mun and Tai Shui Hang stations were completed, with installation of platform ceilings in progress.

To help achieve the highest standards in our new projects, in 2013 we continued our "New Lines New Minds" programme which was launched in 2010. Its three key areas of People Development, Collaboration and Trusted Partnerships, and Project Delivery Effectiveness are driving step-change improvements by focusing on talent, better alignment of objectives, lateral thinking, collaborative working and optimisation of resources.

As an example of how the "New Lines New Minds" initiative is supporting safety, "War Rooms" have been set up in site offices as a platform for better communication and collaboration with contractors. They provide opportunities for in-depth discussions and to hold safety workshops involving subcontractors.

Support for the sustainable development of Hong Kong's railway network during the public engagement for RDS-2U was overwhelming. We are now working closely with Government on planning the next phase of railway expansion arising from RDS-2U, extending our horizons beyond 2020.

Mainland of China and International Growth

In Beijing, following the initialling of the Concession Agreement for BJL14 with the Beijing Municipal Government, the project is progressing as planned. The entire BJL14 will run for 47.3 km and have 37 stations, including ten interchange stations. Under the approximately RMB50 billion PPP project, BJMTR is responsible for investment of RMB15 billion for the provision of E&M systems and rolling stock, as well as operation and maintenance of the line over a term of 30 years. The Beijing Municipal Government is responsible for the rest of the investment. Phase 1 of the project opened on 5 May 2013. Phase 2 and Phase 3 are now targeted to open in 2014 and 2015 respectively.

BJMTR also submitted a bid for Beijing Metro Line 16 ("BJL16"), another PPP project, in February 2014. The 50-km BJL16 will have 29 stations running from Beianhe to Wanping. Phase 1 is targeted to open by the end of 2016, with full line service by the end of 2017.

The Company signed a Framework Agreement in May 2013 with the Shenzhen Development and Reform Commission regarding the construction of and an operating concession for Shenzhen Metro Line 6 ("SZL6"). SZL6 has a route length of 38 km with 20 stations extending north-westerly from Shenzhen North Station to Guangming New District. The terms of the Principle and Joint Venture agreements are being negotiated. In January 2014, the Company signed a Strategic Cooperation Framework Agreement with the Longhua New District Administration Commission in Shenzhen for the North Extension of SZL4.

In Sweden, we will launch a new express train service to connect Stockholm with Gothenburg on a 455 km route. Called MTR Express and operated by our wholly-owned subsidiary MTR Nordic, it will provide 110 weekly train trips. The service is aimed to be launched by early 2015 following testing and commissioning of the six new train sets after their delivery.

In Australia, our consortium was shortlisted to bid for the Operations, Trains and Systems Contract for the Sydney North West Rail Link in May 2013. The bid was submitted on 5 December 2013. MTR, as part of the consortium, would be responsible for the design and delivery of the rail systems, together with operation and maintenance of the system for 15 years after service opening. In addition, we lead a consortium which has entered into discussions with Victorian Government in relation to a project to transform the Dandenong Rail Corridor in Melbourne. Subject to the finalisation of procurement and financing of the project, construction is expected to start in 2015.

In the UK, we submitted bids for both the Essex Thameside and the Thameslink, Southern and Great Northern franchises in December 2013. We were also shortlisted to tender for the Crossrail concession by TfL in June 2013 and our bid was submitted in February 2014. In addition, we were shortlisted to tender for the ScotRail franchise in November 2013, and this bid will be submitted in April 2014.

