



MTR Corporation

2008 Annual Results

10 March 2009

Forward-looking statements

Certain statements contained in this presentation may be viewed as forward-looking statements. 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 the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements.



Results highlights and business overview

2008 - Achieving Significant Milestones

Strong Recurrent Profit and Cashflow after Merger

- Merger delivered benefits to Stakeholders
- Early delivery of synergies of over HK\$350m
- Strong Performance from Railway Operations, Station Commercial Businesses and Investment Properties
- EBITDA up 57.7%

Property Development

- Successful Sales of The Capitol in LOHAS Park and Palazzo at Fo Tan

Growth Initiatives

- Hong Kong
 - Policy decision on 3 additional lines, including Shatin to Central Link, Kwun Tong Line Extension and Express Rail Link
 - Kowloon Southern Link and LOHAS Park Station will commence service in 2009
- Outside of Hong Kong
 - Shenzhen Metro Line 4 approved by NDRC in Beijing
 - Principle Agreements signed in Shenyang and Hangzhou
 - Won Stockholm Metro Operating Concession

Financial performance

(HK\$m)

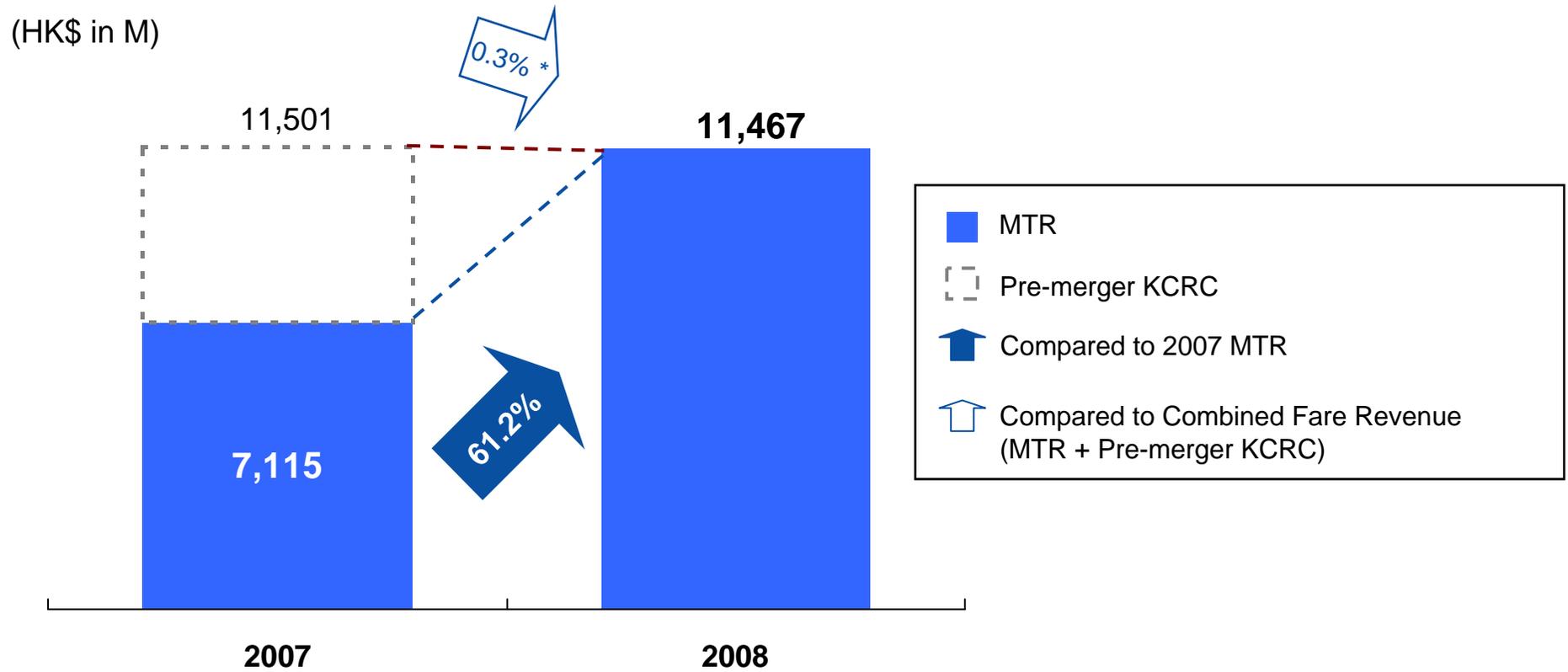
	2008	2007	Change	2007 Pre-Merger MTR + KCRC	Change Pre-Merger MTR + KCRC
Total revenue	17,628	10,690	64.9%	16,176	9.0%
EBITDA	9,325	5,912	57.7%	8,624	8.1%
EBITDA margin	52.9%	55.3%	2.4%pt	53.3%	0.4%pt
Property development profit	4,670	8,304	43.8%		
Underlying profit (excl post-tax investment property revaluation)	8,185	8,571	4.5%		
Underlying businesses EPS (HK\$)	1.45	1.54	5.8%		
Total dividend per share (HK\$)	0.48	0.45	6.7%		
Reported net profit attributable to equity shareholders*	8,284	15,180	45.4%		
Reported EPS (HK\$)	1.47	2.72	46.0%		

* Include post-tax investment property revaluation
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Business Review

