

A young woman with long dark hair, wearing a light blue jacket over a white top, is smiling and pointing her right index finger upwards. She is standing in front of a building with blue horizontal slats. Above her, there is a red circular logo with a white stylized figure inside. The background shows green foliage and a clear sky. The image is framed by a yellow geometric design on the left and bottom.

Kayi, Ling and Danny
Students

Investing in the Future



Executive Management's Report

Hong Kong Network Expansion

One of our key areas of growth in Hong Kong is the development of new rail lines in our home market. The completion of the remaining four new rail lines in Hong Kong is the centrepiece of our Rail Gen 2.0 initiative, which will add 53 km to our existing 220.9 km of route network.



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New Railway Projects are in progress

53 km

will be added to our Hong Kong network



Kayi and Danny, Students

Kayi is a student from Shue Yan University. She has been a keen fan of Ocean Park ever since she was a child, always wanting to visit thrilling attractions such as Marine World and the cable car. "My parents would take me there on special occasions such as my birthday, and now I like to come with my friends and schoolmates," she explains. The only difficulty so far has been the time it needs to get there from her home in North Point. But with the South Island Line (East) due to open soon, it will not be long before she can enjoy the efficiency and comfort of taking MTR to Ocean Park.

Danny is a student from the Hong Kong Polytechnic University and he lives in Hung Hom. He is also pleased to see MTR connecting to Ocean Park very soon. He has many friends from abroad and he plans to take them to the Ocean Park once the new line commences service. Danny was born after the MTR service has commenced. "We've seen the network grow and expand into different areas of Hong Kong, and quite frankly we can't quite imagine how life would be without MTR," he says.

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New Rail Projects Owned by MTR

Western Extension of the Island Line

The last station of the 3-km Western extension of the Island Line, Sai Ying Pun Station, opened in March 2015, with its last remaining entrance at Ki Ling Lane to be opened later on in March 2016. This community railway has been greatly welcomed by residents and visitors to the area. Average daily usage of the three stations totalled approximately 184,000 passengers in the second half of 2015.

South Island Line (East)

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island. As at 31 December 2015, the project was 93% complete, with opening of the line targeted for the end of 2016.

The extension of Admiralty Station has been and remains the most challenging part of the project. In relation to this extension, excavation and structural works for the station cavern and platforms required for the line opening have been completed, and fit-out and electrical & mechanical ("E&M") works are now in progress. By the end of 2015, the difficult underpinning excavation works were substantially complete and the construction of the concrete structure of the station box was approximately 80% complete. Completion of the remaining structural works in close proximity to the operational railway

and securing sufficient resources for the E&M fit out are key challenges that must be overcome for the project to meet the targeted opening date.

Structural lining of the 3.2-km Nam Fung Tunnel connecting Admiralty and Ocean Park stations was completed in August 2015. Trackwork and E&M works in the tunnel are also substantially complete. Fitting-out and E&M works have been completed at Wong Chuk Hang Depot, as well as Ocean Park and Wong Chuk Hang stations. Testing of the new 3-car trains between Wong Chuk Hang and South Horizons stations has been in progress since April 2015 and testing for the whole line commenced in mid February 2016.

The current estimated cost of the project remains at HK\$16.9 billion (before capitalised interest).

Kwun Tong Line Extension

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. As at 31 December 2015, the project was 91% complete with overall civil works being 97% complete and E&M works 71% complete. Opening is targeted for the third or fourth quarter of 2016.

Major progress milestones achieved during the year included energisation of overhead lines to Ho Man Tin Station and the completion of track laying works. The Ho Man Tin Station structure was topped out in June 2015 and E&M works are progressing well, with major plant and equipment in position. Assembly of platform screen doors, lifts and escalators is in progress. The pedestrian footbridge and subway structures connecting the station with the neighbouring community are substantially complete.

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The Express Rail Link will connect Hong Kong to the Mainland of China's high speed rail network

At Whampoa Station the platform tunnel connecting the East and West concourses was fully excavated in July 2015 and the tunnel lining has been completed. Internal finishings and fitting-out works are in full swing.

The current estimated cost of the project remains at HK\$7.2 billion (before capitalised interest).

New Rail Projects Entrusted to MTR by Government

Express Rail Link

The 26-km Express Rail Link 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. It will be served by the West Kowloon Terminus which at around 380,000 square metres (GFA) is one of the largest underground high speed rail stations in the world. As at 31 December 2015, the project was 76% complete.

