

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

9 railway services in 4 countries

1,940 million passengers carried outside of Hong Kong

Around 6.49 million average weekday patronage outside of Hong Kong



Around 1,960 km operating route length outside of Hong Kong

Our Aims and Achievements

As part of our aim 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 – the Mainland of China, Europe and Australia. In each of these, we aim to become recognised as the best rail operator through focusing on delivering what customers really want.

In 2017, our existing operations in the Mainland of China, the UK, Sweden and Australia continued to improve their reliability and levels of customer satisfaction. During the year, we were awarded South Western Railway franchise in the UK and our concession to operate Melbourne’s Metropolitan Rail Service was extended for seven years. We also signed the concession agreement for Hangzhou Metro Line 5 and handed over the majority of flats from Tiara in Shenzhen, our first property development outside Hong Kong.

Our 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

Our Strategies

- Leverage on 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 of Hong Kong, to achieve our aim of becoming a leading multinational company

BUSINESS REVIEW
MAINLAND OF CHINA AND
INTERNATIONAL BUSINESSES



EBITDA
HK\$3,216m

↑ 237.1%

EBIT
HK\$3,080m

↑ 269.3%

FINANCIAL PERFORMANCE

In HK\$ million	Year ended 31 December		
	2017	2016	Inc./ (Dec.) %
Mainland of China Businesses			
Railway, Property Rental and Property Management Subsidiaries			
Revenue	811	814	(0.4)
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	144	167	(13.8)
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	137	159	(13.8)
Property Development Subsidiaries			
Revenue	6,996	1,348	419.0
EBITDA	2,314	366	532.2
EBIT	2,314	366	532.2
Share of Profit of Associates and Joint Venture	290	226	28.3
International Businesses			
Railway Subsidiaries			
Revenue	16,179	12,664	27.8
EBITDA	758	421	80.0
EBIT	629	309	103.6
Share of Profit of Associates	31	60	(48.3)
Mainland of China and International Businesses			
Total EBITDA	3,216	954	237.1
Total EBIT	3,080	834	269.3
Total EBITDA Margin (in %)	13.4%	6.4%	7.0% pts.
Total EBIT Margin (in %)	12.8%	5.6%	7.2% pts.
EBIT from Mainland of China and International Railway, Property Rental and Management Subsidiaries (net of non-controlling interest) plus Share of Profit from Railway Associates and Joint Venture (before interest and tax)	1,467	888	65.2
Profit for the year attributable to shareholders of the Company:			
– Arising from the Mainland of China and International Railway, Property Rental and Management Businesses	879	516	70.3
– Arising from the Mainland of China Property Development Businesses	1,019	263	287.5
Total	1,898	779	143.6
Number of passengers carried by our Railway Subsidiaries and associates outside of Hong Kong (in million)	1,940	1,828	6.1

In the Mainland of China, EBITDA from our railway, property rental and property management subsidiaries decreased by 13.8% to HK\$144 million in 2017, mainly due to higher operating expenses at Shenzhen Metro Line 4 ("SZL4"). With the handover of high-rise and podium units in Tiara in Shenzhen, the sales proceeds and related costs were booked during the year. In our International businesses, the increase of 80.0% to HK\$758 million in EBITDA from our railway subsidiaries was mainly due to initial profit recognition from the design and delivery works of the Sydney Metro Northwest ("SMNW") Public Private Partnership ("PPP") project, as well as a full-year contribution from

our new franchise, MTR Pendeltågen AB in Sweden, which we took over in December 2016. The decrease in share of profit of associates was mainly due to the end of the concession for London Overground Rail Operations Ltd. in November 2016, partly offset by the contribution from operating the South Western Railway franchise since August 2017. Excluding the Mainland of China property development, our railway, property rental and management subsidiaries, associates and joint venture outside of Hong Kong contributed net after tax profits of HK\$879 million on an attributable basis, representing 10.2% of our total recurrent profits.

