



Financial Performance

Introduction

The capital intensive nature of our industry has traditionally made it difficult for railway companies to secure the financing that they need to operate and grow. In this context, it is crucially important that we are able to deliver financial returns for our shareholders while also generating steady revenue streams to finance asset maintenance and service enhancements, construct new railways, and to do so in a way that is consistent with corporate responsibility.

We use a number of proven financing models such as the Rail plus Property model, Public-Private Partnerships and operating franchises to support delivery of high quality railway services over the long term. The [Rail plus Property model](#) and [fares for Hong Kong transport operations](#) are two particularly important components of our financial performance that are highlighted in this section.

In other sections of this report, you can read about how we invest continuously to [maintain, improve and expand our services](#) for customers, and learn about our plans for [construction of new railway lines](#).

Financial Performance Highlights

In 2014, we recorded satisfactory financial performance in our businesses. Total revenue for 2014 grew by 3.7 per cent to HK\$40,156 million. Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payments also increased by 7.1 per cent to HK\$15,423 million. Excluding our Mainland of China and international subsidiaries, revenue increased by 8.1 per cent and operating profit rose by 7.4 per cent, while operating margin decreased slightly by 0.3 percentage point to 53.1 per cent.

Total revenue from Hong Kong transport operations in 2014 was HK\$16,223 million, a 7.0 per cent increase over 2013. Operating costs of the Hong Kong transport operations increased by 9.3 per cent to HK\$9,236 million, resulting in a 4.0 per cent rise in operating profit for this business to HK\$6,987 million, with an

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Please also refer to the [Annual Report](#) to learn more about the financial performance of the Company in 2014.

operating margin of 43.1 per cent.

Total Hong Kong fare revenue in 2014 was HK\$16,066 million, a 7.0 per cent increase over 2013. Of this total, the Domestic Service accounted for HK\$11,318 million or 70.4 per cent. The average fare per passenger on our Domestic Service increased by 2.6 per cent to HK\$7.31. This increase was offset by fare promotions that were provided to passengers throughout the year.

Consolidated data on financial and economic performance is available in the Performance Metrics section of this report.

Did you know?

In 2014, we spent over HK\$6 billion to maintain and upgrade our railway network in Hong Kong. This amount is expected to increase significantly in future years as our network continues to mature.

CONSOLIDATED FINANCIAL PERFORMANCE

TOTAL REVENUE

HK\$40.2 billion

TOTAL ASSETS

HK\$227.2 billion

OPERATING PROFIT

HK\$14.7 billion
(before interest and finance charges)

NET DEBT-TO-EQUITY RATIO

7.6%

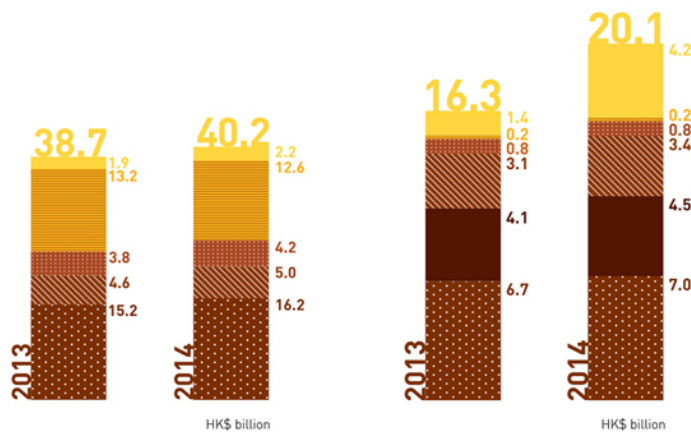
GLOBAL TURNOVER

- Hong Kong transport operations
- Hong Kong station commercial businesses
- Hong Kong property rental and management businesses
- Mainland China and international subsidiaries
- Other businesses

OPERATING PROFIT CONTRIBUTIONS

- Hong Kong transport operations
- Hong Kong station commercial business
- Hong Kong property rental and management businesses
- Mainland of China and international subsidiaries
- Other businesses
- Property development

