

# MTR Corporation

## 2006 Annual Results

13 March 2007



# Results highlights and business overview

Mr. CK Chow, CEO



## Solid achievements in 2006

### Recurring businesses

- Steady growth in rail and non fare business
- Ngong Ping 360 commenced in September

### Overseas growth

- Overseas growth began to take root.

### Property

- Benefited from steady property market and good sales progress in our development projects
- Positive rental reversion and full occupancy in expanding investment portfolio

### Merger

- Signing of MOU on the proposed rail merger in April 2006
- Integration planning is proceeding in parallel with legislative process

# Financial performance

(HK\$m)	2006	2005	Change
Total revenue	9,541	9,153	 4.2%
EBITDA	5,201	5,101	 2.0%
EBITDA margin	54.5%	55.7%	 -1.2%pt
Property development profit	5,817	6,145	 -5.3%
Underlying profit (excl post-tax inv. property revaluation)	5,962	6,140	 -2.9%
Reported net profit attributable to equity shareholders	7,759	8,450	 -8.2%
Underlying businesses EPS (HK\$)	1.08	1.13	 -4.4%
Final dividend per share (HK\$)	0.28	0.28	

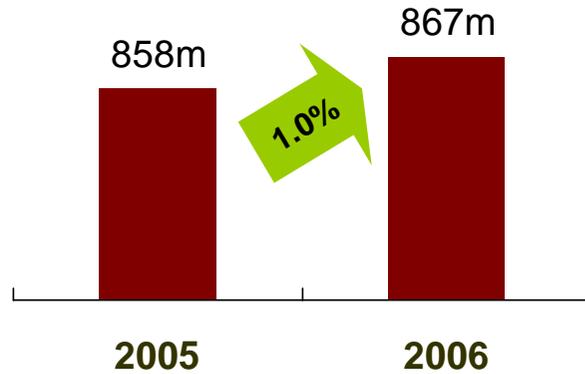
# Business Review

## - Railway

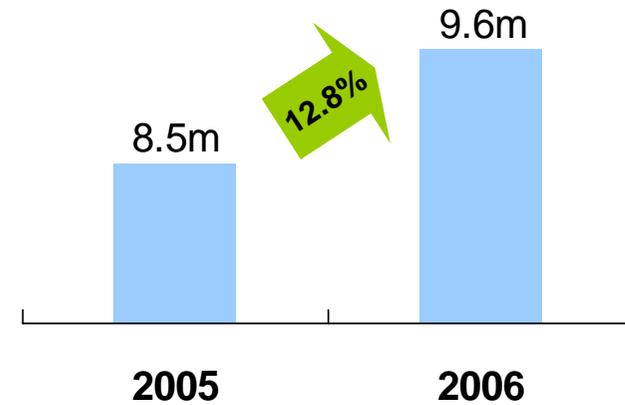


# Patronage and average fare

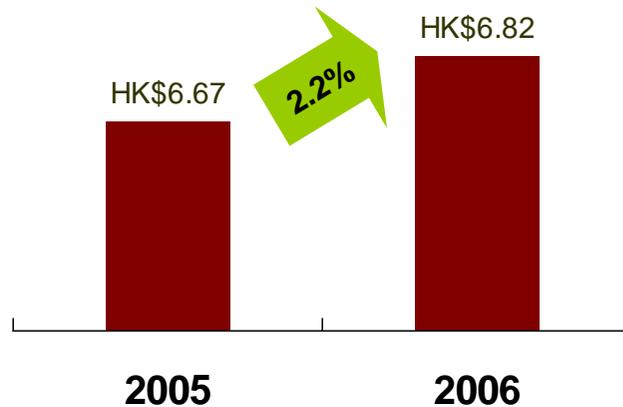
## Patronage – MTR Lines



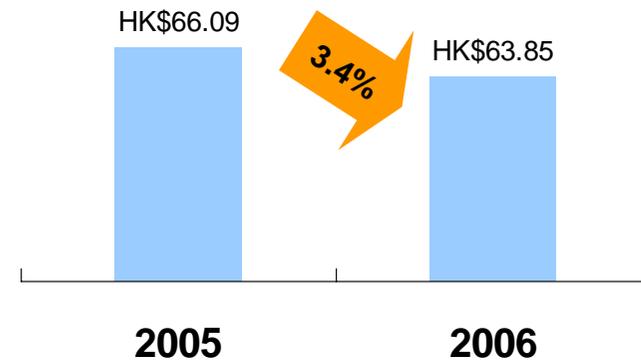
## Patronage – Airport Express



## Average fare – MTR Lines



## Average fare – Airport Express



# Rail operations enhancement

- Station improvement
  - Completion of platform screen door project for all 74 platforms in underground stations
  - Improved station access through opening of four new entrances at Choi Hung, Kwai Fong, Tiu Keng Leng, and Admiralty stations
- Opening of new departure platform to Sky Plaza in Hong Kong International Airport
- Increased frequency of Tung Chung Line

# Business Review

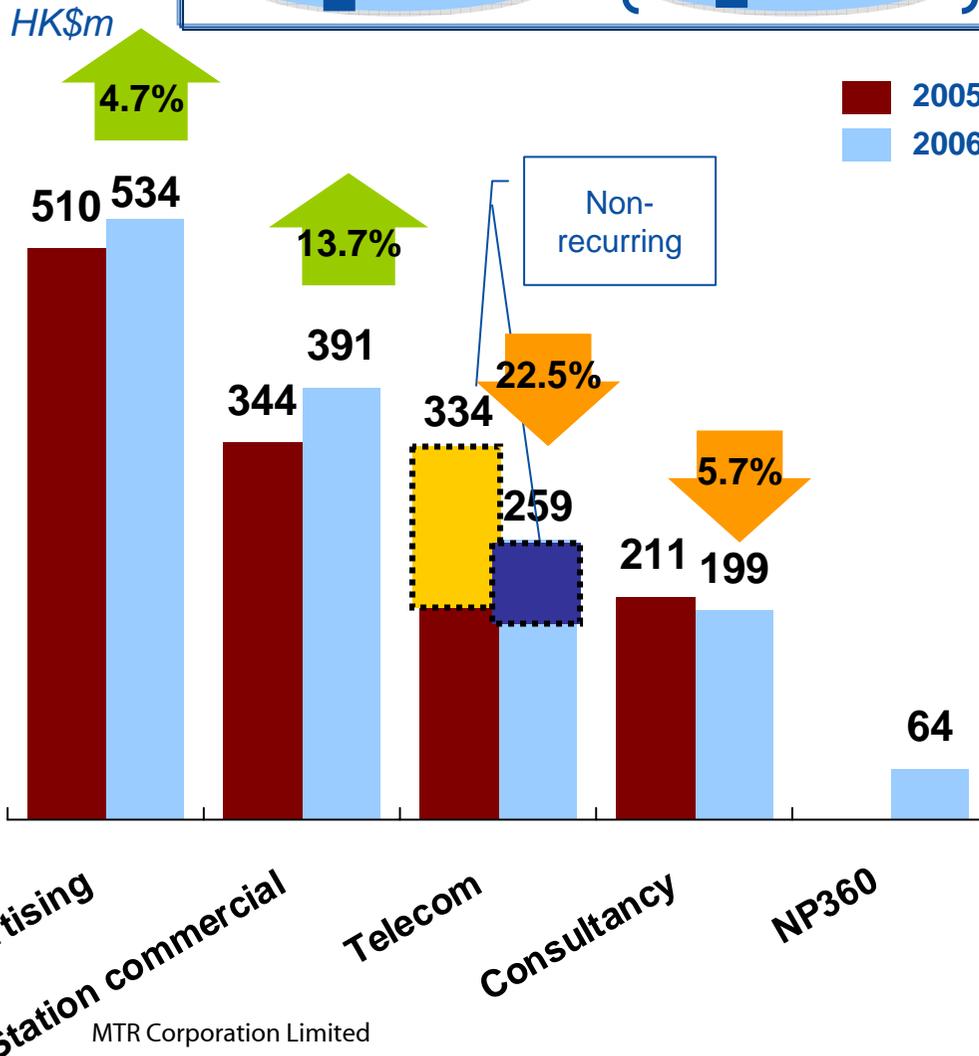
## - Station commercial and other businesses



# Station commercial and other businesses

Station commercial & other businesses: HK\$1,606m  
 Excluding one-off incomes

↑ 3.3%      ↑ 8.0%



## Advertising

- Slower market growth in 2H06
- Innovative format introduced, MTR market share gained