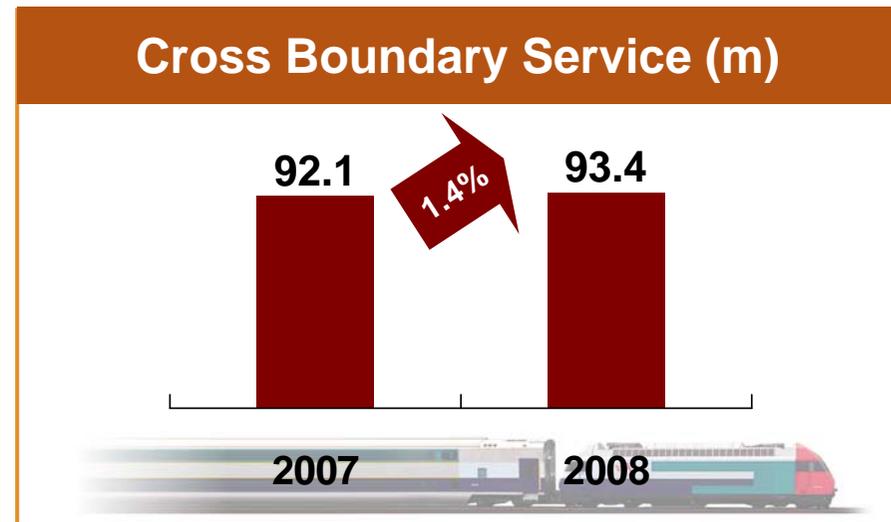
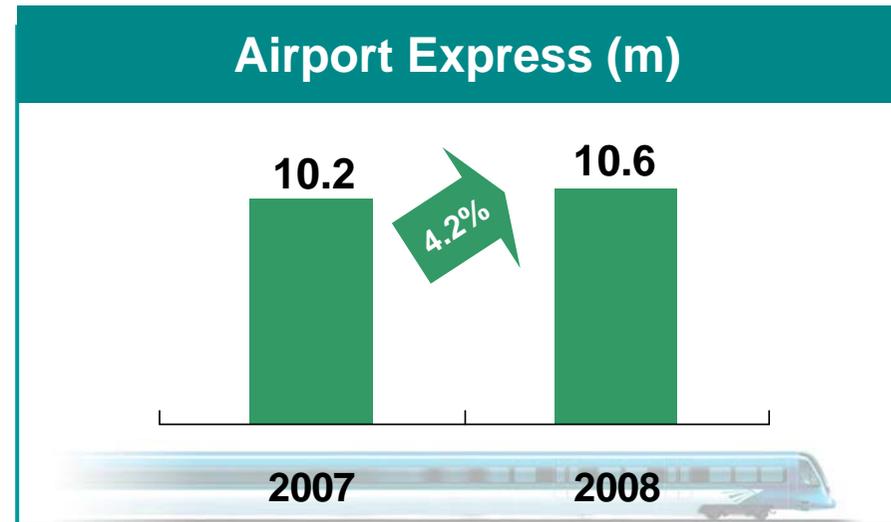
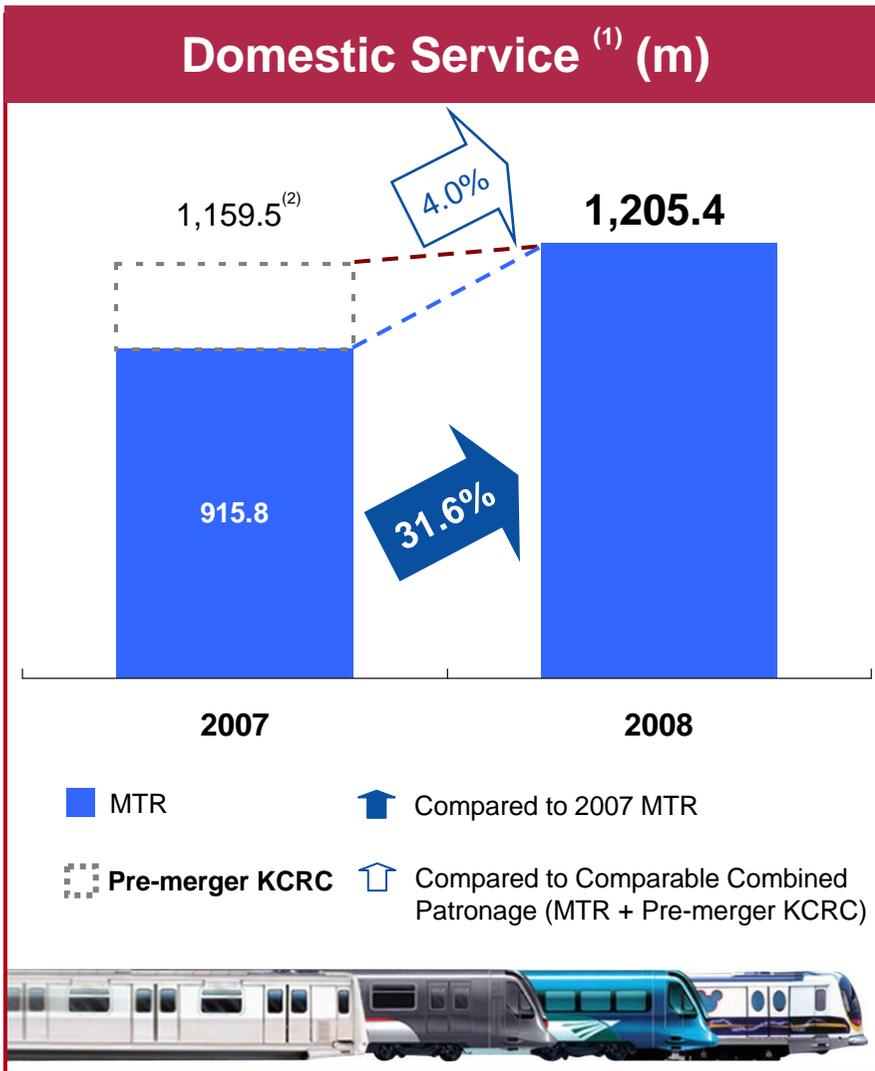
- Railway