RAILWAY BUSINESSES IN THE MAINLAND OF CHINA

Beijing

In Beijing, our 49% associate Beijing MTR Corporation Limited ("BJMTR") operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and the Northern Section of Beijing Metro Line 16 ("BJL16"). On-time performance in 2017 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 451 million passenger trips and average weekday patronage was more than 1.33 million, respectively 2.1% and 3.1% higher than 2016.

Beijing Metro Line 14

The first three phases of BJL14 are now operational. They recorded a combined 220 million passenger trips and average weekday patronage of about 687,000 in 2017. The new Pingleyuan Station on this line opened in December 2017.

Beijing Metro Line 16

BJL16 is a PPP project and the first phase, the 19.6-km Northern Section, commenced operation on 31 December 2016. In

2017 the line recorded 25 million passenger trips and average weekday patronage of about 77,000. Full line operation, which will mark the start of the operating concession, is targeted after 2018. The line's new Nongdananlu Station opened in December 2017.

Shenzhen

SZL4, operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved good operational performance during 2017. Patronage grew by 5.4% to 210 million and average weekday patronage reached 580,000. On-time performance was 99.9%.

As noted previously, although patronage has continued to increase on SZL4, there has been no increase in fares since we started operating the line in 2010. Unlike our rail businesses in Beijing and Hangzhou, MTR(SZ) does not benefit from a shadow fare subsidy mechanism. We understand that discussions continue within the Shenzhen Municipal Government regarding fare adjustments. If appropriate fare adjustments are not implemented soon, the long-term financial viability of SZL4 is expected to be impacted.



Our consultancy subsidiary in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4, which will be financed by the Shenzhen Municipal Government. The civil works continue to make progress towards a project target completion by end of 2020. MTR(SZ) is in discussion with the Shenzhen Municipal Government regarding the operational arrangements for this extension.

Hangzhou

Hangzhou Metro Line 1 and Extension

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited, operates Hangzhou Metro Line 1. Patronage on this line is growing and increased by 13% in 2017 to 225 million, with average weekday patronage of 616,000. Operational performance was excellent, with on-time train performance at 99.9%. The share of loss increased to HK\$68 million in 2017 mainly due to a one-off provision.

Hangzhou Metro Line 5

The Concession Agreement for Hangzhou Metro Line 5 ("HZL5"), another PPP project, was signed by the Company

with the Hangzhou Municipal Government and Hangzhou Metro Group on 26 June 2017. The 51.5 km HZL5 is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in Yuhang District, with a total of 38 stations. It is expected to enter service around the end of 2019.

The construction of the HZL5 project is divided into Part A and Part B. Part A relates to the line's civil construction and Part B covers the electrical and mechanical systems and rolling stock. Hangzhou Metro Group is responsible for the investment in, and construction of, Part A. We and Hangzhou Metro Group formed a joint-venture company in September 2017 to undertake the investment in, and construction of, Part B, as well as the operations and maintenance for 25 years after commencement of passenger service. We have a 60% interest in this joint venture company. The total Part B investment is estimated at RMB 10.9 billion which will be financed by the joint venture company through bank borrowings and equity investments from shareholders. We anticipate an equity investment from MTR of RMB 2.616 billion into this joint venture. Tendering and construction works of the line are now in full swing.



PROPERTY BUSINESSES IN THE MAINLAND OF CHINA

Our property development businesses in the Mainland of China achieved significant growth in revenue and profit due to development bookings related to Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1.

Shenzhen

The previously sold high-rise residential units of Tiara, which form the vast majority of the development, were handed over to buyers in June 2017. The project has a total developable GFA of approximately 206,167 square metres. This includes a retail centre of about 10,000 square metres (GFA), which is scheduled to open in late 2018, subject to approval by the Shenzhen Municipal Government. Profits were booked in 2017 in respect of all the units handed over to buyers.

Tianjin

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal

of the Company's 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of a shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained for the disposal of our 49% interest in July 2017 and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018.

