

CHAIRMAN'S LETTER



Photographed at West Kowloon Station

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Dear Shareholders and other Stakeholders,

It has been a little more than two years since I became Chairman. Over the past two years, MTR has overcome many challenges and achieved remarkable results. I'm very pleased to say that MTR is on the right track to becoming an admired world-class operator of sustainable rail transport services, a vision that everyone at MTR is working towards.

Over the past year, we have seen achievements in all areas of our three-pronged strategy, which is to strengthen and grow our Hong Kong business, accelerate our expansion in the Mainland of China and internationally, and enhance our corporate reputation. In Hong Kong, our home base, the two railway projects under construction, namely the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“Express Rail Link”) and the Shatin to Central Link, are making good progress. We have also submitted proposals to Government for four new railway lines to be built under the Railway Development Strategy 2014 (“RDS 2014”). The conclusion of the early review of the Fare Adjustment Mechanism (“FAM”) with Government in March 2017 has added to our ability to invest in new infrastructure while we continue to maintain and upgrade our existing network. The new arrangements arising from this conclusion bring benefits to our passengers, while ensuring MTR's financial sustainability.

Our proven track record in Hong Kong has contributed to our growth in the Mainland of China and overseas. During the past year, we were awarded three important contracts, the Hangzhou Metro Line 5 Public-Private-Partnership project, the seven-year South Western Railway franchise in the UK and the renewed seven-year concession to operate Melbourne's Metropolitan Rail Service in Australia.

Alongside these successes, I am very pleased to see increased recognition of the MTR brand. Our efforts

to improve customer services through the use of apps and various digitisation initiatives led to MTR being named “Asia Pacific Digital Transformer of the Year 2017” in the IDC Digital Transformation Awards. In addition, we were the only Hong Kong company to be included in the 2017 FORTUNE “Change the World” Top 50 companies list. We were honoured to have been included in the list, which recognises the significant benefits achieved by our Rail plus Property business model.

Our transparency and stakeholder communications, as well as our comprehensive disclosure, were recognised with our 2016 Annual Report winning the “Silver Award” from the Hong Kong Management Association (“HKMA”).

The Company's financial results for 2017 were satisfactory. Profit attributable to equity shareholders for the year from recurrent businesses decreased by 3.8% to HK\$8,580 million, largely due to the depreciation and interest expenses relating to the opening of our two new rail lines, as noted in the Interim Report. The booking of profit from Tiara in Shenzhen, our first Mainland China property development, and sundry sources from Hong Kong, saw property development profit increase, rising from HK\$530 million in 2016 to HK\$1,935 million in 2017. As a result, profit attributable to shareholders from underlying businesses increased by 11.3% to HK\$10,515 million. Including the gain arising from investment property revaluation, net profit attributable to shareholders of the Company increased by 64.1% to HK\$16,829 million, representing earnings per share after revaluation of HK\$2.83. A final ordinary dividend of HK\$0.87 per share has been proposed by your Board, which together with the interim dividend of HK\$0.25 per share, brings the full year dividend to HK\$1.12 per share.

CHAIRMAN'S LETTER

OUR NETWORK

Safety always comes first in our operations, and I am pleased to report that our safety performance has further improved, with an overall 5.5% drop in reportable incidents on our heavy rail and light rail networks. Our heavy rail train service delivery was maintained at 99.9% of the time over the year, a truly world-class performance. Nevertheless, we would never be complacent and are mindful that during 2017 there were several incidents that caused inconvenience to passengers, including a signalling system failure on the Kwun Tong Line in August. Investigations have been conducted to understand the causes and reduce the reoccurrence of similar incidents in future.

Safety and reliability require continuous investment in both people and assets. Under the umbrella of "Rail Gen 2.0", we have made various significant investments, including building new railway lines, and upgrading and replacing major assets on existing railway lines, to deliver excellent services to our customers.

The Express Rail Link remains on target for completion in the third quarter of this year and we are in discussion with Government regarding the future operation and maintenance arrangements for the line. The proposed co-location arrangement at the West Kowloon Station announced in July 2017 by Government and the Standing Committee of the National People's Congress's approval of the agreement signed between the Mainland of China and Government in December 2017 are important steps to maximise convenience for passengers and unlock the high-speed rail's full potential. For the Shatin to Central Link, we expect to complete the Tai Wai to Hung Hom Section and the Hung Hom to Admiralty Section by mid-2019 and 2021 respectively. As previously communicated, this project has been affected by a number of events outside our control. Following a detailed review, we submitted a revised cost estimate to Government on 5 December 2017, with the latest estimate for the main construction works having increased by HK\$16.5 billion to HK\$87.3 billion.

Under RDS 2014, a total of seven new rail projects are to be built over a number of years, and Government has so far invited MTR to submit proposals for five of them. We have submitted four of them and are currently in discussion with Government over the submitted proposals. In the longer term, Government has proposed additional transport corridors as part of the vision set out in its "Hong Kong 2030+" plan and we look forward to participating in these projects in the years ahead.

With our continued growth outside of Hong Kong, our franchises in the Mainland of China and overseas carried

on average around 6.49 million passengers every weekday in 2017. We continue to pursue further railway and related property development opportunities outside of Hong Kong. In the Mainland of China, we are exploring opportunities in the Guangdong-Hong Kong-Macau Bay Area, Chengdu, Hangzhou and Beijing. In the UK, we are bidding for the Wales and Borders rail franchise and the West Coast Partnership rail franchise. In the Nordic region, we are bidding for Norway's Traffic Package South (Trafikkpakke Sør) railway operating concession, as well as looking at more projects in the region. In Australia, we are pushing forward our interests in the second metro project in Sydney – the Sydney Metro City and Southwest. In North America, we are looking into a railway project in Toronto, Canada.

OUR CUSTOMERS

Our aim is to provide our customers with a world-class level of railway service at affordable prices, while continuing to invest to maintain the quality of the network and meet future demand. Rail Gen 2.0 covers an over HK\$10 billion worth asset replacement programme involving new trains introduction and enhanced signalling systems that are now well underway.

We are constantly striving to make customers' journeys better through bringing in new services, such as mobile device charging services at selected stations and the breastfeeding facilities recently provided in interchange stations. We are also harnessing technology to make our operations even safer and more efficient, while improving our customers' experience. We are conscious of the need to stay transparent and responsive as a company and we are making efforts in this area.

Conclusion of the early review of FAM in 2017 has balanced the interests of different stakeholders, particularly between meeting the public's expectation for lower rates of fare adjustment and ensuring the financial sustainability of the Corporation. During the year, we provided over HK\$2.6 billion of on-going fare concessions to different passenger groups. We will continue to focus on ensuring our services remain affordable for the benefit of the community, and in this spirit, we welcome the Public Transport Fare Subsidy Scheme announced by the Chief Executive of Hong Kong in her inaugural Policy Address in October 2017. We will fully support Government in its implementation.

OUR PEOPLE

The greatest assets of the Company are the well-trained and dedicated people we employ. We take great care of our people by providing them with a fulfilling working

environment. Our efforts have been recognised with MTR being named the most attractive employer in Hong Kong by the Randstad Group in 2017.

We are capitalising on the depth of expertise in the Company to develop new talents for the future, not just in Hong Kong but also in the Mainland of China and “Belt and Road” countries, through the MTR Academy (“MTRA”). Established just over a year ago, MTRA is now developing professionals for the railway industry in a number of countries. In October 2017, we signed an Memoranda of Understanding with Hangzhou Metro Group to set up a branch campus of MTRA in Hangzhou and discussions are now underway regarding the detailed arrangements.

CONTRIBUTIONS TO THE COMMUNITY

As a company, we aim to connect and grow communities through our railway businesses. Our “Community Connect” platform extends this idea further into society, with a focus on supporting young people in their life’s journey. To encourage students to explore science, technology, engineering and mathematics (“STEM”) subjects, we launched the “STEM Challenge” programme, along with Junior Achievement Hong Kong and HKEdCity, to engage secondary-school students in real-world engineering challenges. During the summer, our “Train’ for Life’s Journeys” programme supported 160 secondary-school students in their career-and-life planning, while our “Pathways to Employment” programme provided additional support for young people in their career planning.

We also leverage on our resources to enrich the cultural life of our community through our “Art in MTR” programme. The Company partnered with The Savannah College of Art and Design to produce new artwork proposals for Sham Shui Po Station. In December 2017, we hosted the award-winning “Swedish Dads” Photo Exhibition at Elements, which was jointly organised with the Consulate General of Sweden in Hong Kong and the Swedish Institute.

Our colleagues in MTR possess an extraordinary volunteering spirit, reflected in our “More Time Reaching Community” scheme. The efforts of our volunteers were well recognised, with the MTR volunteering team winning the “7th Hong Kong Volunteer Award” co-organised by the Agency For Volunteer Service and RoadShow.

We continue to pursue our goals to be a good corporate citizen and promote sustainable business practices, and I am very pleased to see that our efforts have been

recognised by winning the inaugural “Hong Kong Sustainability Award 2016/2017” organised by HKMA.

BOARD TRANSITION

The strength of our Board and its effective oversight of our operations is an essential factor in driving MTR’s consistently impressive performance.

I would like to welcome our new Board members, and also thank those who have retired for their valuable contributions to the Company during their tenures. Mr Ng Leung-sing, who served on the Board for over nine years, retired as an Independent Non-executive Director at our Annual General Meeting on 17 May 2017. Mr Andrew Clifford Winawer Brandler and Mr Johannes Zhou Yuan joined the Board as Independent Non-executive Directors on the same date. Mr Frank Chan Fan (Secretary for Transport and Housing) and Mr James Henry Lau Jr. (Secretary for Financial Services and the Treasury) became Non-executive Directors in July 2017, taking over from Professor Anthony Cheung Bing-leung (former Secretary for Transport and Housing) and Professor Chan Ka-keung, Ceajer (former Secretary for Financial Services and the Treasury) respectively. Mrs Ingrid Yeung Ho Poi-yan, who ceased to hold the post of Commissioner for Transport with effect from 15 July 2017, ceased to be a Non-executive Director of the Company on the same date. Ms Mable Chan has become a Non-executive Director of the Company with effect from 11 October 2017 by virtue of her appointment as Commissioner for Transport on the same date.

Finally, I wish to thank all of my fellow Directors for their wise counsel during the past year, and each and every one of our staff for their dedication in making MTR a great multinational company, a company closely connected to the communities we serve! United in our purpose, we will work to make 2018 another successful year.



Professor Frederick Ma Si-hang
Chairman
Hong Kong, 8 March 2018