## Station commercial

- Higher rental rate from better shops and mix, offsetting temporary net loss of retail space
- Total kiosks area 16,900 sq m

## Telecommunications

- Comparison distorted by one-off gain in 2005
- 2G/3G cannibalization continued

## Ngong Ping 360

- Received over 1 million visitors since opening in Sept 06
- Becoming a very popular tourist attraction

## External Consultancy

- Revenue dropped 5.7% to HK\$199m from a more focused strategy

## Octopus

- MTR's share of post-tax earnings amounted to HK\$68m, up 70%

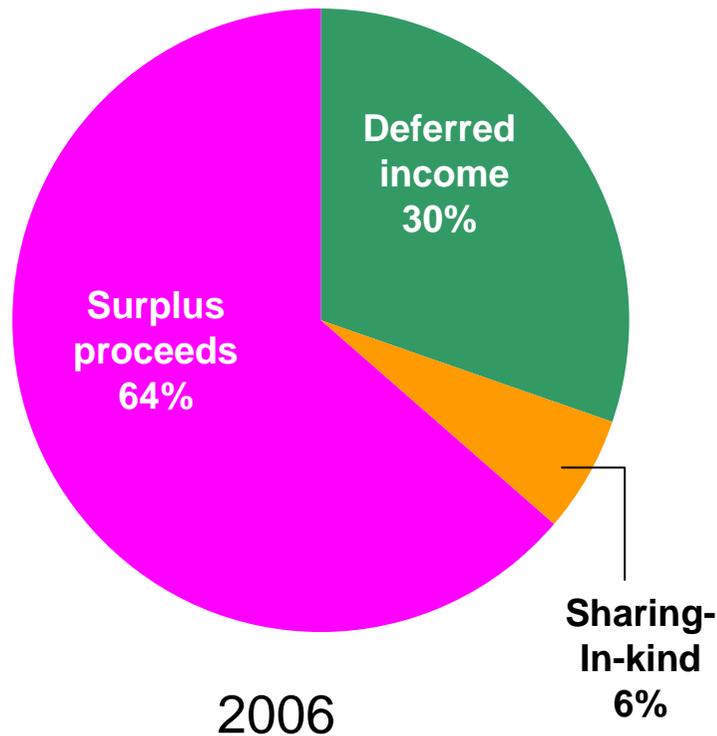
# Business Review

## - Property



# Property development

Property development profit  
HK\$5,817m

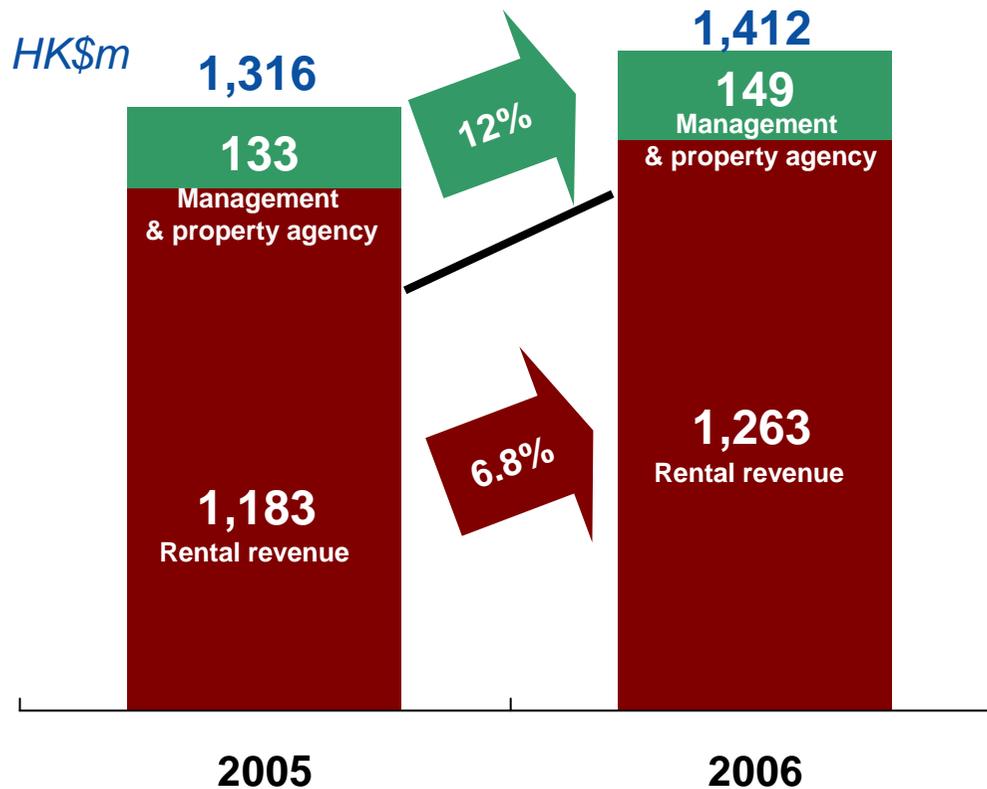


- Major profit contributors:
  - Surplus proceeds mainly from the Grandiose, Metro Town and Central Heights
  - Deferred income mostly from Tung Chung developments, Harbour Green at Olympic and fitting-out of the Elements
  - Received further 7,609 sq m of Elements as sharing-in-kind
- Package 2 of Area 86 awarded to a subsidiary of Cheung Kong in January 2006
- Area 56 in TKO was awarded to a subsidiary of Sun Hung Kai Properties in February 2007

# Property rental and management

Property rental & management  
revenue: HK\$1,412m

↑ 7.3%



- Opening of sixth shopping center – the Edge in TKO
  - Total lettable floor area of investment property portfolio totalling 175,000 sq m\*
- Average of 16% growth achieved in the rental renewal of shopping centers
- Opening of Ginza Mall in Beijing in January 2007
- Strong growth in property management with revenue increased 12% to HK\$149m

\* Area attributable to the Company  
MTR Corporation Limited

# Growth opportunities



# New projects in Hong Kong

- West Island Line:
  - Completed preliminary design study
  - Continued negotiation with Government on funding support and implementation plan
- South Island Line (East):
  - Proposal remains with Government for consideration
- Tseung Kwan O South Station
  - Construction underway for completion in 2009

# Growth outside of Hong Kong

## Mainland of China

**Strategy: focus on major cities, capital intensive**

### Beijing Line 4

- Concession Agreement signed in April 2006
- All major contracts awarded, construction underway