Fare Revenue



** Including impact from fare reduction introduced on 2 December 2007*

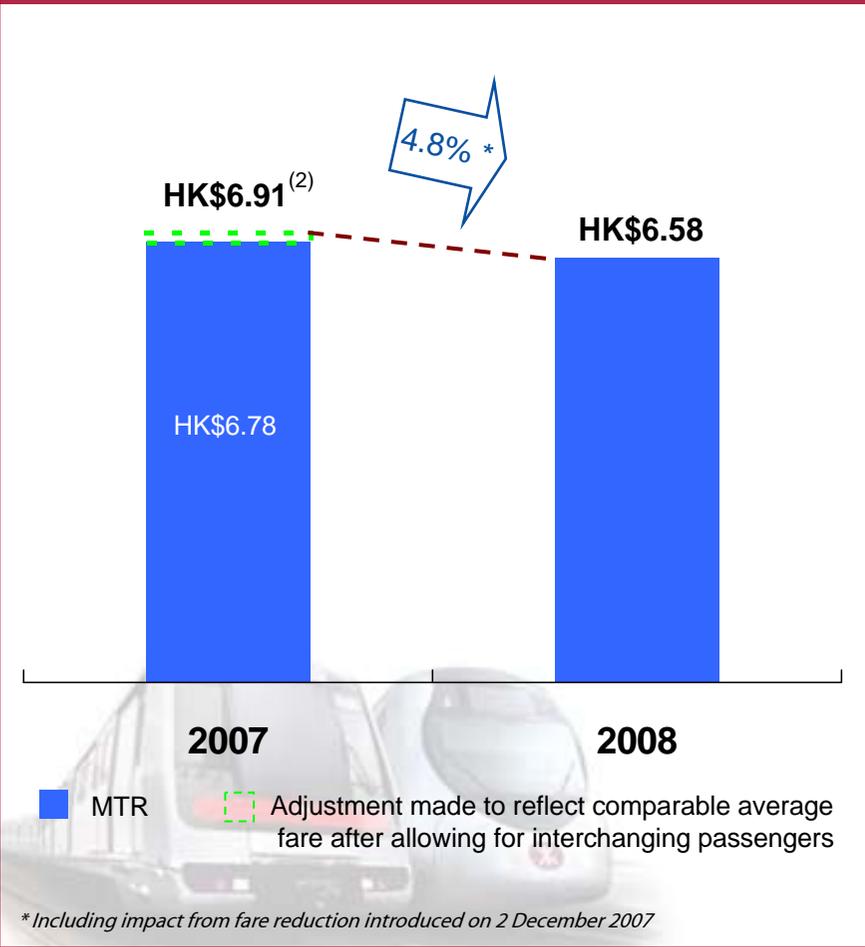
Patronage



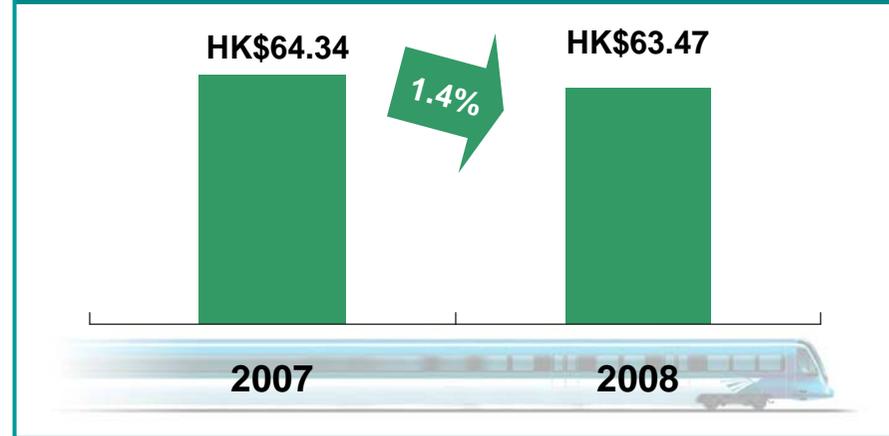
1. Domestic Service include Tsuen Wan, Island, Kwun Tong, Tung Chung, Tseung Kwan O, Disneyland Resort as well as East Rail Lines (excluding Cross Boundary), Ma On Shan Line and West Rail Line.
 2. Adjustment made to reflect interchanging passengers for comparison purposes.

Average fare

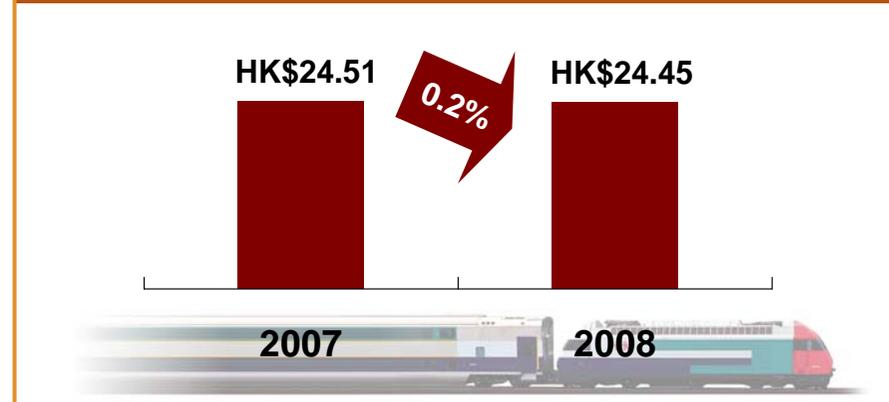
Average Fare – Domestic Service ⁽¹⁾



Average Fare – Airport Express



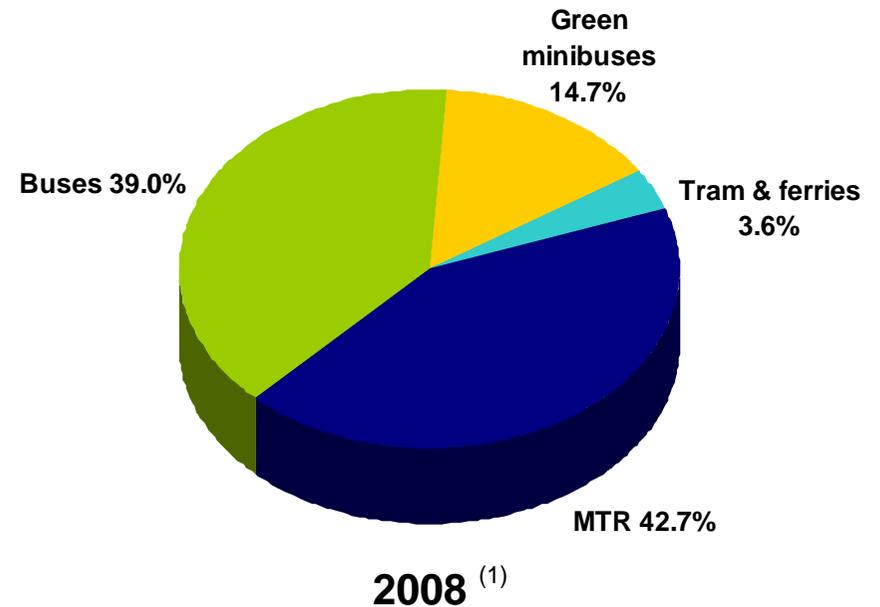
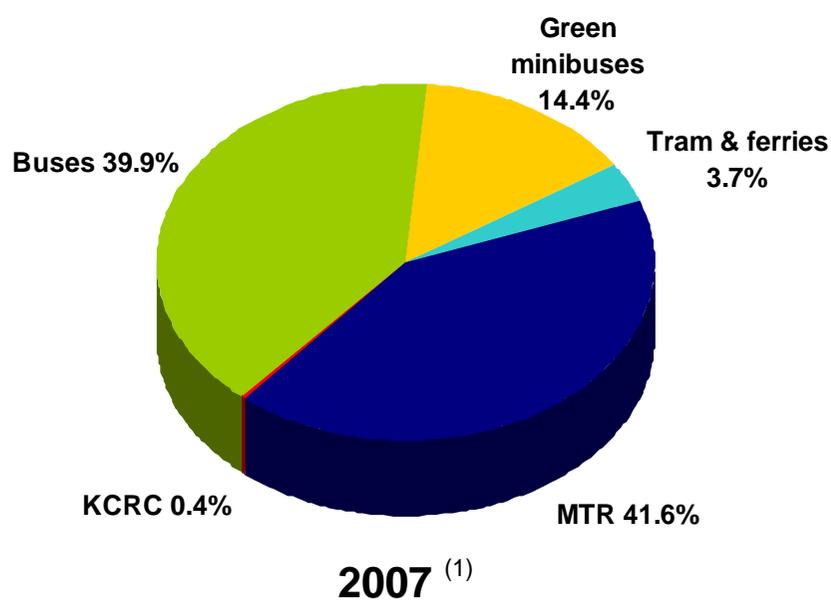
Average Fare – Cross Boundary



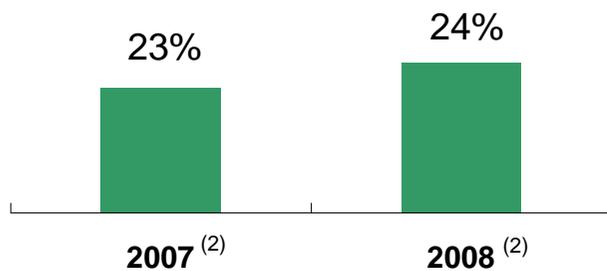
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Market Share