* Excluding project study and business development expenses

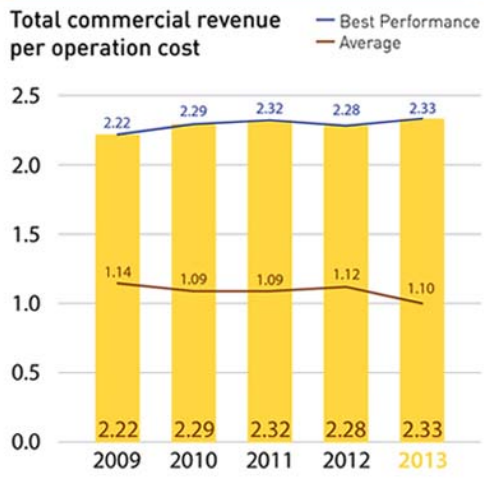


Financial Performance Benchmarking

According to CoMET Benchmarking, we consistently outperform all other participating metros on financial performance measured by capacity provision and utilisation. This result reflects some attributes of the situation in Hong Kong, such as high density of population, as well as the success of our Rail plus Property model, which allows us to operate on a self-sustaining

basis while also maintaining fares at an affordable level.

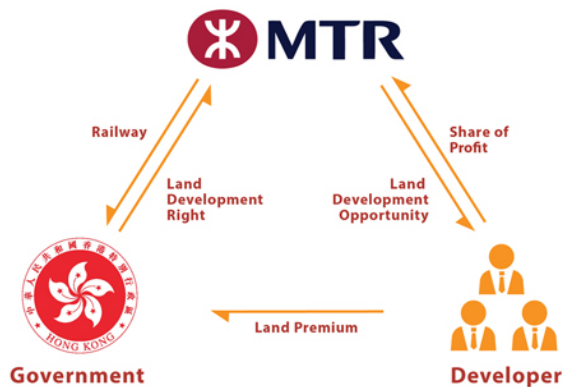
CoMET Benchmarking 2013 for Capacity Provision and Utilisation



Financial Performance

Rail plus Property Model

Our ability to provide a reliable world-class railway service is made possible through our Rail plus Property model. Established 40 years ago for financing our first railway line, the Rail plus Property model continues to be the foundation of our business today. In accordance with this model, we are granted land development rights alongside railway alignments and build integrated communities incorporating residences, offices, shops, schools, kindergartens, green spaces and other public facilities above our stations and depots.



In addition to providing resources for railway operations through recurrent income generated by Rail plus Property assets such as investment properties, the model helps to fill funding gaps when building new railway lines. The system also benefits local residents by providing convenient access to railway services and other facilities.

Transit-Oriented Development

Transit-oriented development (TOD) is an initiative of the Government that has railway at its core. In accordance with this strategy, the framework for public transport in Hong Kong reflects the concept of “rail hubs” supported by secondary modes of road-based transport. One key objective of TOD is to utilise Hong Kong’s limited land resources in a prudent way by promoting intensified development near railway stations. It also aims to facilitate efficient, mass transportation of Hong Kong’s population in an environmentally-friendly way and to make