- Target for completion in 2009

### Shenzhen

- Awaiting final approval from NDRC for Line 4

### Other potential projects

- Continue to explore opportunities in other cities including Beijing, Shenzhen, Wuhan, Hangzhou and Suzhou

## UK / Europe

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

- Entered final stage of selection for London Rail Concession
- Submitted bid for Öresundståg concession in Sweden and Denmark jointly with a Swedish railway company SJ

NDRC: National Development and Reform Commission

# Proposed rail merger with KCRC

- Signing of a MOU with the HKSAR Government on 11 April 2006, setting out the terms of the proposed merger of the operations of MTR and KCRC and the acquisition of a property package
- Rail Merger Bill introduced to LegCo on 5 July 2006. Bills Committee in session.
- Working groups at all functions and levels were formed to plan integration.
- An Independent Committee of the Board has been formed to advise independent shareholders on the proposed transaction
  - An Independent Financial Advisor will be appointed
- This transaction will be subject to the approval of independent shareholders

# Financial Results

Mr. Lincoln Leong, Finance Director



# Income statement

<i>(HK\$m)</i>	<u>2006</u>	<u>2005</u>	<u>% change</u>
Fare revenue	6,523	6,282	3.8
Non-fare and rental and management income	3,018	2,871	5.1
Turnover	9,541	9,153	4.2
Operating expenses	(4,340)	(4,052)	(7.1)
<b>EBITDA</b>	<b>5,201</b>	<b>5,101</b>	<b>2.0</b>
Property development profit	5,817	6,145	(5.3)
Total operating profit	11,018	11,246	(2.0)
Depreciation	(2,674)	(2,682)	0.3
Interest	(1,398)	(1,361)	(2.7)
Investment properties revaluation gain	2,178	2,800	(22.2)
Profit from non-controlled subsidiaries & associates	45	9	400.0
Profit before tax	9,169	10,012	(8.4)
Taxation	(1,411)	(1,549)	8.9
Reported net profit attributable to equity shareholders*	7,759	8,450	(8.2)
Reported earnings per share (HK\$)	1.41	1.55	(9.0)
<b>Profit from underlying businesses</b> (excl. inv. property revaluation net of deferred tax)	<b>5,962</b>	<b>6,140</b>	<b>(2.9)</b>
<b>Underlying businesses EPS (HK\$)</b>	<b>1.08</b>	<b>1.13</b>	<b>(4.4)</b>
Final dividend per share (HK\$)	0.28	0.28	-
Total dividend per share (HK\$)	0.42	0.42	-

