

MTR Corporation - 2005 Annual Results



Results highlights and business overview

Mr CK Chow, CEO





2005 – Sustaining strong performance

- Strong economy in Hong Kong
- Positive sentiment in the property market
- Strategies in non-fare business generating business results
- Achievements in overseas growth strategy

■ Record high patronage

■ Property rental growth supported by positive rental reversions and expanding portfolio

■ Strong performance in non-fare businesses

■ Milestones achieved in China

■ Strong property development profits

■ Improved EBITDA margin

Financial performance



(HK\$m)	2005	2004 (restated)	Change
Total revenue	9,153	8,351	9.6%
EBITDA ⁽¹⁾	5,101	4,529	12.6%
EBITDA margin	55.7%	54.2%	1.5%pt
Property development profit	6,145	4,568	34.5%
Underlying profit (excl inv. property revaluation)	6,140	4,492	36.7%
Post-tax investment properties revaluation	2,310	2,051	12.6%
Reported net profit attributable to equity shareholders	8,450	6,543	29.1%
Reported EPS (HK\$)	1.55	1.23	26.0%
Underlying businesses EPS (HK\$)	1.13	0.84	34.5%
Final dividend per share (HK\$)	0.28	0.28	

(1) EBITDA before property development profits

Business review

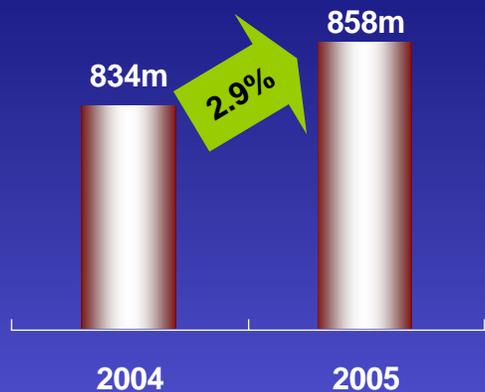
