



11 Railway
Services in
4 Countries



2,102 km
Operating
Route Length
outside of
Hong Kong



2,276 million
Total Patronage
outside of
Hong Kong

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

AIM

In line with our objective to become a leading multinational company, we are taking our strategy of growing and connecting communities into markets beyond Hong Kong. We have established a presence in three key geographies – Mainland of China, Europe and Australia. In each of these, we aim to become recognised as the best rail operator by focusing on delivering what customers really want.

CHALLENGES

- Increasing competition in the passenger rail market both in the Mainland of China and overseas, as more rail operators compete outside their home markets
- Increasing expectations from clients and customers towards rail operators in terms of customer satisfaction and operational performance
- Different operating and investment models are required in the Mainland of China and overseas markets
- Returning to profitability the UK and Swedish operations that have been underperforming

STRATEGIES

- Leverage our world leading performance in delivering integrated railway services to capture construction, operation and maintenance opportunities in our existing markets
- Adapt our business models, such as Rail plus Property, to suit the Mainland and overseas contexts

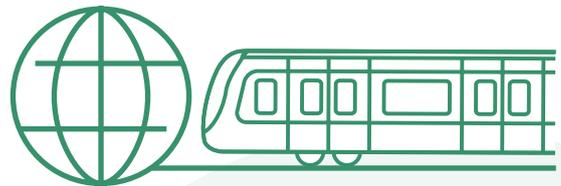
- Selectively pursue opportunities in new markets
- Strengthen our partnerships with clients and local stakeholders
- Ensure best practices are shared among our businesses in and outside Hong Kong to achieve our aim of becoming a leading multinational company

OUTLOOK

Revenue from our Mainland of China and International businesses is derived mainly from the provision of rail and rail related services through our subsidiaries and associates. Demand for these services depends partly on the economic situation in the markets concerned, which varies from region to region. Growth in profit will hinge, among other things, on our success in overcoming the serious challenges faced by Stockholm commuter rail and the South Western Railway franchise. With the opening of three new lines in 2019, namely Sydney Metro North West Line, initial section of Hangzhou Metro Line 5 and Macao Light Rapid Transit Taipa Line, we expect these lines will begin to make a financial contribution in 2020. In other markets outside Hong Kong, we will continue to seek new growth opportunities.

The Group's Mainland of China and international operations are being affected by the COVID-19 outbreak, as this spreads around the world. The Group is working hard to mitigate the financial and operational impacts of the outbreak and to keep its Mainland of China and international operations running to serve essential workers and those who need to travel in the cities in which we operate.

The expertise and experience we have gained in Hong Kong have been used on a growing portfolio of railway-related businesses in the Mainland of China, Macao, Europe and Australia. Our railway businesses outside Hong Kong carried an average of about 7.2 million passengers per weekday in 2019.



BUSINESS REVIEW

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

FINANCIAL PERFORMANCE

Mainland of China and International Businesses

Year ended 31 December HK\$ million	Mainland of China and Macao Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
	2019	2018	Inc./Dec.) %	2019	2018	Inc./Dec.) %	2019	2018	Inc./Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	1,881	1,458	29.0	19,204	19,419	(1.1)	21,085	20,877	1.0
EBITDA	529	388	36.3	796	488	63.1	1,325	876	51.3
EBIT	517	376	37.5	572	346	65.3	1,089	722	50.8
EBIT (Net of Non-controlling Interests)	517	376	37.5	412	198	108.1	929	574	61.8
EBITDA Margin (in %)	28.1%	26.6%	1.5 % pts.	4.1%	2.5%	1.6% pts.	6.3%	4.2%	2.1% pts.
EBIT Margin (in %)	27.5%	25.8%	1.7% pts.	3.0%	1.8%	1.2% pts.	5.2%	3.5%	1.7% pts.
Recurrent Business Profit	472	338	39.6	200	48	316.7	672	386	74.1
Associates and Joint Venture									
Share of EBIT	1,005	989	1.6	(403)	(26)	(1,450.0)	602	963	(37.5)
Share of Profit/(Loss)	457	470	(2.8)	(403)	(33)	(1,121.2)	54	437	(87.6)
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	1,522	1,365	11.5	9	172	(94.8)	1,531	1,537	(0.4)
Profit attributable to Shareholders of the Company									
– Arising from Recurrent Businesses (before Business Development Expenses)							726	823	(11.8)
– Business Development Expenses							(201)	(263)	(23.6)
– Arising from Recurrent Businesses (after Business Development Expenses)							525	560	(6.3)
– Arising from Mainland of China Property Development							49	90	(45.6)
– Total							574	650	(11.7)
Number of passengers carried by our railway subsidiaries, associates and joint venture outside of Hong Kong (in millions)							2,276	2,186	4.1

