



Chairman's Letter

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Dear Shareholders and other Stakeholders,

It has been an exciting and successful year since I took up my appointment as Chairman at the beginning of 2016. The Company has made remarkable progress of which we are all proud. Not only have we continued to deliver world-class rail services to customers, but we also opened two new railway lines in Hong Kong, the Kwun Tong Line Extension and the South Island Line (East) ("South Island Line"), bringing greater choice and convenience to the travelling public. With over 17,000 dedicated staff based in Hong Kong and an operational model that is widely admired, we will continue to provide excellent service in our home base here. This will allow us to capitalise further on our brand name and expertise to grow our Mainland of China and overseas operations. During the last quarter of 2016, we opened Phase 1 of the Beijing Metro Line 16 in the Mainland of China and took over the Stockholm commuter rail ("Stockholms pendeltåg") concession in Sweden. We have also established the MTR Academy to develop professionals for the railway industry on a global basis.

The Company's financial results for 2016 reflected stable recurrent business performance together with, as expected, a much lower contribution from property development. Profit attributable to equity shareholders for the year from recurrent businesses grew by 4.1% to HK\$8,916 million. Post-tax property development profit from Hong Kong and the Mainland of China fell by 77.2% to HK\$530 million and as a result, profit attributable to equity shareholders from underlying businesses decreased by 13.3% to HK\$9,446 million. Including investment property revaluation, net profit attributable to equity shareholders was HK\$10,254 million, representing earnings per share after revaluation of HK\$1.74. In addition to the one-off special cash dividend of HK\$4.40 per share, of which the first tranche (of HK\$2.20 per share) was paid on 13 July 2016, and the second tranche (also of HK\$2.20 per share) is to be paid in the second half of 2017, your Board has proposed a final ordinary dividend of HK\$0.82 per share. Together with the interim dividend of HK\$0.25 per share, this amounts to a full year ordinary dividend per share of HK\$1.07.

When I took up my appointment, I outlined a vision of making MTR a company admired in Hong Kong and around the world as a world-class operator of sustainable rail transport service. To achieve this, we focus on three areas: our rail network, our customers and our people. I would like to outline how we have been delivering on each area, as well as contributing to the community, during the year.

Our Network

We make extensive investments to maintain the high levels of service in our network, and to build the new railway lines that are needed for the future. These form "Rail Gen 2.0", a new era for rail transportation that will support Hong Kong's development as an economy and as a society. Our Hong Kong colleagues went to extraordinary lengths, overcoming many challenges, to open both the Kwun Tong Line Extension and the South Island Line during the year. With these lines now in service, we continue with the work to complete our two remaining projects under construction, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link. The Express Rail Link remains on target for completion in the third quarter

of 2018, barring resolution of the colocation of customs, immigration and quarantine facilities by Government, while the two corridors of the Shatin to Central Link are also progressing towards their completions in 2019 and 2021 respectively. My sincere thanks go out to our employees, contractors and Government departments, as well as to the communities who have given us tremendous support.

Seven more rail projects have been identified by Government under its Railway Development Strategy 2014 to be built in phases. Government has invited MTR to submit project proposals for four of these projects first, the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line and the Tung Chung West Extension (and Tung Chung East Station). The Tuen Mun South Extension project proposal was submitted to Government in December 2016 and the project proposals on the Northern Link (and Kwu Tung Station), the East Kowloon Line and the Tung Chung West Extension (and Tung Chung East Station) will be submitted later.

Outside Hong Kong, we are also actively pursuing new opportunities. In the Mainland of China, we are in discussion with the Hangzhou Municipal Government on an investment in Hangzhou Metro Line 5. We have signed an agreement to conduct joint preliminary studies on the integrated development of some existing station and depot sites along Beijing Metro Line 4 and the Daxing Line. We have also signed a Letter of Intent with China Railway Corporation to explore strategic cooperation on high speed rail construction, operations, integrated development and training. This strategic partnership positions us to tap into opportunities arising from the Mainland's "Belt and Road" Initiative.