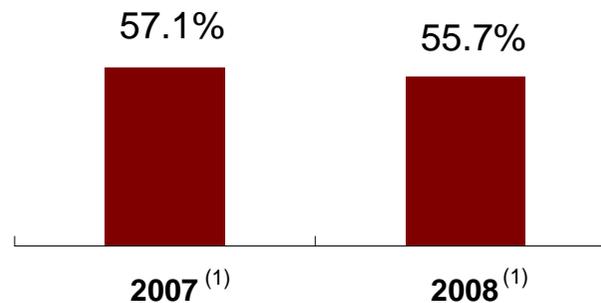
Hong Kong Franchised Public Transport



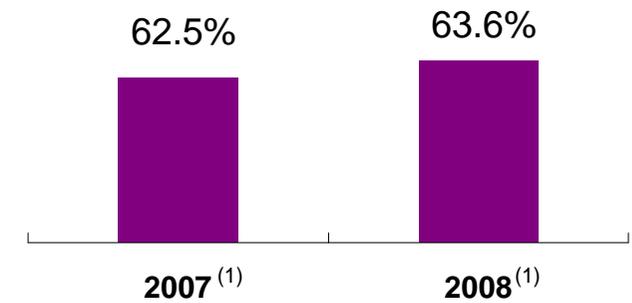
AEL



Cross Boundary



Cross Harbour



Source: The Transport Department / Airport Express Market Share Survey

(1) For the month of December

(2) Data based on Airport Express Market Share Survey as of Feb, Aug 2007 and Jan, Aug 2008

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Business Review

- Station commercial and rail related businesses

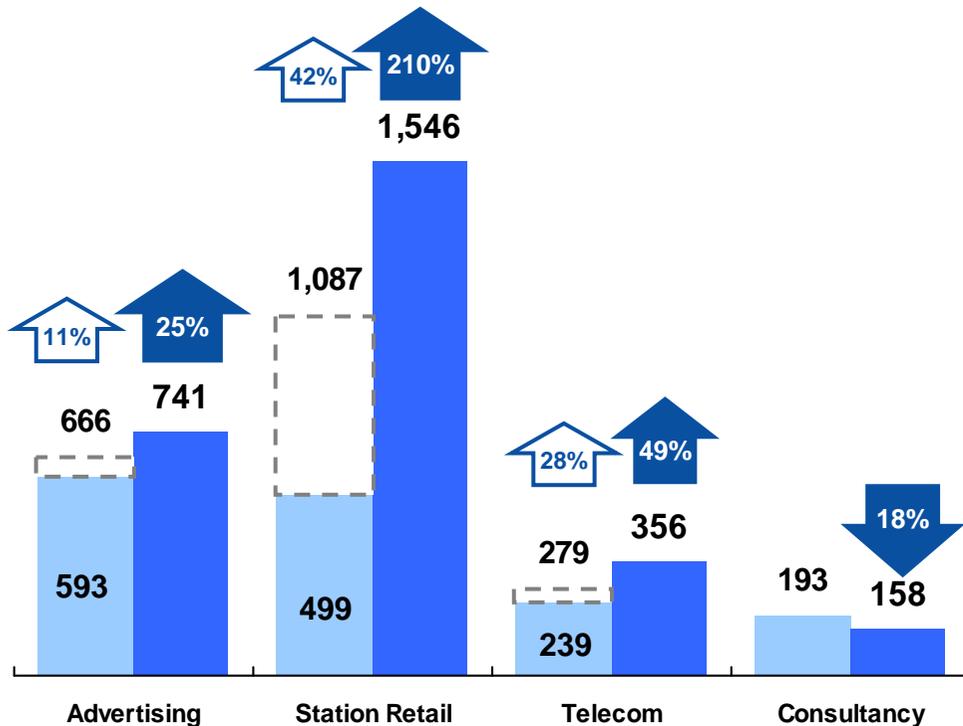
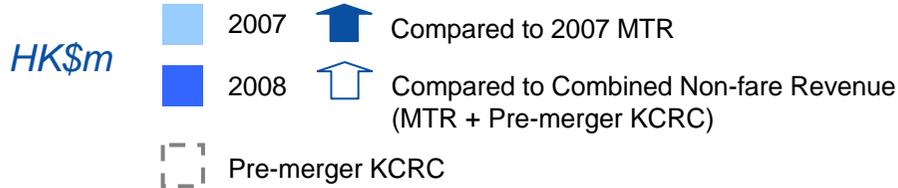
An excellent year of performance

Station commercial & rail related businesses:
HK\$3,089m*

vs Combined Non-fare Revenue

↑ 80.6%

(↑ 20.9%)



- Merger created a step increase in scale, scope and profitability
- Advertising
 - Strong growth from advertising market in Q1-Q3 08
 - Continuous upgrade of digital advertising formats
- Station Retail
 - Increased rentals from Retail and Duty Free shops
 - Total kiosks area at over 51,000 sq m
- Telecommunications
 - Negative impact from 3G/2G cannibalization
 - One-off termination payment from a telecom operator
- External Consultancy
 - Reduction of consultancy revenue as the result of focused strategy

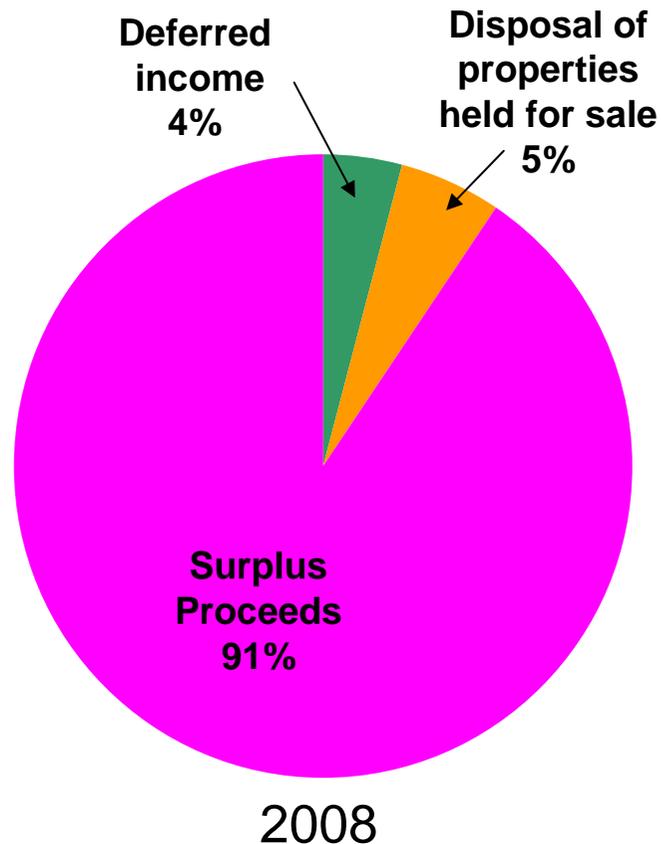
*Excludes Services to KCRC revenue of \$360m MTR Corporation