# Segmental income statement of underlying businesses

<i>(HK\$m)</i>	<u>2006</u>	<u>2005</u>
Railway and related businesses	69	(16)
Property investment and management	1,096	1,074
Property developments	5,781	6,145
Tax and others (*)	(984)	(1,063)
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<b>Underlying net profit attributable to equity shareholders</b>	<b>5,962</b>	<b>6,140</b>
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Note:

All segmental incomes shown are pre-tax profits. Interest cost relating to the interest-free loan to developer has been allocated to property development.

\* Excludes deferred tax on investment property revaluation

# Balance sheet

<i>(HK\$m)</i>	<u>31 Dec 2006</u>	<u>31 Dec 2005</u>
<b><u>Assets</u></b>		
Investment properties	22,539	19,892
Fixed assets	84,404	83,383
Railway construction in progress	232	1,006
Property development in progress	3,297	2,756
Cash and cash equivalents	310	359
Debtors, deposits and payments in advance	1,894	3,095
Loan to a property developer	3,355	-
Properties held for sale	2,018	1,311
Others	<u>2,372</u>	<u>1,864</u>
	<u>120,421</u>	<u>113,666</u>
<b><u>Liabilities</u></b>		
Debt	28,152	28,264
Deferred income	1,682	3,584
Deferred tax liabilities	9,453	8,011
Others	<u>4,348</u>	<u>3,911</u>
	<u>43,635</u>	<u>43,770</u>
<b><u>Total equity</u></b>	<b><u>76,786</u></b>	<b><u>69,896</u></b>

# Cash flow

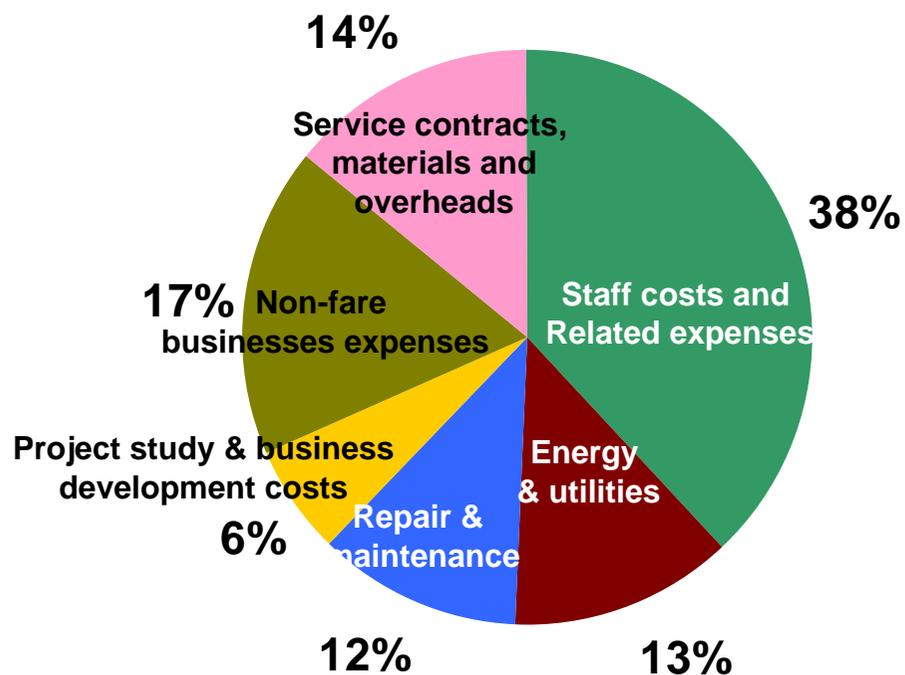
<i>(HK\$m)</i>	<u>2006</u>	<u>2005</u>
Cash from operations	5,400	5,189
Receipts from property	4,400	2,610
<b>Total inflows</b>	<u>9,800</u>	<u>7,799</u>
Capital expenditure	(2,903)	(3,454)
Interest paid	(1,611)	(1,416)
Investment in Beijing Line 4	(100)	-
Changes in working capital	(165)	15
Dividends paid	<u>(1,155)</u>	<u>(1,138)</u>
<b>Total outflows (*)</b>	<u>(5,934)</u>	<u>(5,993)</u>
Net cash inflow before one-off loan to developer	3,866	1,806
Loan to a developer (Area 86 package 2)	<u>(4,000)</u>	<u>-</u>
<b>Net cash (used) / generated</b>	<b>(134)</b>	<b>1,806</b>
<b>Financed by:</b>		
Net facilities drawdown / (repaid)	94	(1,719)
<b>(Decrease) / increase in cash</b>	<b>(40)</b>	<b>87</b>