Financial Review

Compared to 2012, total revenue grew 8.3% in 2013 to HK$38,707 million with our Hong Kong businesses, comprising transport operations, station commercial, property rental and management and other businesses, achieved a 10.9% increase to HK$25,461 million, while our Mainland of China and international subsidiaries recorded a 3.6% increase to HK$13,246 million. By individual segment, our Hong Kong transport operations recorded an increase of 4.4% in revenue (net of fare concessions) to HK$15,166 million while related operating costs (excluding depreciation, amortisation and variable annual payment) in support of various service enhancement initiatives increased by 5.4% to HK$8,449 million. For revenue from other Hong Kong businesses, station commercial increased by 24.7%, property rental and management by 11.1%, and other businesses by 43.0%. Operating costs for these businesses grew at a lower rate with station commercial increasing by 16.9%, property rental and management by 7.3%, and other businesses by 37.4%. Operating costs for our Mainland of China and international subsidiaries increased by 2.2%. Including project study and business development expenses, overall operating costs grew by 6.4% to HK$24,308 million. As a result, operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment increased by 11.7% to HK$14,399 million, with operating margin increasing by 1.1 percentage points to 37.2%. Excluding contributions from Mainland of China and international subsidiaries, operating margin decreased slightly by 0.2 percentage point to 53.4%, due mainly to higher costs incurred on bids for overseas franchises. Hong Kong property development profit decreased by HK$1,842 million to HK$1,396 million in 2013, derived mainly from the sale of inventory units at The Riverpark and car parking spaces at various developments. Depreciation and amortisation charges increased 5.1% to HK$3,372 million and the variable annual payment increased 41.2% to HK$1,247 million. Operating profit before interest and tax therefore decreased by 7.2% to HK$11,176 million. After accounting for interest and finance charges of HK$732 million, investment property revaluation gain of HK$4,425 million, share of profits from associates of HK$158 million, income tax of HK$1,819 million and non-controlling interests of HK$183 million, net profit attributable to equity shareholders of the Company in 2013 decreased by 2.6% to HK$13,025 million, or HK$2.25 per share. Excluding investment property revaluation, underlying profit decreased by 10.6% to HK$8,600 million, or HK$1.48 per share, due to the lower property development profit in 2013.

As at 31 December 2013, the Group's net assets increased by 6.7% to HK$152,702 million, with total assets increasing by 4.4% to HK$215,823 million and total liabilities decreasing by 0.7% to HK$63,121 million. The increase in total assets was mainly due to investment property revaluation gains, Tsing Yi Lorry Park Project costs, capitalisation of further construction costs of the South Island Line (East) and Kwun Tong Line Extension, and a capital injection into an associate, Tianjin TJ-Metro MTR Construction Company Limited. These asset additions were offset by lower properties held for sale due to the sale of units in inventory and reduced cash balances. The decrease in total liabilities was mainly due to the settlement of the land premium for the Shenzhen Metro Longhua Line Depot Site, the utilisation of the Government grant received in previous years for the construction of the West Island Line and lower defined benefit retirement plan obligation partly offset by the increase in total loan outstanding. The Group's net debt-to-equity ratio increased from 11.0% at 31 December 2012 to 11.8% at 31 December 2013.

In 2013, total cash outflow amounted to HK$21,624 million, an increase of 7.0% from 2012, which was mainly attributable to the Group's capital expenditure of HK$13,356 million, investment in Tianjin TJ-Metro MTR Construction Company Limited of HK$1,111 million, fixed and variable annual payments made to KCRC of HK$1,633 million, and the dividend paid to the Company's shareholders of HK$4,580 million. Total cash inflow amounted to HK$19,042 million, a decrease of 3.4% from 2012, which included net cash inflow from operating activities of HK$14,764 million and cash receipts from property developments of HK$3,937 million. The Group's net cash outflow before financing of HK$2,582 million was funded by net loan drawdown and debt issuance of HK$1,223 million and our existing cash balances. As a result, the Group's cash balance, net of bank overdrafts, decreased from HK$18,609 million in 2012 to HK$17,250 million in 2013.

In line with our progressive dividend policy, the Board has proposed a final dividend of HK$0.67 per share, giving a full year dividend of HK$0.92 per share, an increase of 16.5% over 2012, with a scrip dividend option offered, subject to shareholders' approval.

Human Resources

The Company, together with its subsidiaries, employed 16,158 people in Hong Kong and 7,078 outside of Hong Kong as at 31 December 2013.

We proactively formulate manpower resourcing strategies and initiatives to meet current manpower needs and to plan for our future expansion in Hong Kong, the Mainland of China and overseas. During 2013, we recruited over 2,200 new hires and 1,300 staff were promoted internally in Hong Kong. Staff turnover remained low at 4.2%. More emphasis has been placed on strengthening our human resources across Hong Kong and our Mainland of China and international businesses through building up mobile resources, enhancing localisation and strengthening the leadership pipeline for operations outside of Hong Kong.