Property Rental and Management Businesses

The Company manages self-developed and other third party properties in the Mainland of China which, as at 31 December 2017, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, is undergoing a partial revamp and was 99% occupied as at 31 December 2017 excluding the area under revamp.

EUROPEAN RAILWAY BUSINESSES

United Kingdom

TfL Rail / Elizabeth Line

In London, MTR Corporation (Crossrail) Limited, a wholly owned subsidiary of the Company, operates services under the "TfL Rail" brand on a 32.5-km, 14-station route between Liverpool Street Station and Shenfield as the first phase in the Crossrail operating concession. The next phase, providing services between Paddington Station and Heathrow Airport, is planned to start in May 2018. TfL Rail will be renamed the Elizabeth Line when the tunnel section through central London is completed and becomes operational, which is targeted for December 2018. It will eventually extend to 118 km from east to west across London and serve 40 stations. Since June 2017, new trains have been progressively introduced into operation.

South Western Railway

Through our associate, First MTR South Western Trains Ltd, we have partnered with FirstGroup plc on the South Western Railway franchise, as a 30% shareholder. The tender was awarded in March 2017 by the Department for Transport ("DfT") and the franchise was taken over in August 2017. South Western Railway is one of the UK's largest rail networks, with a

route length of 998 km serving 203 stations, covering London and south western England. Since taking over the franchise, services have been affected by industrial action, which has been taken across a number of UK franchises at the same time. We have made every effort to maintain our railway services and minimise the associated disruption to passengers.

Sweden

MTR is the largest rail operator in Sweden in terms of passenger volume. We operate three key rail businesses in the country, namely Stockholm Metro, MTR Express and the Stockholm commuter rail ("Stockholms pendeltåg").

Stockholm Metro

The operational performance of Stockholm Metro in 2017 was good, with new highs recorded for operational performance and customer satisfaction. Annual ridership was estimated at 353 million and average weekday patronage at 1.25 million.

MTR Tech AB

The Company's wholly-owned subsidiary MTR Tech AB, which carries out rolling stock maintenance for Stockholm metro, also performed satisfactorily. It was awarded the contract for a mid-life upgrade programme for part of the metro fleet.

MTR Express

MTR Express (Sweden) AB, our wholly-owned subsidiary which operates the MTR Express intercity service between Stockholm and Gothenburg. It delivered excellent operational and customer service performance during the year, making it the leading rail operator in the Swedish Quality Index 2017. Weekly departures have increased to 104 per week since December 2016. Passenger numbers have continued to rise, albeit below our original expectations. As a result, the subsidiary continued to report a loss in 2017, and we are making every effort to stem this loss through increasing patronage by way of continued delivery of quality services, enhanced marketing, and our own loyalty programme.

Stockholm commuter rail

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholms pendeltåg service under a concession that runs for ten years to December 2026, with an option to extend for four more years. The concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate together with EuroMaint Rail AB. Stockholms pendeltåg serves the greater Stockholm area, has 53 stations and a total route length of 247 km. Financial performance has been satisfactory. From an operational and customer service perspective, improvements have been seen since the takeover of the concession, although the introduction of a new timetable in December 2017 proved challenging, resulting in a withholding of service payments by our client. We are working hard to ensure the delivery of our committed service level.

AUSTRALIAN RAILWAY BUSINESSES

Melbourne's Metropolitan Rail Service

In Melbourne, our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM") operates the 390-km Melbourne metro network. Operational performance was satisfactory in 2017, with punctuality recorded at 92%, against 87% when the franchise was taken over in 2009.

The original eight-year concession ended in November 2017, and in September 2017 the Government of Victoria announced the award of a new concession for seven years to MTM, with a three years extension option. Under the new operations and maintenance agreement, MTM is committed to delivering further enhancements to railway operations, asset maintenance and customer service in Melbourne. These enhancements include adding more peak services, increasing maintenance to improve infrastructure and rolling stock reliability, upgrading CCTV cameras, providing more

passenger information, cleaner trains and stations, as well as creating more career opportunities.