Internationally, in the UK we await the result of our bid for the South Western Rail franchise which is due in April 2017, and we are now preparing to bid for the Wales and Borders rail franchise. In Sweden, we have submitted our bid for the Skåne county commuter rail ("Pågatåg"). In Australia, we continue our negotiations for the concession extension of Metro Trains Melbourne and potential participation in the Sydney Metro City and Southwest project.

Our Customers

I fully appreciate our customers have high expectations of our service, and am pleased to report that in 2016 we recorded our best ever performance in terms of train service reliability since the rail merger in 2007. During the year, there were six delays in our heavy rail network and two delays in our light rail network, which lasted for 31 minutes or more, that were attributable to factors within MTR's control. Our safety record likewise remained world class.

To ensure we continue to operate a highly reliable service, and as an integral part of Rail Gen 2.0, there is an extensive asset replacement programme. This will see HK\$9.3 billion spent on new, more comfortable trains and enhanced signalling systems. These two projects are making good progress and testing on the lines is scheduled at night to avoid disrupting normal train service. Over the coming seven years we will also be replacing chillers, using more energy efficient models, in stations and depots. In addition, new Light Rail vehicles are being ordered to meet the increased demand for these services. In connection with our new lines, major modifications have been made to Hung Hom, Diamond Hill and Admiralty stations to enhance the interchange experience between different lines in the MTR network for improved connectivity across Hong Kong. These investments under Rail Gen 2.0 are in addition to our investments in other improvements, such as better station environments, more external lifts, refurbished escalators and toilets, as well as better passenger information displays.

The Fare Adjustment Mechanism ("FAM") is what allows us to make these vital investments in the Hong Kong network on an ongoing basis. Fair, transparent and objective, it has carefully balanced the interests of the travelling public against the need for a sustainable financial base. By international standards, our Hong Kong services are very affordable, reflecting average fare increases over the past eight years that have been below both the level of inflation and wage increases. The FAM is subject

to regular review with Government and the next review was scheduled to begin in 2017 for completion in 2018. However Government requested an earlier start to the process and in April 2016 we agreed to conduct the joint review one year earlier than scheduled. Discussions are on-going with Government regarding this review.

Every year, travelling on the MTR is made even more affordable by the concessions and promotions we offer, many of them targeting the young, those living further away from the city centre, the elderly and persons with disabilities. In 2016, these amounted to about HK\$2,536 million, while for 2016/2017 we announced additional packages worth more than HK\$500 million in total. We also look for other ways to enhance our customer experience, the "Happy Birthday • Happy Journey" lucky draw that will come to an end in March 2017, has brought joy to our customers.

Fares aside, and more importantly, we serve our customers well by understanding their needs. During the year, we launched a number of initiatives to improve our communication with customers. Planning ahead, we have carried out an extensive study to help us define the desirable customer experience of the future. The result of this study is our 2030 Customer Experience Vision Blueprint, which defines the framework for our initiatives to improve the travel experience of our customers over the coming years.

We continuously look for innovative ways to enhance our services; in November 2016, MTR sponsored HackTrain HK, the first ever railway hackathon in Asia. Over a 48-hour journey, 40 participants with diverse backgrounds from Hong Kong and around the world stepped up to the challenge of coming up with technology-enabled solutions to make our services even more efficient and enjoyable.

Turning to the arson incident which occurred on a train running from Admiralty Station to Tsim Sha Tsui Station on the Tsuen Wan Line on 10 February 2017, I was deeply saddened by the incident and wish all the injured a speedy



recovery. Joining hands with Tung Wah Group of Hospitals (“TWGHs”), we launched a donation campaign for the benefit of those injured and hospitalised in the incident. MTR together with our staff donated HK\$2 million and through TWGHs, donations were also received from the public. As with all major incidents, we immediately established a review panel to probe the incident and to propose improvement measures. Given the severity of this incident, the review panel is co-chaired by the Operations Director and the Engineering Director, and the work of the panel is also supported by external professionals. I would like to again express my thanks to our colleagues for their professionalism, as well as their robust, calm and speedy responses, which minimised the impact of this incident to our customers. Their

ability demonstrated in handling the incident reflected the sound training they have received, as well as our colleagues’ dedication to serve. I am extremely proud of them.