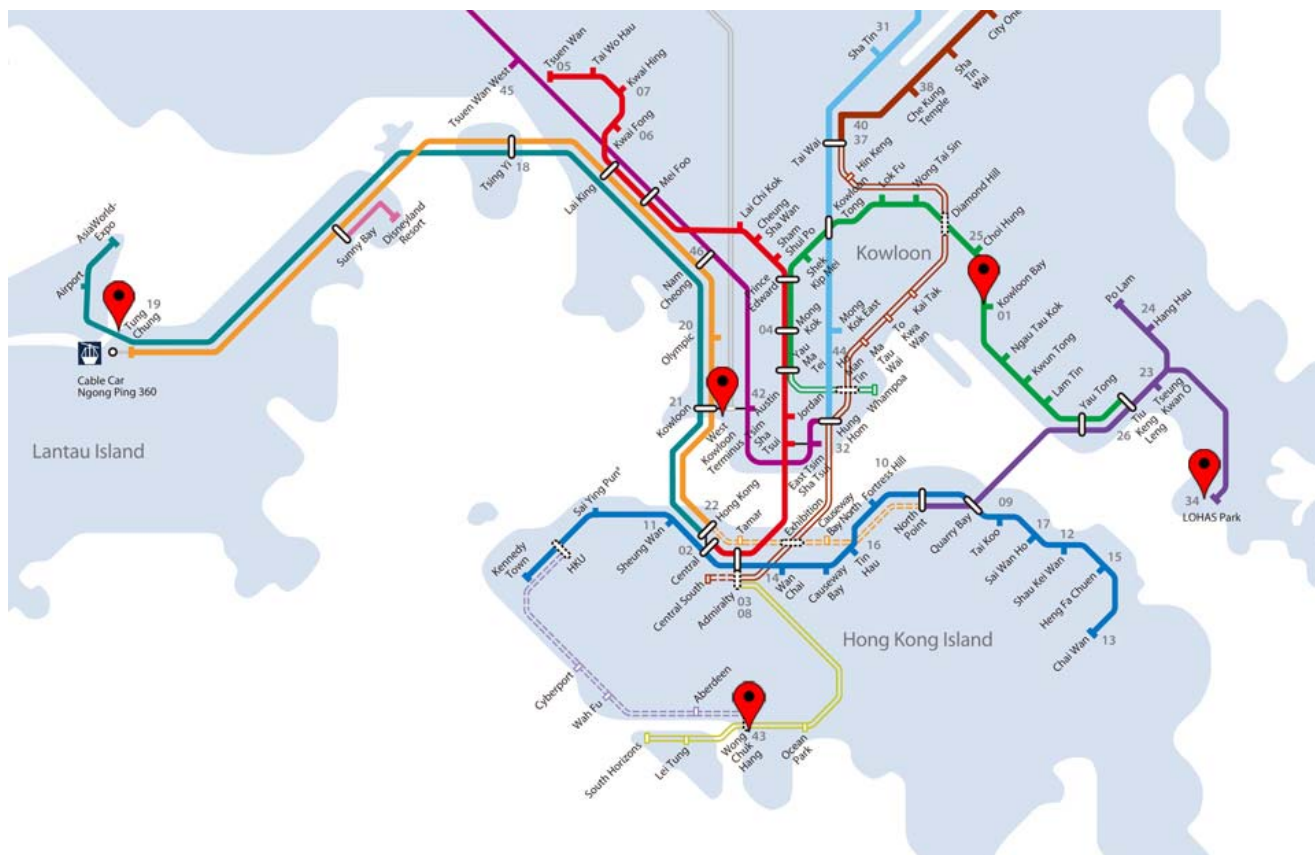
Learn more...

Click [here](#) to access our corporate website for more information about property developments along our railway lines.

optimal use of restricted development opportunities in Hong Kong's built-up areas wherever technically feasible.

As a result of the Rail plus Property model, we have supported TOD at stations all over our network. This map illustrates a few examples of our success stories. Please move the cursor over the marked stations to read more.

MTR's Rail plus Property Success Stories in Hong Kong



Tung Chung - Tung Chung Station is a good example of how TOD works. This station was built along the Tung Chung Line as part of a new town master-plan to create a community of residential housing, retail shops, offices, and a hotel next to the station.

Wong Chuk Hang - The most recent example of the Rail plus Property model development in practice is Wong Chuk Hang Station on the South Island Line (East), which is currently under construction.

West Kowloon - In 1998, Kowloon Station was completed as a key intermediate station of the Airport Express. It is located on reclaimed land in West Kowloon and is seamlessly integrated with the nearby 118-storey International Commerce Centre as well as a residential and retail complex above the station.

Telford Gardens - One of the earliest examples of how TOD has succeeded is Kowloon Bay Station and Depot on the Kwun Tong Line. Completed in the early 1980s, it comprises residential towers with a regional shopping mall and several open spaces well connected to the station.