Sydney Metro Northwest

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the SMNW PPP project, which is the first stage of Sydney Metro. The 36-km SMNW line includes eight new metro stations and five existing stations upgraded to metro standards. Construction works for the depot and stations, as well as pre-operational planning for the project, are progressing. The first train was delivered to Sydney in September 2017 and has been undergoing testing. Future stages of Sydney Metro will see metro service extending into the central business district, with an ultimate capacity to provide metro train service every two minutes in each direction.

GROWTH INITIATIVES OUTSIDE OF HONG KONG

Mainland of China and Macau

Beijing

MTR signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in November 2016 to conduct joint preliminary studies on integrated property

development above selected existing station and depot sites along BJL4 and the Daxing Line (including the Nanzhaolu Depot). In January 2017 we signed a Letter of Intent ("LoI") with BIIC to extend the strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects.

In November 2017, the Company signed a Lol with the Daxing District People's Government of Beijing Municipality, BIIIC and BJMTR for studies on the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion, and integrated property development above the depot.

BJMTR is also seeking other railway opportunities in Beijing to expand its network further.

Chengdu

In August 2017, we signed a Lol with Chengdu Rail Transit Group covering strategic cooperation on metro, metro related property development and metro operations management training. We are now investigating the metro PPP and transit-oriented development opportunities in the city.

Hangzhou

In Hangzhou, we are in discussion on another metro PPP project and are also exploring metro related property development opportunities.

Guangdong-Hong Kong-Macau Bay Area

We are also in active discussions with local governments and others bodies in Guangdong-Hong Kong-Macau Bay Area to explore rail and property development opportunities around stations and depots that would leverage our experience and track record in Shenzhen and Hong Kong.

In Macau, we were awarded a service contract to provide project management and technical assistance to the 11-station 9.3-km Macau Light Rapid Transit Taipa Line for Gabinete para as Infra-estruturas de Transportes of the Government of the Macao Special Administrative Region in 2016.

United Kingdom

In the UK, we submitted our bid for the Wales and Borders rail franchise in December 2017 and the decision is expected in the second quarter of 2018.

In partnership with Guangshen Railway Company Limited, an associated company of China Railway Corporation, we have been shortlisted to bid for the West Coast Partnership franchise in the UK. The franchisee will operate railway services

on the West Coast Main Line commencing in April 2019. It will also act as the "shadow operator" to advise High Speed Two ("HS2") Limited and DfT on the preparation and operation of the initial HS2 services between London and Birmingham, scheduled to commence in 2026. The tender is expected to be released in the first quarter of 2018.

In addition, we are exploring property development opportunities over and around rail stations in the UK.

Nordic Region

In the Nordic Region, a number of Norwegian rail services will be privatised and we submitted our first tender in March 2018 for the Traffic Package South (Trafikkpakke Sør) Operating Concession in southern Norway.

We are also examining property development opportunities over and around rail stations in Stockholm.

Australia

In Australia, we are pursuing the Sydney Metro City and Southwest ("SMCSW") project, a 30-km extension of SMNW. Early works by Transport for New South Wales ("TfNSW") have commenced and the line is targeted to open in 2024. The SMCSW Consortium, formed by MTR and certain other participants in SMNW, submitted a non-binding initial proposal to TfNSW in March 2017 to participate in the SMCSW project. Subsequently, a commitment deed was entered into with TfNSW in December 2017 which will allow the SMCSW Consortium to submit an updated proposal in late 2018 to deliver and integrate trains and systems, as well as to operate the SMCSW line.

North America

In North America, we were pre-qualified as operator for the Toronto Reginal Express Rail project in Canada in December 2017. The project will transform the existing GO Transit diesel-rail commuter system into an electrified railway network in the Greater Toronto and Hamilton area. The bid process for the project (including the operator) is expected to commence later in 2018.