Our People

Consistently delivering a world-class level of service to our customers would not be possible without a team of professional and dedicated staff. We value the views and aspirations of our colleagues, and in November 2016 we conducted our first global Staff Engagement Survey. The response rate was very high at over 94%. Based on employees feedback collected in the survey, we will follow up with initiatives for continuous improvement.

Chairman's Letter

Every year we receive recognition at home and abroad for our commitment to and success in inspiring, engaging and developing our people. During 2016, MTR was named as one of the best companies to work for by a number of local and international organisations, while for training, we received a number of awards, including three honours in the "Award for Excellence in Training and Development" organised by the Hong Kong Management Association and an "Excellence in Practice Award" from the Association for Talent Development in the US.

The skills of our people and our training programmes are valuable resources that we look to deploy beyond Hong Kong, and to contribute to the Mainland of China's far-reaching "Belt and Road" Initiative. It was to this end that we established the MTR Academy in November 2016. Offering programmes for people in Hong Kong, as well as the

railway industry in the Mainland of China and overseas, MTR Academy aims to become globally recognised as a centre of excellence for railway management and engineering.

Contributions to the Community

As a company providing sustainable rail transportation and new homes, MTR plays a central role in the lives of many communities and supports initiatives that aim to improve quality of life for communities we proudly serve.

Under our Community Connect platform, we have made available a number of retail shops in stations along the West Rail Line for lease by the social enterprises of non-governmental organisations ("NGOs") at concessionary rates. We also support many NGOs and non-profit making organisations via provision of free advertising spaces in our network. Another new initiative is the MTR Gallery which we



opened in February 2017. It is an interactive exhibition corner at Kowloon Station featuring multimedia displays on the development of Hong Kong's railways. This supplements our long-running "Art in MTR" programme that brings art into stations and MTR premises.

Under the Youth Connect banner, we have continued to invite young people to exchange ideas with us via our think tank – the Youth Forum, which has been generating new ideas, some of which are now being put into practice. In September 2016 we also announced the launch of five new initiatives, following an open selection process with public input, to bridge the gap between education and work for young people. Meanwhile, Youth Connect's ongoing programmes continue to provide support and opportunities to secondary school students who come from less privileged backgrounds.

The environmental benefits of rail transport, being a low carbon business, are well established, and in 2016, we issued our first Green Bond, bringing together our financial and environmental strategies. Green bond financing allows us to tap into a new investor base while providing cost effective financing to invest in environmentally friendly services and network enhancements as part of the Rail Gen 2.0 vision. It will also contribute to establishing Hong Kong as a regional green finance hub.

Board Transition

MTR has an impressive Board, which plays a key role in maintaining the high standards of corporate governance that underpins our success as a sustainable business. I take this opportunity once again to welcome Mr Anthony Chow Wing-kin, who was appointed as Independent Non-executive Director of the Company on 18 May 2016, and to thank Mr Edward Ho Sing-tin, who retired from the Board as Independent Non-executive Director after more than 24 years of service during 2016. Mr Ng Leung-sing, after having served on the Board for more than nine years, will retire as Independent Non-executive Director of the Company at our Annual General Meeting on 17 May 2017. I would like to thank Mr Ng for his valuable contributions and service to both the Board and the Company all these years.

The counsel my fellow directors have given me during the year has been invaluable and I wish to thank them for their unfailing support. I also thank each and every one of our staff members for their hard work and dedication throughout the year, making MTR a company we are all proud of.



Professor Frederick Ma Si-hang
Chairman
Hong Kong, 7 March 2017