Business Review

- Property and other businesses

Property development

Property development profit
HK\$4,670m



- Major profit contributors:
 - Surplus proceeds from The Capitol (Package 1) of LOHAS Park and The Palazzo at Fo Tan
 - Profit recognition from Palazzo was net of acquisition costs
 - Disposal of properties held for sale mainly from The Arch and Harbour Green
 - Deferred Income from Coastal Skyline, Caribbean Coast and Elements
- Che Kung Temple awarded in April
- Tsuen Wan West 7, a West Rail Property project, was awarded in September. MTR acts as an agent only

Property rental and management

Property rental & management

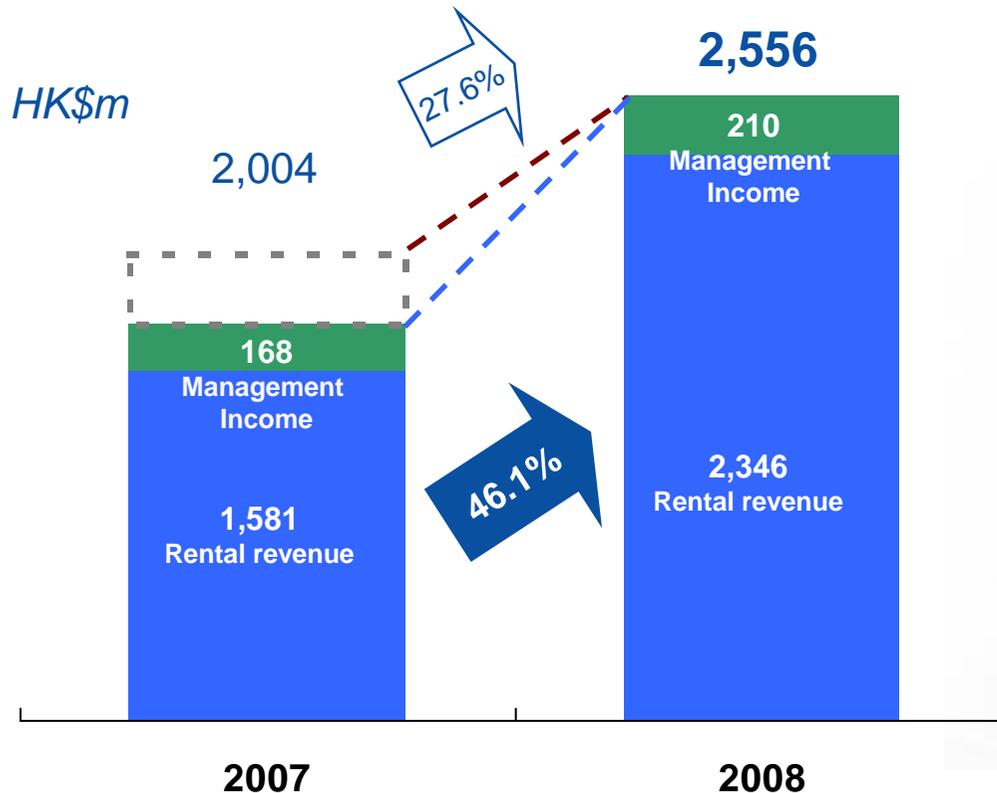
revenues: HK\$2,556m

vs. Combined Non-fare Revenue

↑ 46.1%

↑ 27.6%

- MTR
- Compared to 2007 MTR
- Pre-merger KCRC
- ↑ Compared to Combined Non-fare Revenue (MTR + Pre-merger KCRC)



- Growth driven by full year impact of Elements Phase 1, the opening of Elements Phase 2, and positive rental reversion

- Rental reversion in 2008 saw increase of 20%

- Investment portfolio at Dec 08:

- Retail: 12 shopping centres totalling 221,661 sq m
- Office: 2 offices totalling 41,059 sq m
- Others: 10,402 sq m

Other businesses

Octopus

- 18.7M cards in circulation with average daily transaction value of HK\$89.8M
- MTR's share of net profit amounted to HK\$136M, up 40.2%