The Company was voted as the "Most Attractive Employer" according to a survey conducted in Hong Kong by the Randstad Group, one of the world's largest human resources service firms. The results echoed the findings of our recent Staff Attitude Survey, conducted in October 2012, in which 88% of our staff in Hong Kong indicated they were proud to be a staff member of MTR, while 81% agreed that MTR was a good employer.

Our Executive Associate Scheme and People Development Initiative are designed to ensure continuity in management resources. We continued to provide structured, customised training for future management talent in 2013, and increasingly encouraged cross-functional and geographical career movements. Executives and senior managers benefited from our Continuous Learning Programme, while newly promoted managers were assisted by a new "Reaching New Horizons" Leadership Transformation Programme. We also recruited Graduate Trainees and Apprentices. The 35th anniversary of the MTR Apprentice Programme was marked with a number of special commemorative activities throughout the year.

MTR's culture of excellence, learning and caring was reinforced during the year by further initiatives organised under the Academy of Excellent Service, involving experiential learning, external benchmarking visits and sharing sessions among staff. We have also continued to invest in mobile learning technology.

To encourage and reinforce two-way communication between line managers and staff, more than 4,500 sessions of the "Enhanced Staff Communication Programme" were organised in 2013, with over 65,500 participants. In September 2013, the bi-annual Management Communication Meeting helped communicate the Corporate Strategy and business updates to over 1,000 managers around the globe.

The Work Improvement Team ("WIT") initiative to encourage collective innovation and continuous improvement was strengthened by the theme of "You Have A Say" during the year. WIT has also been rolled out to our subsidiaries and associates, including our operations in Beijing, Shenzhen and Stockholm.

During 2013, 6,471 courses were delivered, providing 6.5 training days per Hong Kong employee. The Company's efforts in this area won a number of local and international awards during the year.

Community Engagement

The Company's commitment to corporate responsibility saw 239 community projects under the "More Time Reaching Community" scheme held during 2013, involving over 6,000 volunteers in a variety of areas, benefiting community groups, with the elderly, underprivileged families and children, and the disabled as the main beneficiaries.

Reaching out to the community, listening and responding to people's opinions, is also a key feature of our rail network expansion projects. We make every effort not merely to keep the public fully informed, but to deepen our relationship with the local communities through charity, environmental and volunteering activities. We also try to minimise disruption to traffic, pedestrians and residents through careful planning of closures or route diversions and the adoption of new construction techniques. Among the acknowledgements we have received for our efforts during the year was praise from the Southern District Council for the Kellett Bay Open Space we created during construction of the South Island Line (East).

During 2014 we will be marking our 35th anniversary, with events designed with the community in mind. Coinciding with the launch of our colourful anniversary logo, our celebrations kicked off in January 2014 with a replica of the first-generation MTR train compartments and giant poster displays telling the stories of people whose lives have been particularly touched by MTR. Souvenirs such as commemorative smart tickets and exciting events will extend our celebration with the community throughout the year.

Outlook

Global economic conditions remain challenging, and there have been signs of a slow-down in the economy in the Mainland of China in recent months from its outstanding growth in past years. Yet, although the outlook for the world economy is uncertain, the Company should maintain its growth trajectory in 2014.

Our recurrent businesses in Hong Kong should continue to benefit from rising patronage as a result of economic growth and an expected rise in tourist numbers. Our businesses outside of Hong Kong should make a higher contribution to revenue. We will also continue to pursue new business opportunities actively.

In property development, we expect to book profit for The Austin (Austin Station Site C) when the Occupation Permit is issued, which is expected to be later this year. We may also launch the pre-sale of Austin Station Site D and LOHAS Park Package 3 in 2014, depending on market conditions. New tendering activities will likewise depend on overall market conditions, and may include tenders for sites at LOHAS Park and Tai Wai Station.

Finally, I wish to thank my fellow Board Members and all my MTR colleagues for their contributions during another year of solid progress. I also once again welcome the two new members of the Executive Committee, Mr Stephen Law, who joined us as our Finance Director on 2 July 2013, and Ms May Wong, who was appointed as General Manager – Corporate Relations on 10 January 2013, upon the retirement of Mrs Miranda Leung.

I am very pleased to have been appointed for a further two years as CEO and I look forward to working together with our excellent team over the coming years for the benefit of our passengers, shareholders and other stakeholders.

Jay H Walder, *Chief Executive Officer*
Hong Kong, 11 March 2014