\* Cash outflows to meet financial obligations and capital investment  
MTR Corporation Limited

# Operating expenses

Total operating expenses before interest and depreciation in 2006: HK\$4,340m

↑ 7.1%



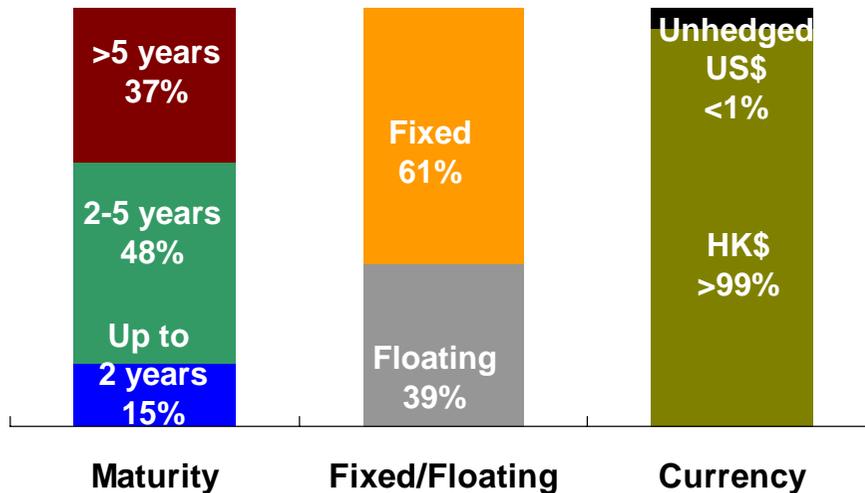
Operating margin of 54.5%



Compared to 2005 figures

# Financing and credit ratios

## Debt profile (31 Dec 2006)



■ Total borrowings outstanding: HK\$28,152m decreased HK\$112m from 31 Dec 2005

■ Average borrowing cost: 5.5%

↑ 0.4% point

■ Net interest expense : HK\$1,398m

↑ 2.7%

Compared to 2005 figures

Debt/Equity ratio
Interest coverage

Dec 2006

36.7%

6.7x

Dec 2005

40.4%

7.6x

# 2007 Outlook



# Outlook for 2007

- **Rail and related businesses**
  - **Rail business will benefit from continued, although slower, economic growth in Hong Kong but:**
    - **Continued intense competition may dampen patronage growth rate**
    - **No fare increases for 24 months from April 2006 as part of merger MOU**
  - **Station commercial businesses**
    - **Advertising and kiosk rental are anticipated to grow in line with market**
    - **Full year impact of Ngong Ping 360**
    - **Telecommunication is likely to be adversely impacted by competition amongst telecom operators and migration of 2G users to 3G**

# Outlook for 2007

## ■ Property

- **Property development profits will depend on market conditions, pre-sale, construction progress and Occupation Permit issuance**

- Airport Railway

- **Deferred income balance (HK\$1.6bn) likely to be recognised over the next 2 years, with bulk of the balance to be recognised in 2007**
- **Depending on sales progress, there may be surplus proceeds for Harbour Green at Olympic Station**

- TKO

- **Subject to issuance of Occupation Permit, profit booking of Le Point (Tiu Keng Leng Phase 2) is expected in 2007, where costs have already been accounted for in 2006**

- **Investment property revenue will benefit from**

- **Elements to be opened in 4Q2007**
- **Full year impact of The Edge**

# 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.**