Railway



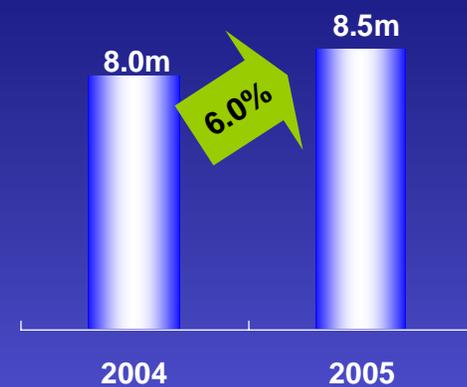
Record high patronage



Patronage – MTR Lines



Patronage – Airport Express



Average fare – MTR Lines



Average fare – Airport Express



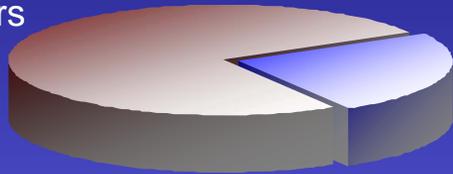
Market share



Franchised public transport

2004

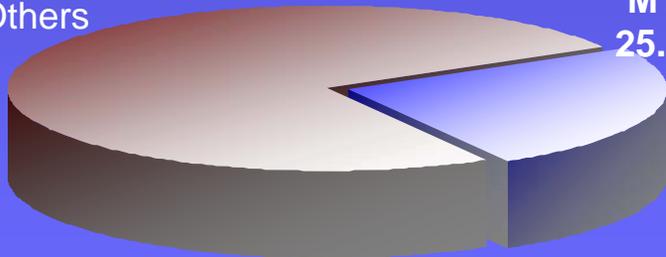
Others



MTR
24.8%

2005

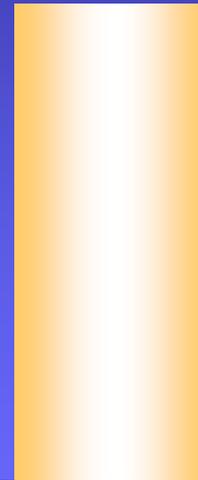
Others



MTR
25.2%

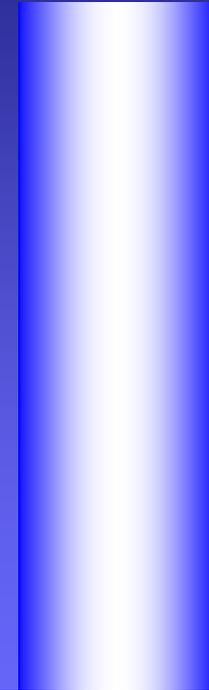
Cross-harbour

59.6%



2004

61.2%



2005

Rail operations



- **Network enhancement**
 - Disneyland Resort Line commenced service on 1 Aug
 - AsiaWorld-Expo Station opened in Dec 2005
- **Other operational improvements**
 - Platform screen door project substantially completed
 - Renovation of eight more stations
 - Improved station access through new pedestrian links
- **Maintain non-stop and enhanced service during WTO Ministerial Conference**

Business review

Non-fare businesses

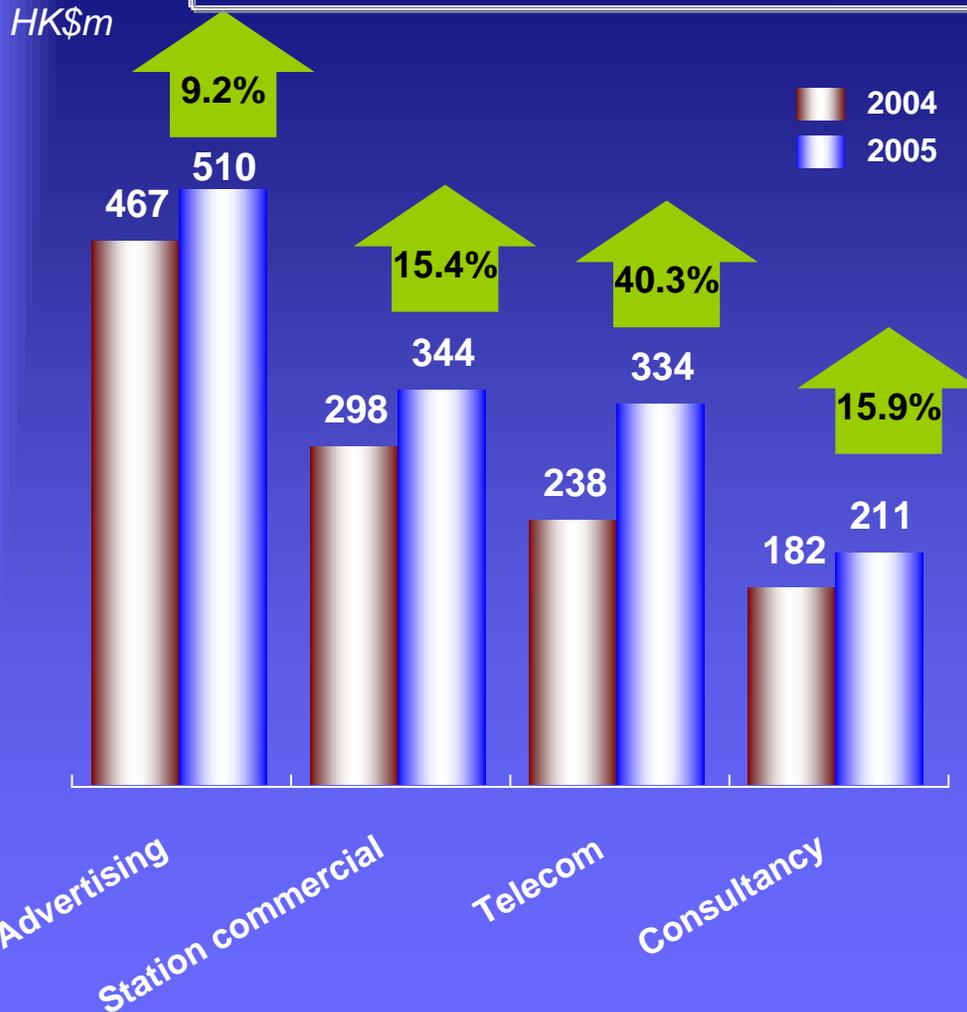


Non-fare businesses



Station commercial & other revenue:
HK\$1,555m

↑ 18.6%



Advertising

- Innovative format introduced

Station commercial

- Higher rental rates with 2% net increase in station shops floor area to 19,070 m²