In the Mainland of China and Macao, recurrent business profit from our railway, property rental and property management subsidiaries increased by 39.6% to HK\$472 million, mainly due to incremental contributions from Macao Light Rapid Transit (“LRT”) Taipa Line O&M and project management services.

In our International businesses, recurrent business profit from our railway subsidiaries increased by 316.7% to HK\$200 million, mainly due to the recognition of profit from Sydney Metro City & Southwest’s Early Works Deed and the reduced loss of MTR Pendeltågen AB.

Our share of profit from our associates and joint venture decreased by 87.6% to HK\$54 million, mainly due to the onerous contract provision made for First MTR South Western Trains Limited.

Excluding Mainland of China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint venture outside of Hong Kong, contributed net after-tax profits of HK\$525 million in 2019 on an attributable basis, a decrease of 6.3% compared with 2018, and represented 10.5% of total 2019 recurrent profits.

RAILWAY BUSINESSES IN THE MAINLAND OF CHINA

Beijing

Our 49%-owned associate, Beijing MTR Corporation Limited, operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and Beijing Metro Line 16 ("BJL16"). On-time performance in 2019 averaged 99.9% across the four lines.

Beijing Metro Line 4 and the Daxing Line

For the year, the combined ridership of BJL4 and the Daxing Line was about 455 million passenger trips, while average weekday patronage was more than 1.35 million, similar to 2018.

Beijing Metro Line 14

The first three phases of BJL14 recorded a combined passenger trips of about 251 million and average weekday patronage of over 788,000 in 2019, an increase of 6% over 2018. Targeted full line opening will be after 2021.

Beijing Metro Line 16

BJL16 is a Public Private Partnership project whose first phase, the 19.6-km Northern Section, commenced operation in December 2016. In 2019, the line recorded about 39 million passenger trips, with average weekday patronage at over 120,000. Full line operation, which will mark the start of the operating concession, is tentatively targeted after 2021.

Shenzhen

Shenzhen Metro Line 4 ("SZL4"), which is operated by MTR Corporation (Shenzhen) Limited, saw patronage grow by 3% to 239 million in 2019, while average weekday patronage rose to 666,000. On-time performance remained at 99.9%.

As noted in previous reports, although patronage has continued to grow on SZL4 there has been no increase in fares since we started operating the line in 2010. In this project, the public sector funding support is in the form of cash grants. At present, the Shenzhen Municipal Government is in the planning process to implement a fare adjustment mechanism. If a suitable fare adjustment mechanism is not put in place in the near future, the long-term financial viability of this line will be impacted.

Our consultancy subsidiary in Shenzhen entered into a project management agreement to supervise construction of the Northern Extension of SZL4, a project that is financed by the Shenzhen Municipal Government. As civil and E&M works made good progress towards the completion of the programme, discussions with the Shenzhen Municipal Government continued with regard to the operational and maintenance arrangements in preparation for its opening at the end of 2020.

Hangzhou

Hangzhou Metro Line 1 and Extension

Our 49%-owned associate in Hangzhou, Hangzhou MTR Corporation Limited, operates Hangzhou Metro Line 1 and its extension. Patronage on this line increased by 9.6% in 2019 to 296 million, with average weekday patronage at 822,000. On-time train performance remained at 99.9%.