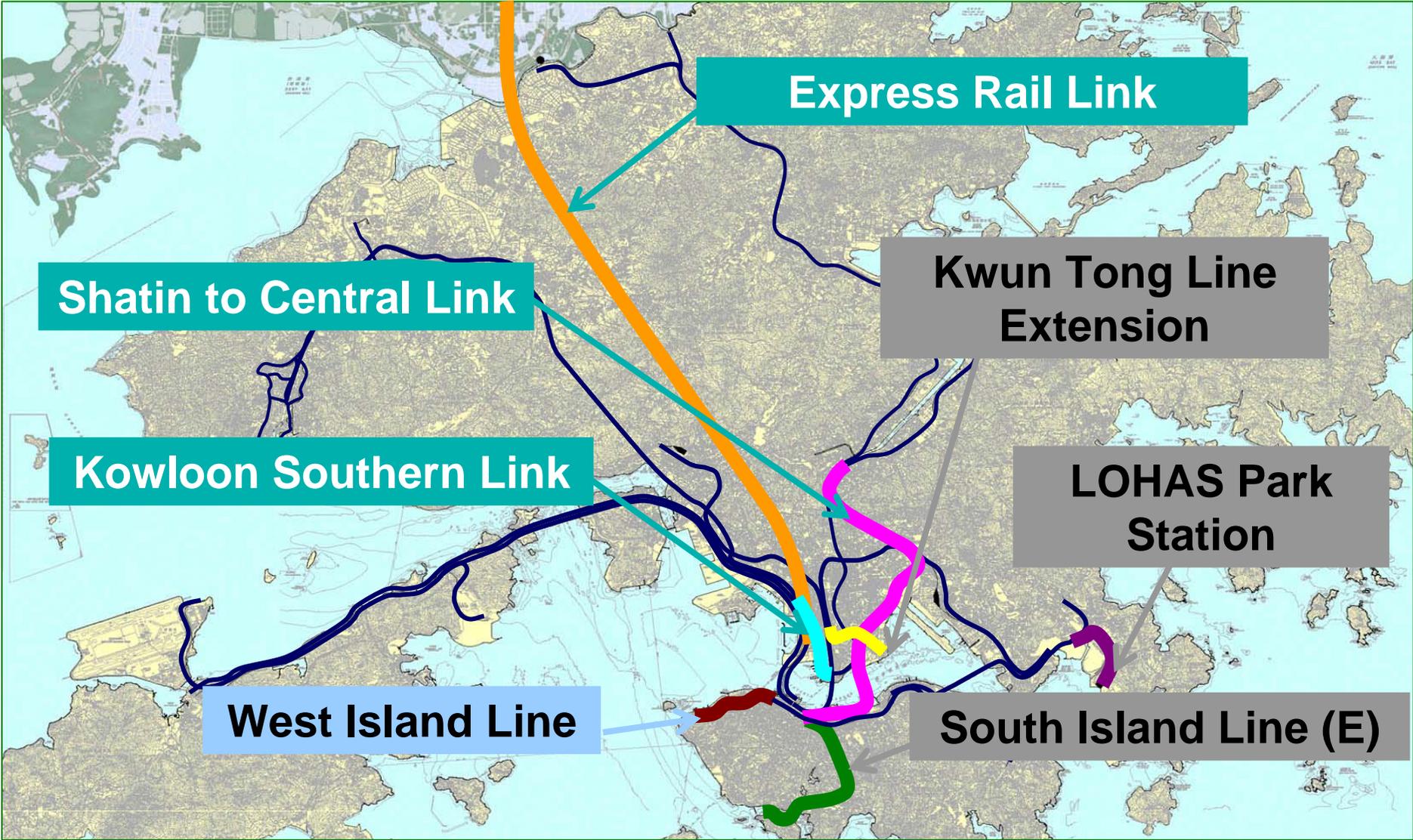
Ngong Ping 360

- Contributed revenue of HK\$156M
- Over 1.6m guests carried in 2008
- High Service Reliability and Customer Satisfaction



Growth opportunities

New projects in Hong Kong on track



Shatin to Central Link

Express Rail Link

Kwun Tong Line Extension

Kowloon Southern Link

LOHAS Park Station

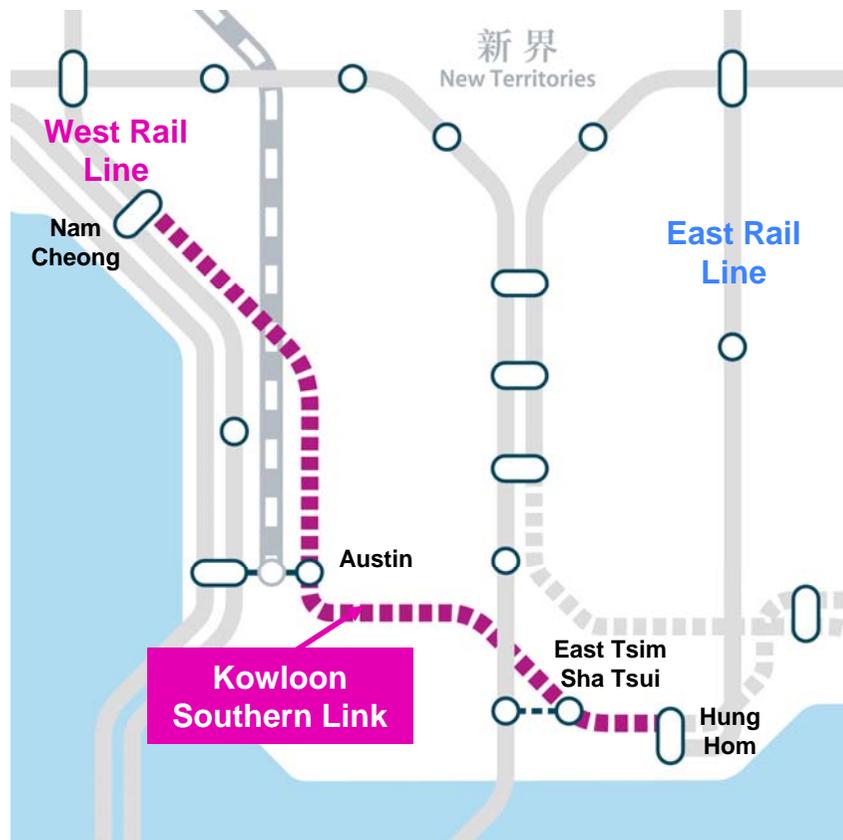
West Island Line

South Island Line (E)

■ "Rail + Property" model ■ Service concession ■ Cash grant

Kowloon Southern Link

- Expected to commence service in 2009
- Financing Model: Service Concession Model under the Merger Agreement



Route Length (km)	3.8
No. of new station	1

LOHAS Park Station

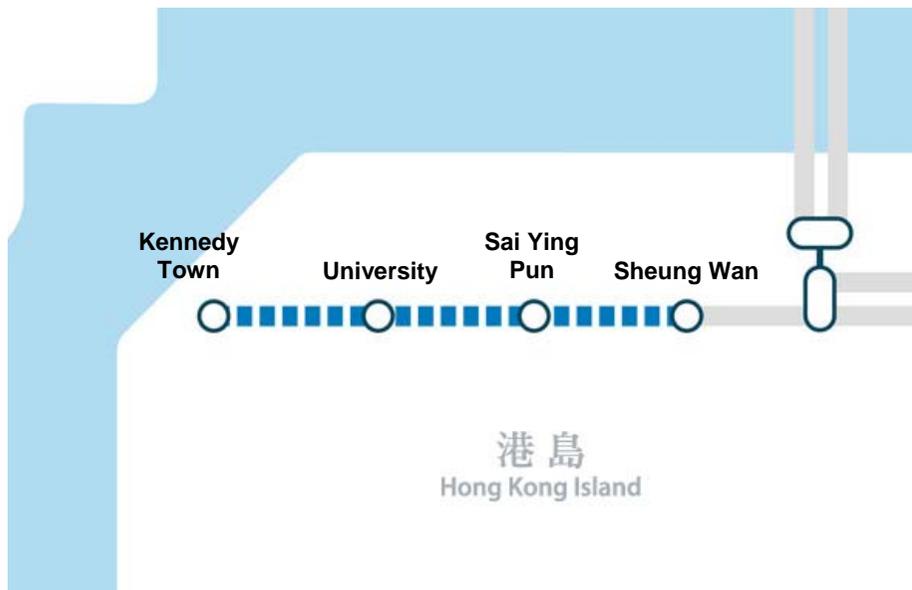
- Expected to commence service in 2009, to coincide the opening of The Capitol in LOHAS Park



Route Length (km)	3.5
No. of new station	1

West Island Line

- Detailed design underway
- Project is expected to complete in early 2014
- Ownership model with cash support from Government



Route Length (km)	3
No. of new stations	3

South Island Line - East

- Preliminary design underway
- Expected service commencement in 2015
- Rail + Property Model



Route Length (km)	7
No. of new stations	4

Shatin-to-Central Link

- Government's approval for planning and design
- Project is expected to complete in 2 phases, 2015 and 2019
- Service Concession Model