LOHAS Park - In keeping with our 21st century urban development model, LOHAS Park is being developed as a comprehensively-planned, integrated community. The station itself, which opened in 2009, serves as the

principal transport hub for the area, connecting approximately 60,000 residents via a network of elevated covered walkways. At the end of 2014, 18 out of 50 planned towers were completed as part of the development complex that also includes a 19,000 square metre central park and 330 square metres of seafront promenade.



Looking Beyond Hong Kong

We believe that the Rail plus Property model can be applied successfully in other cities around the world or adapted to suit specific conditions of different markets. In the Mainland of China, for example, we are involved in two rail-related property developments involving the Longhua Line Depot in Shenzhen and another development site in Tianjin. These projects are consistent with plans from the State Council to reform financing of the country's railways.

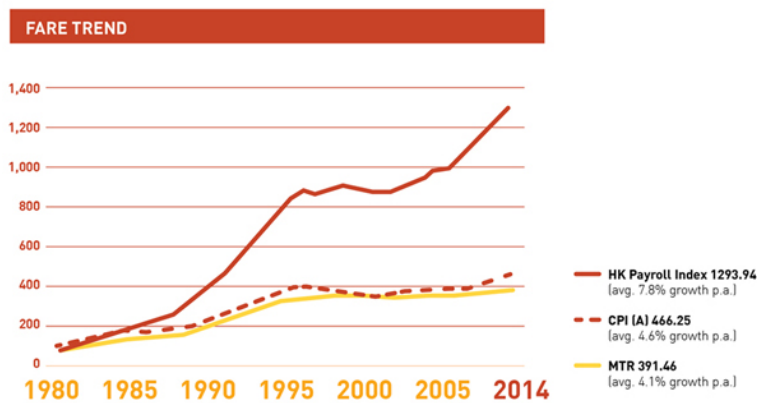


Financial Performance

Fares for Hong Kong Transport Operations

We offer three different classes of fares in our Hong Kong transport operations, namely, Adult, Student and Concessionary. Children below the age of 12, senior citizens 65 years and older, and eligible persons with disability enjoy concessionary fares on all lines. Full-time Hong Kong students between the ages of 12 and 25 are also eligible for concessionary rates.

This chart shows that adjustments to our fares have been in line with long-term consumer price changes and consistently lagged behind wage growth in Hong Kong.



Learn more ...

Please refer to our customer website for the latest information about [Tickets, Fares, Special Schemes, and Frequent User Passes](#).

Did you know?

With implementation of the Government's Public Transport Fare Concession Scheme, elderly people and eligible persons with disabilities can travel on MTR Domestic Services with a **concessionary fare** of HK\$2 per trip. The scheme aims to build a caring and inclusive society by encouraging these groups to participate more in community activities.

Fare Adjustment Mechanism

Fare adjustments are a sensitive issue for many of our stakeholders, particularly those living on low incomes or who depend on our services for convenient transportation to and from remote parts of our city. The Fare Adjustment Mechanism (FAM) was agreed with Government at the time of the rail

merger in 2007. It is designed to meet three key objectives, namely, to ensure that our fares reflect Hong Kong's economic conditions, to address the travelling public's concern about affordability of our services, and to ensure that we generate sufficient revenues to support our operations over the long term.

Learn more...

The Nominal Wage Index is provided by the Census and Statistics Department and measures changes in wage rates of employees up to supervisory level.

Review of the FAM

The FAM is subject to review once every five years, either upon request of the Company or the Government. The first review was completed in 2013, resulting in revisions to the pre-set "Productivity Factor" and new algorithms for determining the amount of funds that we put aside each year for the 10% Same-Day Second-Trip Discount. The next review of the FAM is expected to take place in 2018.

FAM Formula

The FAM is based on an objective, transparent and direct drive formula that allows us to set fares with a measure of predictability and to balance our financial obligations to shareholders with social responsibilities to the community. It takes into consideration the Composite Consumer Price Index (CCPI) and Wage Index, which are published by the Government's Census and Statistics Department, as well as a Productivity Factor that is agreed with Government. This means that passengers will enjoy a share of productivity gains in our business.