Telecommunications

- One-off early termination payment from a telecom operator
- Full 3G coverage achieved

Octopus

- Significant investment in new businesses (e.g. Octopus Rewards)
- MTR's share of earnings amounted to HK\$40m

External Consultancy

- Focused consulting strategy
- Revenue increased 15.9% to \$211m

Business review

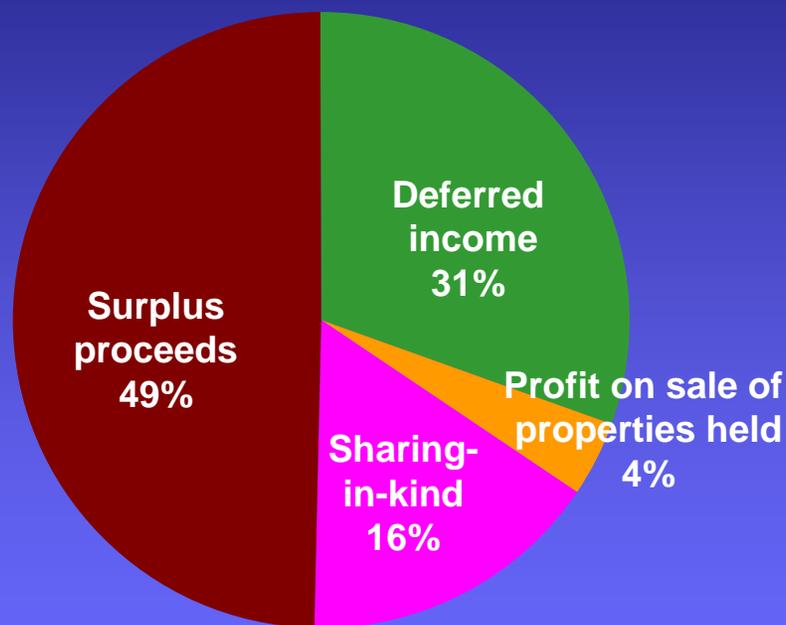
Property



Property development



Property development profit
HK\$6,145m



- Strong market response to sales & presale of The Arch, Harbour Green, Grandiose and other Tung Chung developments
- Major profit contributors in 2005:
 - Deferred income mostly from Tung Chung developments & Harbour Green at Olympic
 - Surplus proceeds contributed mainly from The Arch
 - Sharing-in-kind from Phase 1b of Elements and “The Lane” in Hang Hau
 - Higher selling price on properties held for sale
- Award of Packages One and Two of Area 86

Property rental and management



Property rental & management

revenue: HK\$1,316m

 18.8%

HK\$m



- Opening of the Lane in Hang Hau
- Full occupancy in all 5 shopping centers and MTR's 18 floors of Two IFC
- Increased share of rental from Telford Plaza II
- Shopping centers rent renewal increased at an average of 15%
- Good response for pre-letting of Elements, and The Edge at TKO
- Expanded property management portfolio:
 - Residential: increased 10.3% from end of 2004 to 54,358 units
 - Commercial and office space: 562,296 m²