The Company's project management responsibilities are set out in two Entrustment Agreements with Government. The first Entrustment Agreement ("XRL Preliminary Entrustment Agreement") covers, among other things, preliminary and detailed design and site investigation, while the second Entrustment Agreement ("XRL Entrustment Agreement") covers, among other things, completion of detailed design, construction and commissioning into service of the Express Rail Link. Under the XRL Entrustment Agreement, Government is responsible for funding the construction of the Express Rail Link.

A major milestone for the project was the completion of tunnel excavation which took place on 12 December 2015 with the last tunnel section, the northern northbound section of the Tai Kong Po to Tse Uk Tsuen tunnel breaking through. Track laying, tunnel lining, overhead line installation and other E&M works are progressing and were 52% complete at year end. The West Kowloon Terminus excavation was 98% complete and



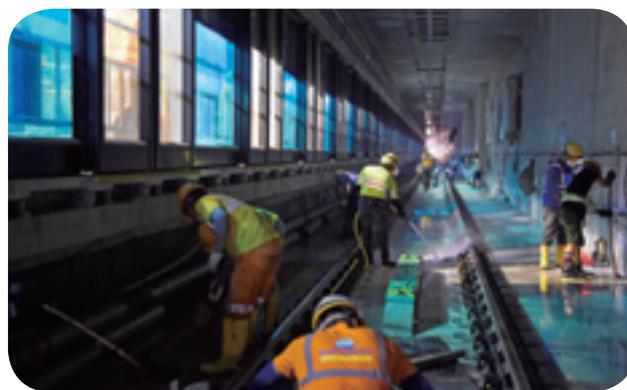
the concrete structure 70% complete at year end. The major construction challenges going forward are the completion of the complicated roof structure for the station as well as maintaining the pace of concreting works and internal wall construction.

Another milestone for the Express Rail Link project in the year was the conditional agreement entered into by Government and MTR ("XRL Agreement") relating to the further funding arrangements for the project ("XRL Arrangements"). With the approval of the XRL Agreement and the XRL Arrangements by the Company's shareholders who are independent of Government ("Independent Shareholders") on 1 February 2016 and also the approval by LegCo on 11 March 2016 of Government's additional funding obligations under the XRL Agreement, the XRL Agreement has become unconditional.

Under the XRL Agreement, Government will bear and finance the project cost up to HK\$84.42 billion (an increase of up to HK\$19.42 billion (the "Current Cost Increase") from the original project

cost estimate of HK\$65 billion). If the project exceeds HK\$84.42 billion, MTR will bear and finance any project costs exceeding HK\$84.42 billion (if any) except in limited circumstances specified in the XRL Agreement. MTR will also pay a special dividend in cash of HK\$4.40 per share in aggregate, in two equal tranches of HK\$2.20 per share, which are expected to be paid in the second half of 2016 and the second half of 2017, respectively. This amounts to a total special dividend of approximately HK\$25.76 billion based on the number of shares outstanding as at 31 October 2015. Other terms of the Entrustment Agreements relating to the project previously entered into by Government and MTR remain, except for amendments reflecting the XRL Agreement's proposed arrangements. These amendments also include an increase in the Project Management Fee payable to the Company under the XRL Entrustment Agreement to HK\$6.34 billion (from HK\$4.59 billion) and revision of the programme for completion of the Express Rail Link project to the third quarter of 2018. In addition, Government reserves the right to refer to arbitration the question of the Company's liability (if any) under the Entrustment Agreements for the Current Cost Increase, after the commencement of commercial operations on the new line ("Arbitration").

In the event that (i) Government refers to Arbitration the question of the Company's liability (if any) under the Entrustment Agreements for the Current Cost Increase; and (ii) the arbitrator does not determine that the liability cap contained in the XRL Entrustment Agreement ("Liability Cap") is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Increase would exceed the Liability Cap, then the Company shall bear such amount as is awarded to the Government up to the Liability Cap; seek the approval of its Independent Shareholders for the Company to bear the excess liability above the Liability Cap; and if the approval of the Independent Shareholders is obtained, pay the excess liability to Government.



The completion of track laying works was one of the major milestones achieved for Kwun Tong Line Extension in 2015

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New trains for the Shatin to Central Link are being delivered to Hong Kong in batches starting from September 2015 for testing and commissioning

The XRL Agreement and the XRL Arrangements were approved by the Company's Independent Shareholders on 1 February 2016 and on 11 March 2016, LegCo gave approval for Government's additional funding obligations under the XRL Agreement and hence the XRL Agreement has become fully effective.