Fare Adjustment Mechanism (FAM)

- FAM Formula

$$\text{Fare Adjustment} = 0.5 * \Delta \text{ CCPI} + 0.5 * \Delta \text{ WAGE INDEX} - t$$

- Wage Index: the yearly percentage change in the Nominal Wage Index (Transportation Sector)
- t = productivity

- Productivity Factor

▶ t = greater of zero and 0.5 x CAGR in Productivity over a reference period = 0.6 till 2018

▶ Productivity: $\frac{\text{HK Transport Operations Revenue}}{\text{HK Transport Operations Expenses}}$

Fare Adjustment in 2014

The latest fare adjustment came into effect in June 2014 with an Overall Fare Adjustment Rate of +3.6 per cent, reflecting

- a year-on-year increase in the Nominal Wage Index of 4.1 per cent,
- an increase in the Composite Consumer Price Index of 4.3 per cent; and,
- a Productivity Factor of 0.6 per cent.

As agreed with the Government during the review of the FAM in 2013, the Productivity Factor for five years between 2013 and

2017 will be 0.6 per cent instead of 0.1 per cent, as originally specified before the FAM review. This means that fare increases during this period will be lower each year than they would have been under the original formula.



Concessions and Discounts

In recognition of our 35th Anniversary of passenger services and to thank our customers for their support over the years, in May 2014 we announced a package of fare promotions, including those associated with the FAM. These have an estimated value of approximately HK\$500 million, adding to the annual HK\$2.2 billion worth of ongoing fare concessions and promotions that we already offer today.

Fare Concession Schemes

As part of the review of the FAM in 2013, we agreed to share our commercial success with passengers through schemes that give back a portion of our profits in the form of time-limited fare concessions:

- **Profit-related Fare Concession Scheme** - Each year we set aside a pre-determined amount of money based on a sliding scale referencing the amount of profit that is generated by its underlying business. The money is given directly to customers through the 10% Same-Day Second-Trip Discount.
- **Affordability Discount** - This scheme is designed to provide temporary relief to customers during difficult economic times when the FAM overall adjustment rate (calculated from FAM formula) and the yearly percentage change in Median Monthly Household Income (MMHI) for the 4th quarter of the most recent calendar year are both positive, and the FAM rate is higher than the rate of change of MMHI. We will introduce this discount for a limited period of up to two years to ensure that in any given year the actual increase in fares paid by customers is capped by the yearly percentage change in the prevailing MMHI published by the Government.
- **Service Performance Arrangement** - Each time there is a service disruption of 31 minutes or longer arising from an equipment fault or human error, we put aside a pre-determined amount of money. The amount is based on a sliding scale referencing the length of delay and is given to customers through the 10% Same-Day Second-Trip Discount.

Discounts for Our Passengers

Each day during 2014, more than 1.7 million passengers on average enjoyed the 10% Same-Day Second-Trip Discount for Octopus card holders. We extended this discount scheme for six and a half extra months from 15 October 2014 to 30 April 2015 to thank our customers for their continued support during our 35th year of passenger services.

In June 2014, we launched the first multi-ride smart card, MTR City Saver, designed to save money for regular commuters making medium to long distance cross-harbour journeys within urban areas. The 40 rides scheme proved so popular that nearly 40,000 New MTR City Saver tickets were sold within the first week.

Trial of an Early Bird Discount Promotion was introduced from September 2014 to May 2015 in order to help manage morning peak demand. This promotion offers adult passengers a 25 per cent fare discount if they exit gates between 7:15am and 8:15am on ordinary weekdays at 29 designated stations.

Other discount schemes in 2014 included discounts for outlying island ferry passengers, Monthly Pass Extra and Day Pass. We also offered free travel for elderly and disabled passengers to celebrate Senior Citizen's Day and the International Day of Disabled Persons respectively.



Learn more...

Please refer to [Tickets and Fares](#) on our customer website for the latest concessions and discounts.