Other growth opportunities



UK/Europe

Mainland of China

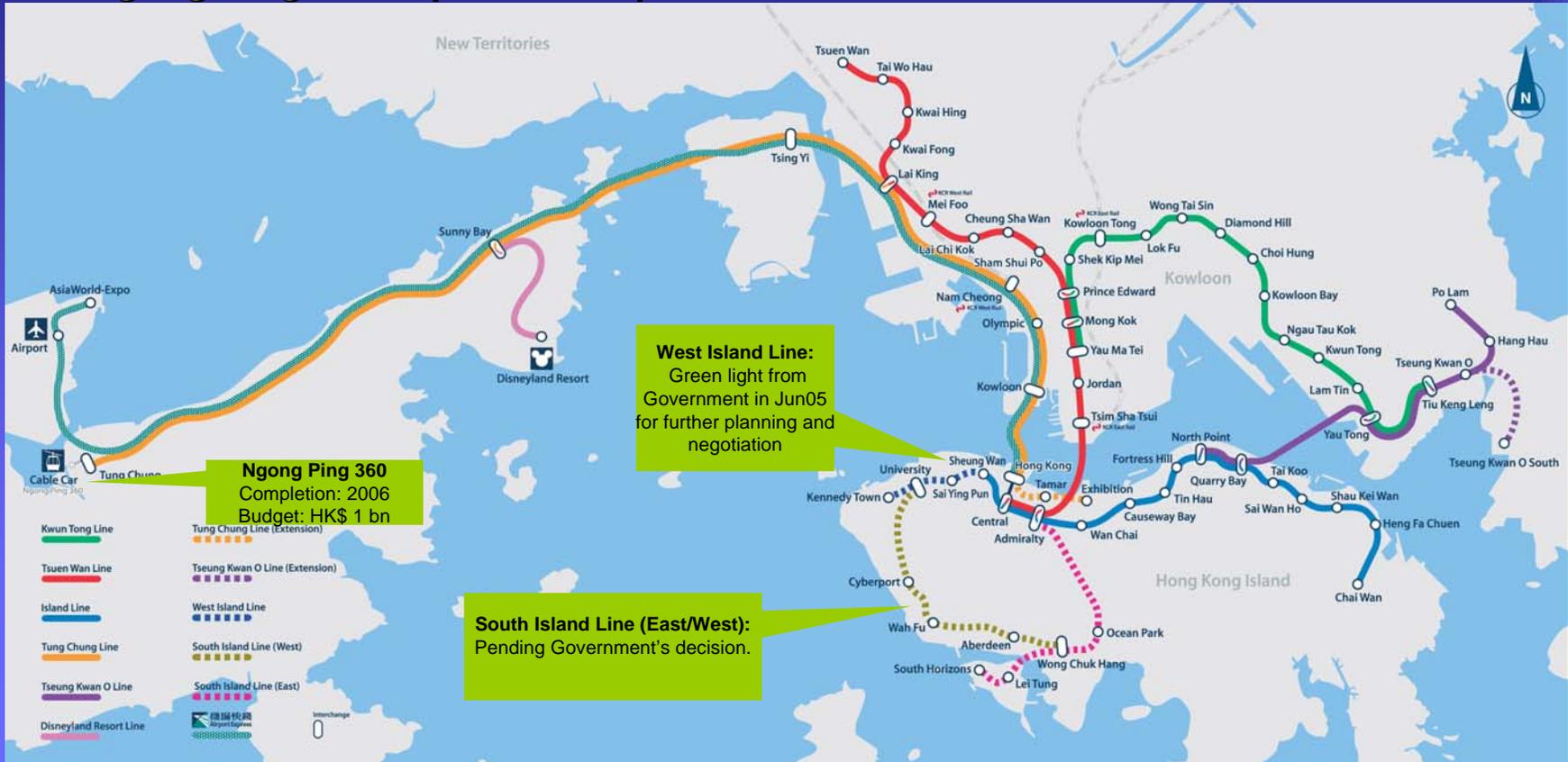
Hong Kong





New Projects in Hong Kong

- Government requested MTR to further plan and prepare for West Island Line in June 2005
 - Strong community support
 - Preliminary design started; active discussion with Government on funding arrangement
- Continue to pursue South Island Line (East)
- Ngong Ping 360 expected to open in mid 2006



Growth outside of Hong Kong



Mainland of China

Strategy: BOT focus on major cities, capital intensive

Beijing

- All approvals obtained and PPP business license issued for L4
- Tendering of train and E&M systems to commence

Shenzhen

- Initialled Concession Agreement of L4 in May 2005, awaiting Central Government approval
- Exploration of other opportunities

Wuhan

- MOU with Wuhan Municipal Government for the Wuhan metro network

UK / Europe

Strategy: Asset-light approach, focus on operating franchise only

- Continue to bid for train operating franchises in UK / Europe

Merger



- **Joint Merger Report submitted on 16 September 2004 and is being considered by the Government**
- **Continued negotiation with the Government on merger terms**
- **The Company maintains that, on the right terms, a merger between MTR and KCRC will benefit all stakeholders**
- **Merger will be subject to the approval of independent shareholders**