Route Length (km)	17
No. of new stations	5

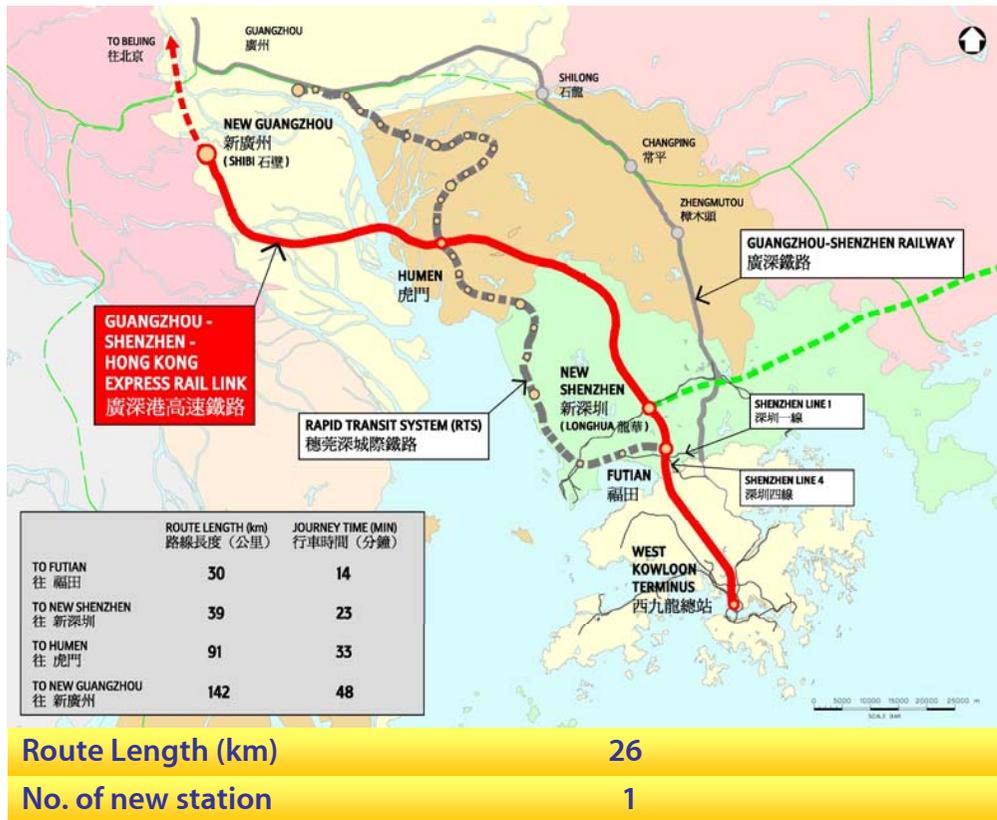
Kwun Tong Line Extension

- Government's approval for planning and design
- Completion expected in 2015
- Rail + Property Model



Route Length (km)	3
No. of new stations	2

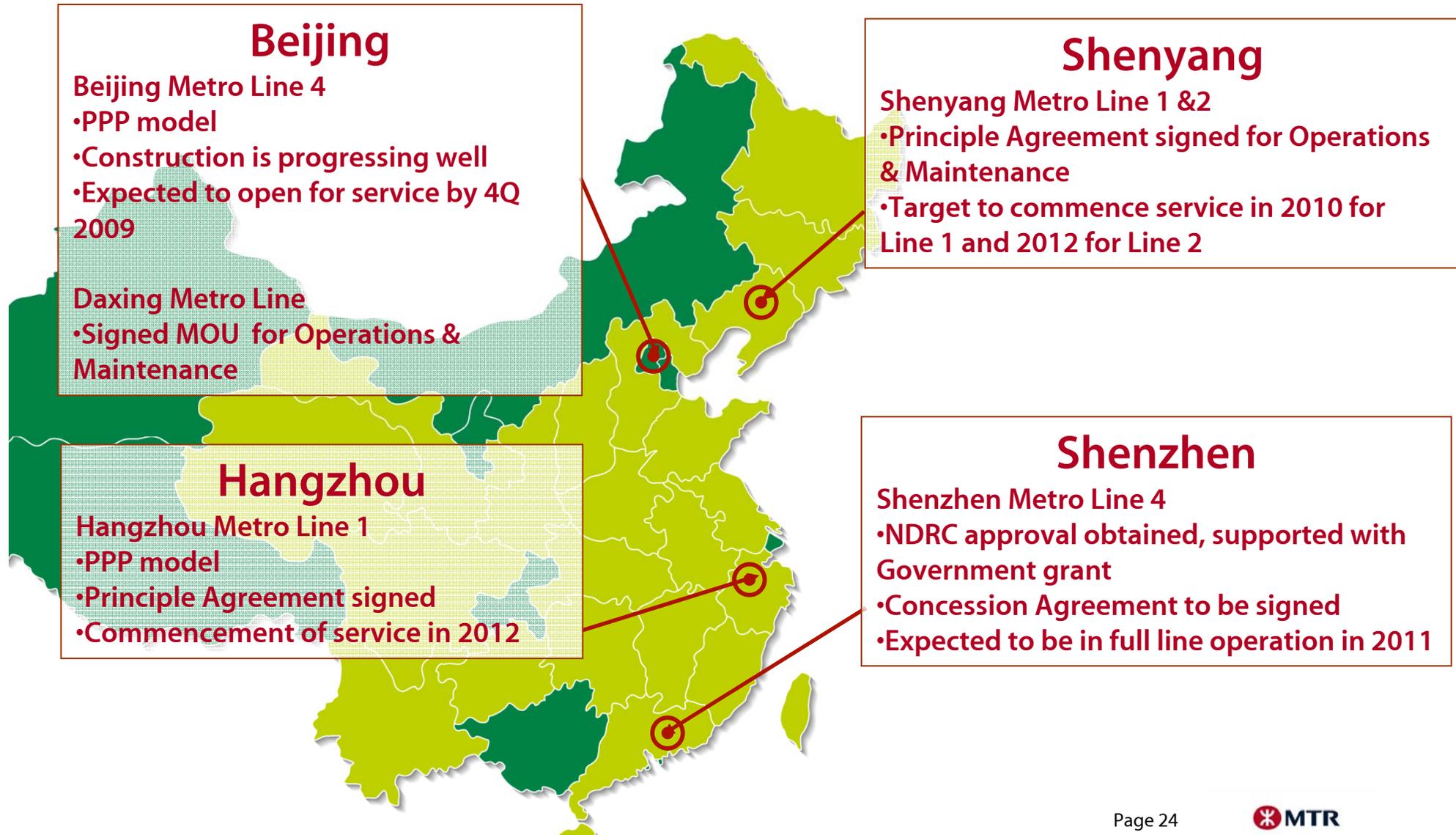
Guangzhou - Shenzhen - Hong Kong Express Rail Link (HK section)



- Government's approval for planning and design
- Expected to commence service in 2015
- Service Concession Model

Growth outside Hong Kong

China – Achieving important milestones



Europe – Another Successful Franchise

Stockholm, Sweden Stockholm Metro

- Been selected Operations & Maintenance Contract for 108km network starting in Nov 09
- Concession revenue over HK\$20bn over the eight year period



London, UK LOROL

- Successful in completion of 1st year operations
- Financially and Operationally on target



Financial Results

Income statement

<i>(HK\$m)</i>	<u>2008</u>	<u>2007</u>	<u>% change</u>
Fare revenue	11,467	7,115	61.2
Non-fare and rental and management income	6,161	3,575	72.3
Turnover	17,628	10,690	64.9
Operating expenses	(8,303)	(4,778)	(73.8)
EBITDA	9,325	5,912	57.7
Property development profit	4,670	8,304	(43.8)
Total operating profit	13,995	14,216	(1.6)
Depreciation & amortisation	(2,930)	(2,739)	(7.0)
Merger related expenses	(53)	(193)	72.5
Interest and finance charges	(1,998)	(1,316)	(51.8)
Investment properties revaluation	(146)	8,011	(101.8)
Share of profit of non-controlled subsidiaries & associates	159	99	60.6
Profit before tax	9,027	18,265	(50.6)
Taxation	(747)	(3,083)	75.8
Reported net profit attributable to equity shareholders*	8,284	15,180	(45.4)
Reported earnings per share (HK\$)	1.47	2.72	(46.0)
Profit from underlying businesses (excl. inv. property revaluation net of deferred tax)	8,185	8,571	(4.5)
Underlying businesses EPS (HK\$)	1.45	1.54	(5.8)
Final dividend per share (HK\$)	0.34	0.31	
Total dividend per share (HK\$)	0.48	0.45	6.7

* Exclude minority interest of HK\$4 million

Segmental income statement of underlying businesses

<i>(HK\$m)</i>	<u>2008</u>	<u>2007</u>
Railway and related businesses	2,492	487
Property ownership, management and other businesses	1,856	1,226
Property developments	4,666	8,255
Tax and others ⁽¹⁾ ⁽²⁾	(829)	(1,397)
	<hr/>	<hr/>
Underlying net profit attributable to equity shareholders	8,185	8,571
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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.

1. Excludes deferred tax on investment property revaluation

2. 2008 income tax includes effect of the decrease in Hong Kong Profits Tax rate from 17.5% to 16.5% on deferred tax balances

Balance sheet

(HK\$m)

	<u>31 Dec 2008</u>	<u>31 Dec 2007</u>
<u>Assets</u>		
Investment properties	37,737	37,723
Other property, plant and equipment	77,804	79,444
Service concession assets	15,463	15,250
Property management rights	35	40
Railway construction in progress	658	424
Property development in progress	7,895	9,066
Cash and cash equivalents	793	576
Debtors, deposits and payments in advance	7,190	5,167
Loan to a property developer	3,720	3,532
Properties held for sale	2,228	756
Others	<u>5,815</u>	<u>3,690</u>
	<u>159,338</u>	<u>155,668</u>
<u>Liabilities</u>		
Debt	31,289	34,050
Obligations under service concession	10,656	10,685
Deferred income	156	515
Deferred tax liabilities	12,220	12,574
Others	<u>7,195</u>	<u>6,807</u>
	<u>61,516</u>	<u>64,631</u>
<u>Total equity</u>	<u><u>97,822</u></u>	<u><u>91,037</u></u>

Cash flow

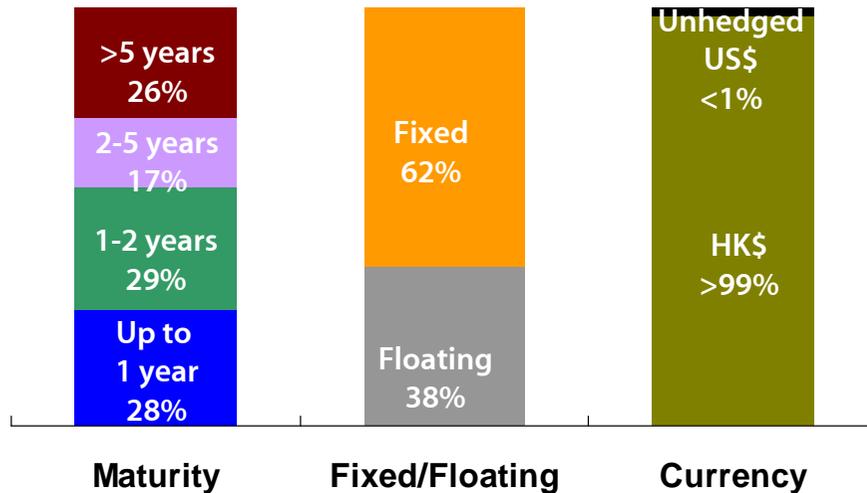
(HK\$m)

	<u>2008</u>	<u>2007</u>
Cash from operations	8,921	5,974
Receipts from property	4,448	5,824
Government grant for WIL	400	-
Receipts from/ (loan to) non-controlled subsidiary and associate	132	(62)
Total inflows	<u>13,901</u>	<u>11,736</u>
Capital expenditure	(5,807)	(2,481)
Net payments in respect of SCL and XRL	(89)	(8)
Fixed annual payment on service concession assets	(750)	-
Investment in Beijing Line 4	(515)	(103)
Net interest paid	(1,445)	(1,468)
Changes in working capital	(16)	(31)
Dividends paid	(1,265)	(1,168)
Total outflows (*)	<u>(9,887)</u>	<u>(5,259)</u>
Net cash inflow before non-recurring merger related expenses	<u>4,014</u>	<u>6,477</u>
Non-recurring merger related expenses	<u>(316)</u>	<u>(11,609)</u>
Net cash generated / (used)	<u>3,698</u>	<u>(5,132)</u>
Financed by:		
Net facilities (repaid) / drawdown	<u>(3,538)</u>	<u>5,401</u>
Increase in cash	<u>160</u>	<u>269</u>

*Cash outflows to meet financial obligations
MTR Corporation

Financing and credit ratios

Debt profile (31 Dec 2008)



Total borrowings outstanding:
HK\$31,289m; reduction of HK\$2,761m
from 31 Dec 2007

Average borrowing cost:
4.8%

0.8%
point

Net interest expense:
HK\$1,998m

51.8%

Compared to FY2007 figures

	Dec 2008	Dec 2007
Net Debt/Equity ratio	42.1%	48.5%
Interest coverage	6.0x	9.0x

2009 Outlook

Outlook for 2009

- **Economic downturn in Hong Kong will impact our businesses in 2009**
- **Recurrent businesses**
 - Our rail business by nature is defensive, but can be affected by unemployment
 - LOHAS Park Station and Kowloon Southern Link (Austin Station) will open later this year
 - Rail fares will be reviewed in July in accordance with FAM
 - Station retail and investment properties' rental adjustments will be market dependent
 - Other station commercial businesses, particularly advertising, will face challenges in 2009, although long term fundamentals remain robust
- **Property development**
 - Given that our profit sharing for LOHAS Park Package 2 is sharing in kind (in phase 1), it will only depend on issuance of Occupation Permit (OP), expected to be in 2H09
 - Sales at Lake Silver at Wu Kai Sha and Tai Wai Maintenance Centre will be subject to a commercially driven decision dependent on market and other considerations
 - Property tendering will be based on market conditions