Hangzhou Metro Line 5

The 51.5-km Hangzhou Metro Line 5 is an underground metro line that runs from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in the Yuhang District of Hangzhou, with a total of 38 stations.

In June 2019, the initial section of the line went into service and received a positive response from passengers. Total patronage since its opening was 16 million, with an average weekday patronage of 92,000. The latter section, which was still under construction at the end of the year, is targeted to go into service in the first half of 2020.

This project is a PPP contract through a joint venture company, Hangzhou MTR Line 5 Corporation Limited, in which we have a 60% share. Under this PPP contract, the joint venture has responsibility for the trains and E&M systems (including signalling and other systems), architectural finishes, as well as subsequent operations, assets maintenance and renewals for a period of 25 years.

The joint venture company's total investment in this project is estimated at RMB10.9 billion, which will be financed by bank borrowings and equity investments from shareholders. MTR has contributed an equity investment of RMB2.616 billion into this joint venture. The civil works, such as the construction of stations and tunnels, are being undertaken by Hangzhou Metro Group.

PROPERTY BUSINESSES IN THE MAINLAND OF CHINA

Shenzhen

The Tiara residential development at Shenzhen Metro Longhua Line Depot Site Lot 1 comprises a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). More than 98% of the residential units have been sold and handed over to buyers.

TIA Mall held its official opening in August 2019 and the average occupancy rate was 74% during the period.

Tianjin

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of our 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of an approximately 91,000 square metre GFA shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained in July 2017 for the disposal of our 49% interest, and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018. Based on the construction progress, project

completion is expected to be delayed from 2022 to 2024 due to the additional works required for railway safety assurance during basement construction.

Guangdong-Hong Kong-Macao Greater Bay Area

In the Guangdong-Hong Kong-Macao Greater Bay Area, we are providing Transit Oriented Development technical assistance to an associated company of Country Garden Group and Foshan Shunde District Metro Company Limited relating to a mixed-use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province. The completed project will have a total GFA of approximately 391,500 square metres.

Property Rental and Management Businesses

The Company also manages self-developed and other third-party properties in the Mainland of China, with a total managed area of 390,000 square metres as at 31 December 2019. The average occupancy rate of our shopping mall in Beijing, Ginza Mall, was 98% in 2019.

MACAO

Our wholly-owned subsidiary was awarded an MOP 5.88 billion (HK\$5.71 billion) service contract for operating and maintaining the Macao LRT Taipa Line – the first rapid transit system in Macao – over a period of 80 months. The contract covered the line's testing and commissioning activities, operation of train services, as well as the maintenance of trains, the signalling system and other infrastructure.

Commencing service on 10 December 2019, the 9.3-km line now connects 11 stations from the Taipa Ferry Terminal to Ocean Station, and was well accepted by the public.



EUROPEAN RAILWAY BUSINESSES

United Kingdom

TfL Rail/Elizabeth Line

In London, MTR Corporation (Crossrail) Limited (“MTR Crossrail”), a wholly owned subsidiary of the Company, operates the Crossrail operating concession under the TfL Rail brand.

Starting in December 2019, service on 57-km route between Paddington and Reading was commenced, in addition to the existing TfL Rail service between Liverpool Street and Shenfield in the east of London, and between Paddington and Heathrow Airport in the west. As the operator of the line (to be renamed the Elizabeth line upon full line opening), we continue to support Transport for London on its phased opening.

In 2019, the overall performance of TfL Rail was satisfactory and remained one of the most reliable rail services in the UK.

South Western Railway

Through our associate First MTR South Western Trains Ltd, we have a 30% share in the South Western Railway franchise, one of the largest rail networks in the UK, in partnership with FirstGroup plc. The South Western Railway runs 998 km and serves 203 stations across London and southwestern England. In 2019, the financial performance of this franchise continued to suffer for a number of reasons, and we have made an announcement on the provision of GBP43 million against our share of maximum potential loss under the Franchise Agreement.

First MTR South Western Trains Ltd is in discussions with the Department for Transport regarding potential commercial and contractual remedies in respect of the uncertainties affecting the performance of the franchise, including infrastructure reliability, timetabling delays and industrial action. While these discussions are constructive, they remain ongoing. The outcome and therefore the impact on the associate’s ability to continue operating the franchise, is at this stage uncertain.

Sweden

MTR, the largest rail operator in Sweden by passenger volume, operates three key rail businesses in the country: Stockholm Metro, MTR Express and the Stockholm commuter rail service (“Stockholms pendeltåg”).

Stockholm Metro

In 2019, Stockholm Metro continued to register stable operation and satisfactory performance.

MTR Express

MTR Express (Sweden) AB, a wholly-owned subsidiary that operates the MTR Express intercity service between Stockholm and Gothenburg, was ranked the second most innovative company in Sweden on the Swedish Innovation Index. Patronage growth in 2019 was steady with narrowed losses. New marketing initiatives were implemented to stimulate ridership.

Stockholm commuter rail

Our wholly-owned subsidiary, MTR Pendeltågen AB, operates Stockholms pendeltåg, which serves the greater Stockholm area with 54 stations, covering a total route length of 247 km.

The operational and financial performance of this commuter rail service significantly improved in 2019 following the difficulties of 2018. However, MTR Pendeltågen AB will likely remain in a loss-making position for a year or so despite narrowed losses in 2019.

The concession for this service, which was granted to MTR Pendeltågen AB in 2016, runs for ten years to December 2026, with an option for the public transport authority to extend for four more years.

MTR Tech AB and Emtrain AB

The Company’s wholly-owned subsidiary MTR Tech AB, which carries out rolling stock maintenance for Stockholm metro, performed satisfactorily in 2019.

The concession of the Stockholm commuter rail service includes the maintenance of rolling stock, which had been in a 50% shareholding agreement with Euromaint Rail AB through a company known as Emtrain AB. In 2019, MTR Tech AB bought out the other 50% shareholding from Euromaint Rail AB, and Emtrain AB is now a 100%-owned subsidiary of MTR Tech AB.

AUSTRALIA

Melbourne's Metropolitan Rail Service

In Melbourne, our 60%-owned subsidiary Metro Trains Melbourne Pty. Ltd. operates the 409-km Melbourne metropolitan rail network.

The operational performance of the Melbourne metropolitan rail network was affected by network improvement works initiated by the city government, among other issues. We have since made rectification plans and put in place the resources needed to restore service to previous performance levels. Indeed, our good record of performance over the term of the previous franchise was one of the reasons for the renewal of our concession to November 2024, with an option to further extend for a maximum of three years.

Sydney Metro North West Line

In Sydney, MTR is a member of a consortium, Northwest Rapid Transit ("NRT") Consortium, responsible for the design, financing and construction, as well as the operation and maintenance of the Sydney Metro North West Line, the first stage of Sydney Metro.

The 36-km North West Line includes eight new metro stations and five existing stations upgraded to metro standards, and service was commenced in May 2019. A high level of customer satisfaction achieved in its initial period of operation. Equipped with state-of-the-art rail service features such as fully automated (driverless) trains and platform screen doors, it has been commended by the Premier of the New South Wales State Government and well received by the public.

GROWTH OUTSIDE OF HONG KONG

Mainland of China

In Beijing, we were awarded the 49.7-km Beijing Metro Line 17 ("BJL17") O&M concession in December 2019. BJL17 will have 21 stations and serve the east of Beijing. This is a 20-year concession (no later than 31 December 2045) commencing from the first phase opening of the line, which is targeted for the end of 2021. We will lease the rolling stock over the 20-year period, with lease payments to be made in two instalments after the opening of each phase.

A Letter of Intent was signed on 14 January 2020 in which the Company was invited by Chengdu Rail Transit Group to joint-venture with them on station retail businesses. Both parties are looking forward to concluding the deal on the joint-venture agreement(s), subject to a business case assessment that justifies our participation in this new line of business in the Mainland of China.

We continued our efforts to identify development opportunities in Beijing, Hangzhou and, in particular, the Guangdong-Hong Kong-Macao Bay Area.

United Kingdom

In the UK, we submitted a bid for the West Coast Partnership franchise but were unsuccessful.

Nordic Region

In Stockholm, we submitted a bid for the O&M of Roslagsbanan, the commuter network connecting Stockholm and the municipalities north of the city. The result of the bid is expected in the second quarter of 2020.

Australia

In Australia, the NRT consortium, of which we are a member, reached an agreement with the New South Wales Government in November 2019 to conclude the contract for the extension to the existing NRT PPP with Sydney Metro. The NRT PPP contract package includes new metro trains and core rail systems as well as the operations and maintenance component for NRT to operate the combined Metro North West and City and Southwest lines until 2034. MTR will invest in the project and take the lead in the NRT PPP project works and railway operations and maintenance of both the City and Southwest Line and the Metro North West Line as a combined single line from 2024.

Mainland of China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise / Expected Date of Commencement of Operation	Franchise / Concession Period	Total Number of Stations (Number of Stations Managed)	Route Length (km)
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	September 2009	30 years	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	December 2010	10 years	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 to 3: by phases from May 2013 to December 2015 Full Line: Targeted after 2021	30 years from December 2015	Phase 1 to 3: 30 ^{Note 1} Full Line: 37	Phase 1 to 3: 43.8 Full Line: 47.3
Beijing Metro Line 16	49%	Phase 1: O&M Concession Full Line: PPP	Phase 1: December 2016 Full Line: Targeted after 2021	Phase 1: till full line opens Full Line: 30 years	Phase 1: 10 Full Line: 29	Phase 1: 19.6 Full Line: 49.8
Beijing Metro Line 17	49%	O&M Concession	Subject to local government arrangement	20 years after service commencement (no later than 31 December 2045)	Full Line: 21	Full Line: 49.7
Shenzhen Metro Line 4	100%	Build-Operate-Transfer ^{Note 2}	Phase 1 and 2: by phases from July 2010 to June 2011	30 years	Full Line: 15	Full Line: 20.5
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	November 2012	25 years	31	48
HZL1 Extension	49%	O&M Concession	November 2015	End together with HZL1 concession	3	5.6
Hangzhou Metro Line 5	60%	PPP	Initial Section: June 2019 Latter Section: first half of 2020	25 years	Initial Section: 12 Latter Section: 26	Initial Section: 17.8 Latter Section: 33.7
Macao						
Macao Light Rapid Transit Taipa Line	100%	O&M Service Contract	December 2019	80 months	11	9.3
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8 years	Until End 2019: 33 (23) Full line: 41 (32)	Until End 2019: 97 Full line: 118
South Western Railway, United Kingdom	30%	O&M Concession	August 2017	7 years	203 (186)	998
Stockholm Metro, Sweden	100%	O&M Concession	November 2009	8 years till 2017 and 6 years extension till 2023	100	108
MTR Express, Sweden	100%	Open Access Operation	Initial service: March 2015 Full schedule: August 2015	Operating license is subject to renewal	6 (0)	457
Stockholm commuter rail, Sweden	100%	O&M Concession	December 2016	10 years	54 (50)	247
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	November 2009	8 years till 2017 and 7 years extension till 2024	222	409
Sydney Metro North West Line	Mixed	PPP (Operations, Trains & Systems)	May 2019	15 years	13	36
Sydney Metro City and Southwest Line	Mixed	PPP (Operations, Trains & Systems)	Subject to local government arrangement, target in 2024	10 years after service commencement	18	30

Notes:

- 1 BJL14 Phase 2 East Section has 12 stations, 11 opened (one is currently bypassed). BJL14 Phase 3 Middle Section has 11 stations, ten opened (one is currently bypassed).
- 2 Shenzhen Metro Line 4 Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited took over the operation of Phase 1 in July 2010.