Financial Results

Mr Lincoln Leong, Finance Director



Income statement



<i>(HK\$m)</i>	<u>2005</u>	<u>2004</u> <i>(restated for new accounting standard)</i>	<u>% change</u>
Fare revenue	6,282	5,932	5.9
Non-fare and rental and management income	2,871	2,419	18.7
Turnover	9,153	8,351	9.6
Operating expenses	(4,052)	(3,822)	(6.0)
EBITDA	5,101	4,529	12.6
Property development profits	6,145	4,568	34.5
Total operating profit	11,246	9,097	23.6
Depreciation	(2,682)	(2,499)	(7.3)
Interest	(1,361)	(1,450)	6.1
Investment properties revaluation	2,800	2,486	12.6
Profit from non-controlled subsidiaries & associates	9	39	(76.9)
Profit before tax	10,012	7,673	30.5
Taxation	(1,549)	(1,130)	(37.1)
Reported net profit attributable to equity shareholders	8,450	6,543	29.1
Reported earnings per share (\$)	1.55	1.23	26.0
Profit from underlying businesses (excl. inv. property revaluation net of deferred tax)	6,140	4,492	36.7
Underlying businesses EPS (\$)	1.13	0.84	34.5
Final dividend per share (\$)	0.28	0.28	-

Segmental income statement of underlying businesses



<i>(HK\$m)</i>	<u>2005</u>	<u>2004</u> <u>(restated for new</u> <u>accounting standard)</u>
Railway and related businesses	(16)	(317)
Property investment and management	1,074	897
Property developments	6,145	4,568
Tax and others (*)	(1,063)	(656)
	<hr/>	<hr/>
Underlying net profit attributable to equity shareholders	<u><u>6,140</u></u>	<u><u>4,492</u></u>

Note:

All segmental incomes shown are pre-tax profits

* Excludes deferred tax on investment property revaluation

Balance sheet



<i>(HK\$m)</i>	<u>31 Dec 2005</u>	<u>31 Dec 2004</u> <u>(restated)</u>
<u>Assets</u>		
Fixed assets	83,383	83,005
Investment properties	19,892	16,687
Railway construction in progress	1,006	962
Property development in progress	2,756	2,088
Cash and cash equivalents	359	269
Debtors, deposits and payments in advance	3,095	1,276
Others	<u>3,175</u>	<u>2,387</u>
	<u>113,666</u>	<u>106,674</u>
<u>Liabilities</u>		
Debt	28,264	30,378
Deferred income	3,584	4,638
Deferred tax liabilities	8,011	6,368
Others and minority interests	<u>3,932</u>	<u>3,398</u>
	<u>43,791</u>	<u>44,782</u>
<u>Total equity</u>	<u>69,875</u>	<u>61,892</u>

Strong cash flow



<i>(HK\$m)</i>	<u>2005</u>	<u>2004</u> <u>(restated)</u>
Cash from operations	5,189	4,486
Receipts from property	<u>2,610</u>	<u>2,576</u>
Total inflows	7,799	7,062
Capital expenditure	(2,294)	(2,889)
Half land premium for Area 86 package 1	(1,160)	-
Interest paid	(1,416)	(1,301)
Working capital adjustments	(106)	(306)
Dividends paid	(1,138)	(1,079)
Total outflows (*)	<u>(6,114)</u>	<u>(5,575)</u>
Net cash generated	1,685	1,487