Shatin to Central Link

The ten stations 17-km Shatin to Central Link connects existing railway lines to form an East West Corridor and a North South Corridor with six interchange stations. The lines will provide much needed new links across the New Territories, serving an estimated residential and working population of 640,000 in 2021. Overall progress on the project was about 48% complete

as at end of 2015, with the East West Corridor and North South Corridor being 63% and 23% complete, respectively. Government is responsible for funding the construction of the Shatin to Central Link except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC.

Reasonable progress was made on construction works during the year. For the East West Corridor, the downtrack tunnel from Hin Keng Station to Kai Tak Station was bored through in 2015. Both Hin Keng Station and Kai Tak Station were topped out in April and July 2015 respectively and E&M, other fitting out

Progress of New Railway Projects in 2015

New Projects Owned by MTR Admiralty to South Horizons	Number of Stations 5	Route Length (km) 7	Project Funding Rail plus Property
New Projects Owned by MTR Yau Ma Tei to Whampoa	Number of Stations 2	Route Length (km) 2.6	Project Funding Rail plus Property
New Projects Entrusted to MTR by Government West Kowloon to Guangzhou South	Number of Stations 1	Route Length (km) 26*	Project Funding Service Concession
New Projects Entrusted to MTR by Government Tai Wai to Hung Hom Hung Hom to Admiralty	Number of Stations 8 2	Route Length (km) 11 6	Project Funding Service Concession

* This represents the route length from West Kowloon in Hong Kong to the boundary of Hong Kong and Shenzhen.

works, as well as track laying have commenced. Ma Tau Wai Station and To Kwa Wan Station (which had been affected by the archaeological finds) were 61% and 49% complete, respectively and the interchange stations at Diamond Hill and Hung Hom were over 65% complete. Meanwhile, the modification works on station platforms of the Ma On Shan Line to tie in with the future 8-car train configuration of the East West Corridor were 95% complete. Installation of automatic platform gates has commenced in three Ma On Shan Line stations.

For the North South Corridor, the immersed tube cross-harbour tunnel contract was about 26% complete at year end and construction of the launching shafts for the two tunnel boring machines on Hong Kong Island are underway with tunnel boring works planned to commence in the second quarter of 2016. Construction of Exhibition Station, including the diaphragm wall and foundation works, is underway. Reprovisioning of the new Wan Chai Swimming Pool was completed in October 2015. This facilitated the timely release of the site previously occupied by the original swimming pool to the contractor, thus enabling construction of Exhibition Station to start on time.

New trains for both corridors are being delivered to Hong Kong in batches starting from September 2015 for testing and commissioning. To facilitate the 8-car train operation of the East West Corridor, the existing 7-car trains of the West Rail Line are being converted to 8-car trains progressively. The first 8-car train was put into service in January 2016 and a total of 28 West Rail Line trains are expected to be converted by mid-2018.

Despite reasonable construction progress, and as reported previously, the programme for delivery of the Shatin to Central Link has been impacted by a number of key external events. Firstly, on the East West Corridor the time taken in confirming actions to be undertaken relating to archaeological finds at the To Kwa Wan Station site has led to an 11-month delay in this

corridor, with the estimated completion now in 2019. Secondly, the anticipated late hand-over at the Central-Wan Chai Bypass of a construction site for the new Exhibition Station on the North South Corridor, due to infrastructure works by other parties, has already caused a six-month delay in that corridor. The estimated completion is now 2021. Any further delay in site hand-over will result in an equivalent additional delay to the completion of the North South Corridor. Our project team has been working diligently to explore and implement measures to improve progress and recover or mitigate the delays as far as possible.

Given the above delays, we are reviewing again the project cost estimate and the target completion dates for this project. Taking into account the continued difficulties and challenges, including those described above, we expect that the cost estimate will be revised upwards. In addition, mainly as a result of the increase in the estimated project costs relating to Admiralty Station, where the Shatin to Central Link will interchange with, amongst other lines, the South Island Line (East), we have notified Government of an increase in the expected cost of the Shatin to Central Link advance works. The programme and cost review in respect of the project as a whole is expected to be completed later in 2016, after which the Company will formally report the findings to Government.

New Railway Projects Under Discussion

To meet Hong Kong's growing public transport needs, Government's strategy is to continue using railway as the backbone in the development of our public transport network. Beyond the four rail lines that we are building now, Government has identified seven new rail projects under its Railway Development Strategy 2014 to be implemented in phases up to 2031, of which three are priority lines, namely the Tuen Mun South Extension, the Northern Link including Kwu Tung Station, and the East Kowloon Line. We continue to work with Government in taking forward these rail expansion plans.