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 (years)	Number of Stations	Route Length (km)
Projects In Operation						
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	September 2009	30	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	December 2010	10	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 West Section: May 2013 Phase 2 East Section: December 2014 Phase 3 Middle Section: December 2015	30 ^{Note 14}	Phase 1 West Section: 7 Phase 2 East Section: 12 ^{Note 1} Phase 3 Middle Section: 11 ^{Note 1}	Phase 1 West Section: 12.4 Phase 2 East Section: 14.8 Phase 3 Middle Section: 16.6
Beijing Metro Line 16 ("BJL16")	49%	O&M Concession	Phase 1: December 2016	Until full line opens ^{Note 2}	Phase 1: 10 ^{Note 2}	Phase 1: 19.6
Shenzhen Metro Line 4	100%	Build-Operate-Transfer ^{Note 3}	Phase 1: July 2010 Phase 2: June 2011	30	Phase 1: 5 Phase 2: 10	Phase 1: 4.5 Phase 2: 16
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	November 2012	25	31	48
HZL1 Extension	49%	O&M Concession	November 2015	End together with HZL1 concession	3	5.6
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8	40 ^{Note 4}	118
South Western Railway, United Kingdom	30%	O&M Concession	August 2017	7	203 ^{Note 5}	998
Stockholm Metro, Sweden	100%	O&M Concession ^{Note 6}	November 2009	14 ^{Note 7}	100	108
MTR Express, Sweden	100%	Open Access Operation	March 2015 ^{Note 8}	N/A ^{Note 9}	6 ^{Note 10}	457
Stockholm commuter rail, Sweden	100%	O&M Concession ^{Note 11}	December 2016	10	53 ^{Note 12}	247
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	November 2009	15 ^{Note 13}	219	390
Projects In Progress						
BJL14, Mainland of China	49%	PPP	Full Line: After 2018	30 ^{Note 14}	Full Line: 37	Full Line: 47.3
BJL16, Mainland of China	49%	PPP	Full Line: After 2018	30 ^{Note 15}	Full Line: 29	Full Line: 49.8
Hangzhou Metro Line 5, Mainland of China	60%	PPP	2019 ^{Note 16}	25	38	51.5
Sydney Metro Northwest, Australia	Mixed	PPP (Operations, Trains & System)	2019 ^{Note 17}	15	13 ^{Note 18}	36 ^{Note 18}

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 The O&M concession of BJL16 Phase 1 will run until full line opens.
- 3 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.
- 4 MTR Crossrail will manage 28 out of the total 40 stations in the Elizabeth Line.
- 5 First MTR South Western Trains manages 186 out of the total 203 stations in the South Western Railway.
- 6 Rolling stock maintenance is provided by our subsidiary MTR Tech AB.
- 7 In September 2015, the eight-year operating concession of Stockholm Metro was extended for another six years (from 2017 to 2023) to a total of 14 years by Stockholm authority.
- 8 MTR Express initial service commenced on 21 March 2015 with full schedule started in August 2015.
- 9 The license to operate this service is subject to renewal.
- 10 MTR Express is not responsible for the management of these stations.
- 11 Rolling stock maintenance is provided by a 50:50 joint venture between MTR Nordic and EuroMaint Rail AB.
- 12 MTR Pendeltågen AB manages 50 out of the total 53 stations in the Stockholm commuter rail.
- 13 In September 2017, the eight-year operating concession of Melbourne's Metropolitan Rail Service was extended for another seven years (from 2017 to 2024) to a total of 15 years by the State Government of Victoria in Australia.
- 14 BJL14 PPP concession started on 31 December 2015.
- 15 BJL16 PPP concession will start after full line opens.
- 16 Subject to Hangzhou Municipal Government's arrangement.
- 17 Subject to arrangement of the government of New South Wales, Australia.
- 18 Sydney Metro Northwest has eight new stations and five retrofitted stations, and a 13-km existing line extended with a 23-km new line construction.