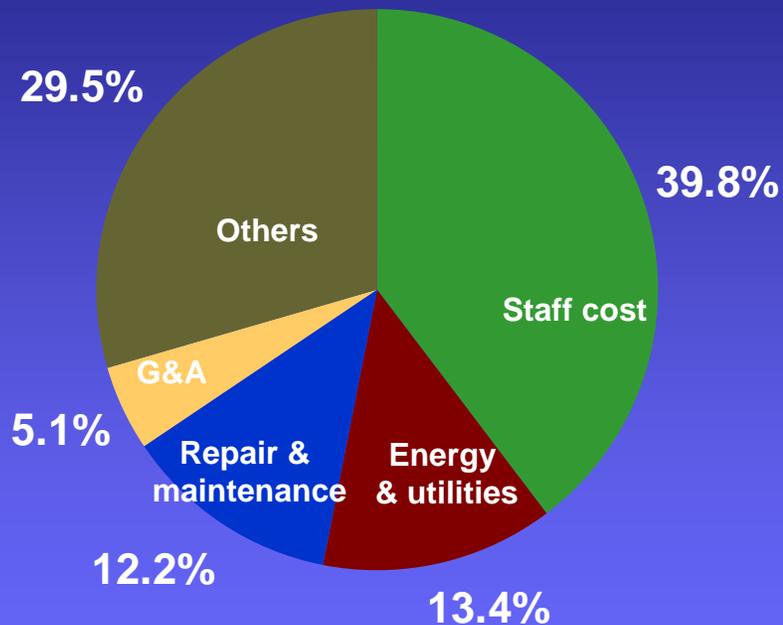
* Cash outflows to meet financial obligations and capital investment



Operating expenses

Total operating expenses before interest and depreciation:
HK\$4,052m

 6.0%



Operating margin improvement

■ from 54.2% in 2004 to 55.7% in 2005

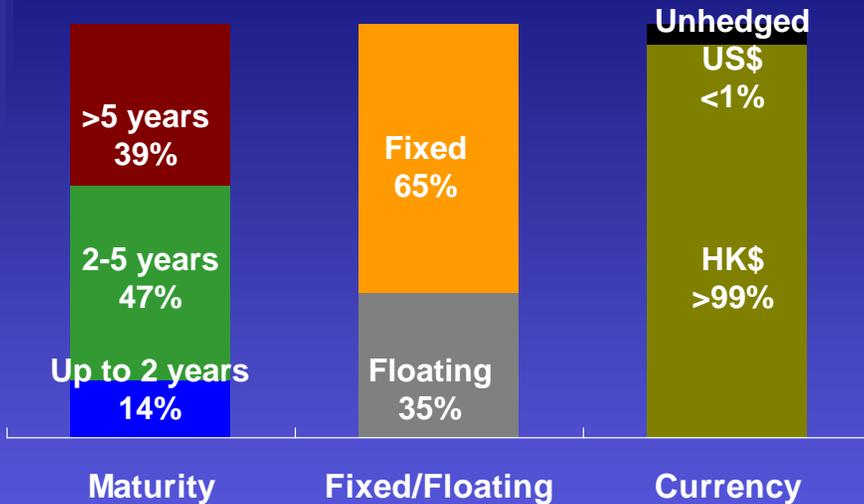

Operating margin:
1.5% pt

Compared to 2004 figures



Financing and credit ratios

Debt profile (31 December 2005)



- Total loan outstanding: HK\$28,264m, down HK\$2,114m from 31Dec 2004

- Average borrowing cost: 5.1%

0.4%
point

- Net interest expense : HK\$1,361m

6.1%

Compared to 2004 figures

- Arranged non-recourse long term RMB bank loans for Shenzhen L4 and Beijing L4, totalled RMB6.8bn

December 2005

December 2004

Debt/Equity ratio

40.4%

49.1%

Interest coverage

7.6x

6.1x

Outlook



Outlook for 2006



■ Rail operations

- Continued economic growth should support patronage growth
- Full year impact of Disneyland Resort Line

■ Non-fare businesses

- Opening of Ngong Ping 360
- Station commercial and property rental growth likely to be constrained, partly due to non-recurring items in 2005

Outlook for 2006 (cont'd)



■ Property development

- **Development profits will depend on pre-sale, construction progress and Occupation Permit (OP) issuance**

Airport Railway

- Bulk of deferred income balance (\$3.4bn) likely to be recognised over next two years
- Small 7,685 m² of gross retail area to be received as Phase 2A of Elements

TKO

- OP received for Grandiose in January 2006 and profit to be recognised in 1H06
 - OP for Phase 1 of Metro Town likely in 2006
 - Recognition of profits for small development at Central Heights depends on sales progress
- **Depending on market conditions, additional packages in TKO Area 86 and Area 56 may be tendered later this year**

Forward-looking statements



Certain statements contained in this presentation may be viewed as "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of MTR Corporation Limited (the "Company") to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC.