

MTR Corporation - 2004 Annual Results



Results highlights and business overview

Mr CK Chow, CEO



Effective conversion of economic growth into operational profit



- Broad based economic recovery
- Improving consumer confidence
- Sustained growth in property sector

- Record high patronage
- Double-digit growth in station commercial, investment property and property management businesses
- Loss from rail & related businesses reduced
- Satisfactory property development income and tender outcome

Strong 2004 Results

Financial performance



<i>(HK\$m)</i>	2004	2003	Change
Total Revenue	8,351	7,594	10.0%
EBITDA ⁽¹⁾	4,546	3,747	21.3%
EBITDA margin	54.4%	49.3%	5.1%pt
Property Development Profit	4,568	5,369	14.9%
Net Profit	4,496	4,450	1.0%
EPS (HK\$)	0.84	0.85	1.2%
Final Dividend (HK\$)	0.28 ⁽²⁾	0.28	Unchanged

(1) EBITDA before property development profits (2) Total Dividend for 2004 is HK\$0.42 per share, same as 2003

Business review

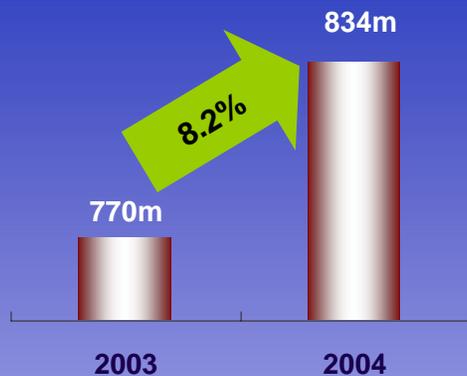
Railway



Total patronage up 8.3% from 2003

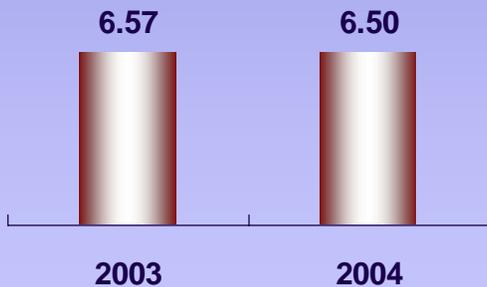


Patronage – MTR Lines

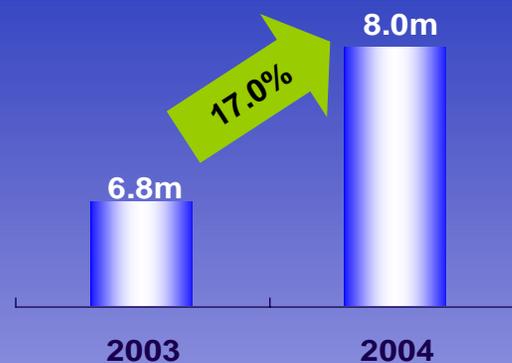


Strong real growth led by impressive performance of TKO and TCL

Average fare – MTR Lines

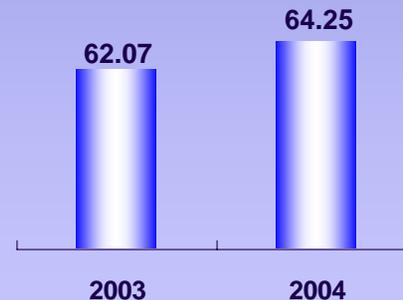


Patronage – Airport Express



Recovery of tourism, Increase in air passenger traffic

Average fare – Airport Express



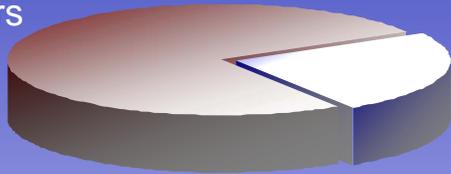
Market share



Franchised Public Transport

2003

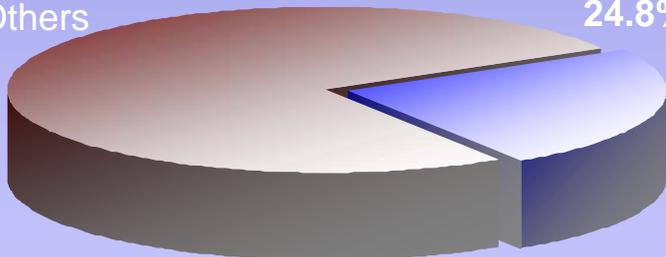
Others



MTR
24.3%

2004

Others

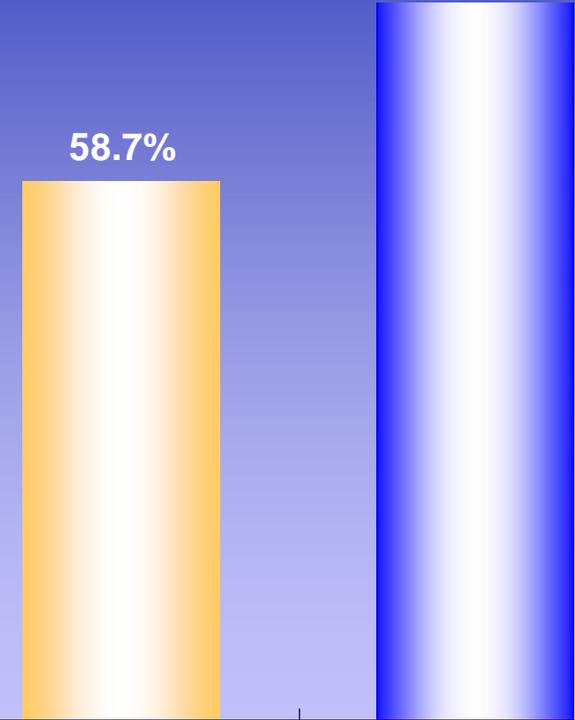


MTR
24.8%

Cross-Harbour

59.6%

58.7%



2003

2004

Service improvements



- **2004 – One of the best years of service delivery**
- **However, several incidents in 2H2004 caused public concern**
- **Formed high level internal task force and appointed Lloyds Register Rail, an independent rail expert to seek improvements**
 - **All the recommendations from task force and Lloyd's report to be implemented**
 - **The Lloyd's report confirmed the asset management system is in line with international best practice**
- **Committed to continuous improvement**
- **Successful opening of Tsim Sha Tsui interchange with East Rail**
- **The opening of KCRC's MOS Rail benefited MTR patronage**

Business review

Non-fare businesses



Non-fare businesses – strong double digit growth



- Upgraded advertising facilities
- Improved vibrancy, lettable space and trade-mix for station retail shops
- Increased mobile phone usage in our system
- Rise in average daily usage and acceptance of Octopus
 - 11.8 million cards issued
 - Average daily transactions: 8.2million at over 27,000 outlets

Business review

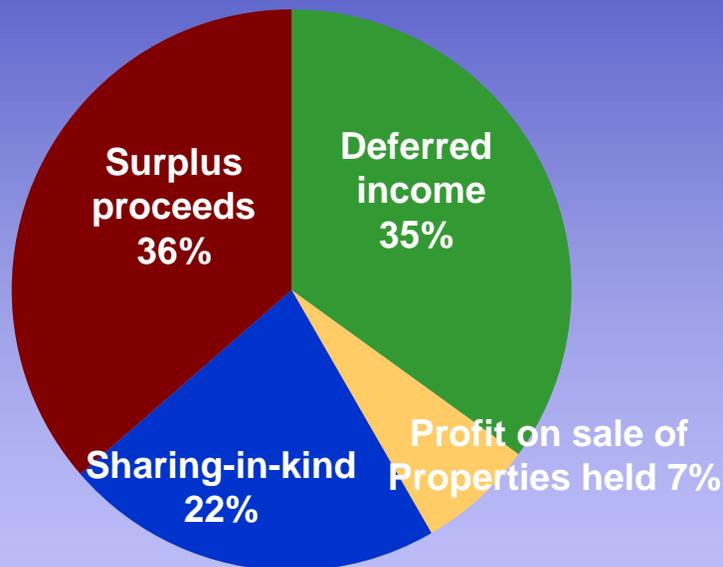
Property



Property development



Total development profit
HK\$4,568m



Main profit contributors:

- Deferred income from Tung Chung Caribbean Coast and Coastal Skyline
- Received our share of 57,506 sq. m in phase 1 of retail centre at Union Square as sharing-in-kind
- Surplus proceeds from Kowloon Station Harbourside and Hang Hau Residence Oasis in TKO

Tseung Kwan O Area 86 package 1

- Completed tender and awarded package in Jan 2005
- MTR's offer to pay half land premium was well-received

Property investment and management



Total property investment & management revenue: HK\$1,108m  12.1%



- Strong performance in all four major shopping centers
- All 18 floors at IFC2 were leased as of end of 2004
- Expanded property management portfolio:
 - Residential units: increased 5% to 49,283 units
 - Commercial and office space: 558,796m²

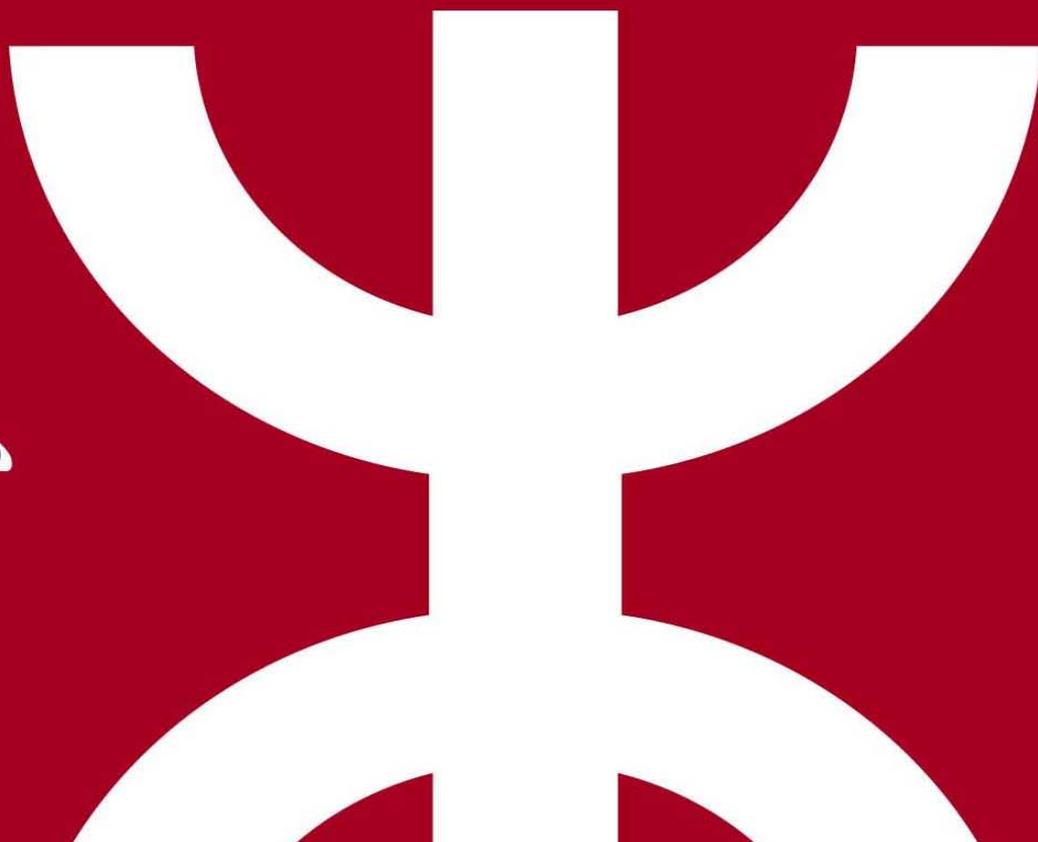
Growth strategies

Investment and merger



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北京



Growth Opportunity Milestones



China

Strategy: Focus on major cities with high rail network demand

- Shenzhen Line 4
 - Rail + property model
 - Discussions on concession agreement ongoing
 - Preliminary project design completed
 - Network approval awaiting from Central Government

- Beijing Line 4
 - Private Public Partnership model
 - 30-year Concession Agreement initialed in February 2005
 - Effective upon Central Government's approval

UK / Europe

Strategy: Focus on operating franchise; "asset light"

- UK – preparing bid for Integrated Kent operating franchise together with GNER

Merger



- **Government invited MTR and KCRC to commence negotiation on a possible merger on 24 February 2004**
- **Joint Merger Report submitted on 16 September 2004 and is being considered by the government**
- **Concurrently, MTR began negotiation with the government on the merger terms. Discussion is still on-going**
- **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**

2004 achievements



- **Effective conversion of economic growth into operational profit**
- **Double – digit growth in station businesses, and property investment & management revenue**
- **Satisfactory property development profit and commencement of Dream City Development in TKO**
- **Milestones achieved in overseas growth strategies**

Financial Results

Mr Lincoln Leong, Finance Director



Income statement



<i>(HK\$m)</i>	<u>2004</u>	<u>2003</u>	<u>% change</u>
Fare revenue	5,932	5,489	8.1
Non-fare and property investment & management revenue	2,419	2,105	14.9
Turnover	8,351	7,594	10.0
Operating expenses	(3,805)	(3,847)	1.1
EBITDA	4,546	3,747	21.3
Property development profits	4,568	5,369	(14.9)
Total operating profit	9,114	9,116	(0.0)
Depreciation	(2,512)	(2,402)	(4.6)
Interest	(1,450)	(1,539)	5.8
Octopus Cards	44	23	91.3
Profit before tax	5,196	5,198	(0.0)
Taxation	(700)	(748)	6.4
Net profit	4,496	4,450	1.0
Earnings per share (\$)	0.84	0.85	(1.2)

Segmental income statement



<i>(HK\$m)</i>	<u>2004</u>	<u>2003</u>
Railway and related	(313)	(980)
Property investment and management	897	786
Property development	4,568	5,369
Tax and others	<u>(656)</u>	<u>(725)</u>
	<u>4,496</u>	<u>4,450</u>

Note: All segmental incomes shown are pre-tax profits

Balance sheet



<i>(HK\$m)</i>	<u>Dec 2004</u>	<u>Dec 2003</u>
Assets		
Fixed assets	83,626	82,752
Investment properties	16,687	14,169
Railway construction in progress	962	181
Property development in progress	2,088	2,309
Cash and cash equivalents	269	376
Others	<u>3,042</u>	<u>2,579</u>
	<u>106,674</u>	<u>102,366</u>
Liabilities		
Debt	30,378	32,025
Deferred income	4,638	5,061
Others*	<u>8,159</u>	<u>7,988</u>
	<u>43,175</u>	<u>45,074</u>
Shareholders' funds	<u>63,499</u>	<u>57,292</u>

* Including minority interest

Strong cash flow



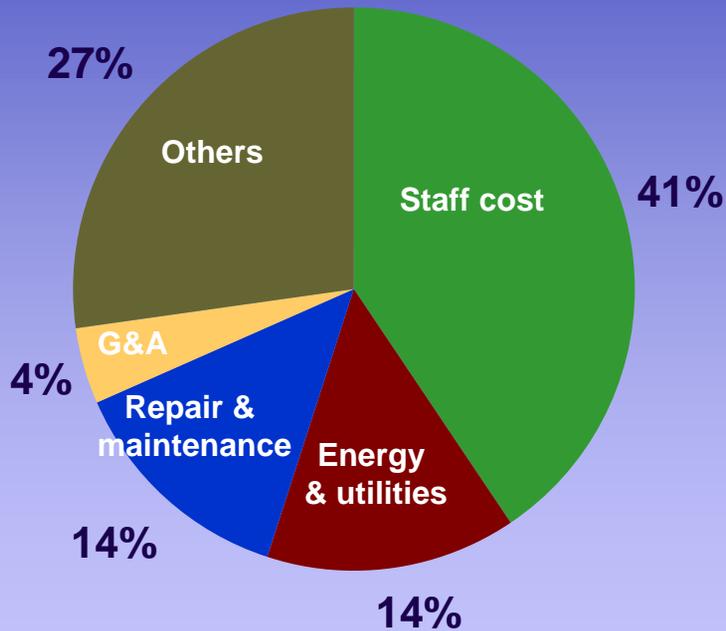
<i>(HK\$m)</i>	<u>2004</u>	<u>2003</u>
Cash from operations	4,486	3,837
Receipt from property	2,576	855
Total inflows	<u>7,062</u>	<u>4,692</u>
Capital Expenditure	(2,889)	(2,670)
Interest paid	(1,301)	(1,643)
Other working capital adjustments	(104)	78
Dividends paid	(1,079)	(415)
Total outflows (*)	<u>(5,373)</u>	<u>(4,650)</u>
Net cash generated	<u>1,689</u>	<u>42</u>
Purchase of held-to-maturity securities	(202)	-
Net loan repaid	<u>(1,593)</u>	<u>(1,362)</u>
Decrease in cash	<u>(106)</u>	<u>(1,320)</u>

* Cash outflows to meet financial obligations and capital investment

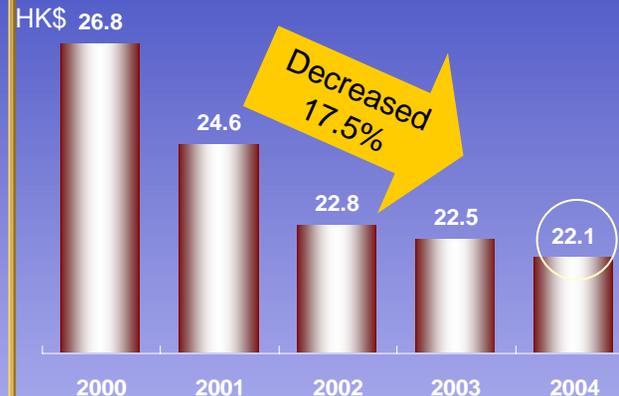


Operating expenses

Total operating expenses before interest and depreciation:
HK\$3,805m



Efficiency enhancement



Op. cost/
car km
1.8%

Operating margin improvement

from 49.3% in 2003 to 54.4% in 2004

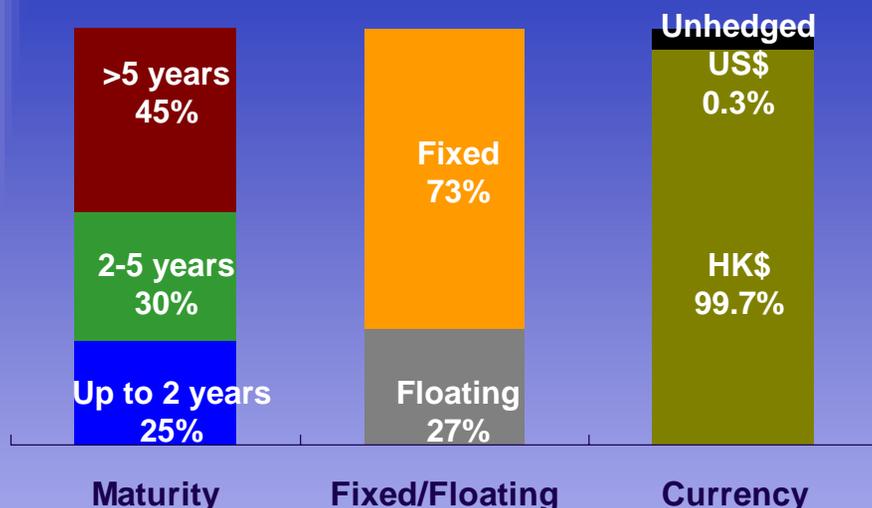
Operating
margin:
5.1% pt

Compare to 2003 figures

Financing and credit ratios



Debt Profile (31 Dec 04)



■ Total loan outstanding: HK\$30,378m

5.1%

■ Average borrowing cost: 4.7%

0.4% point

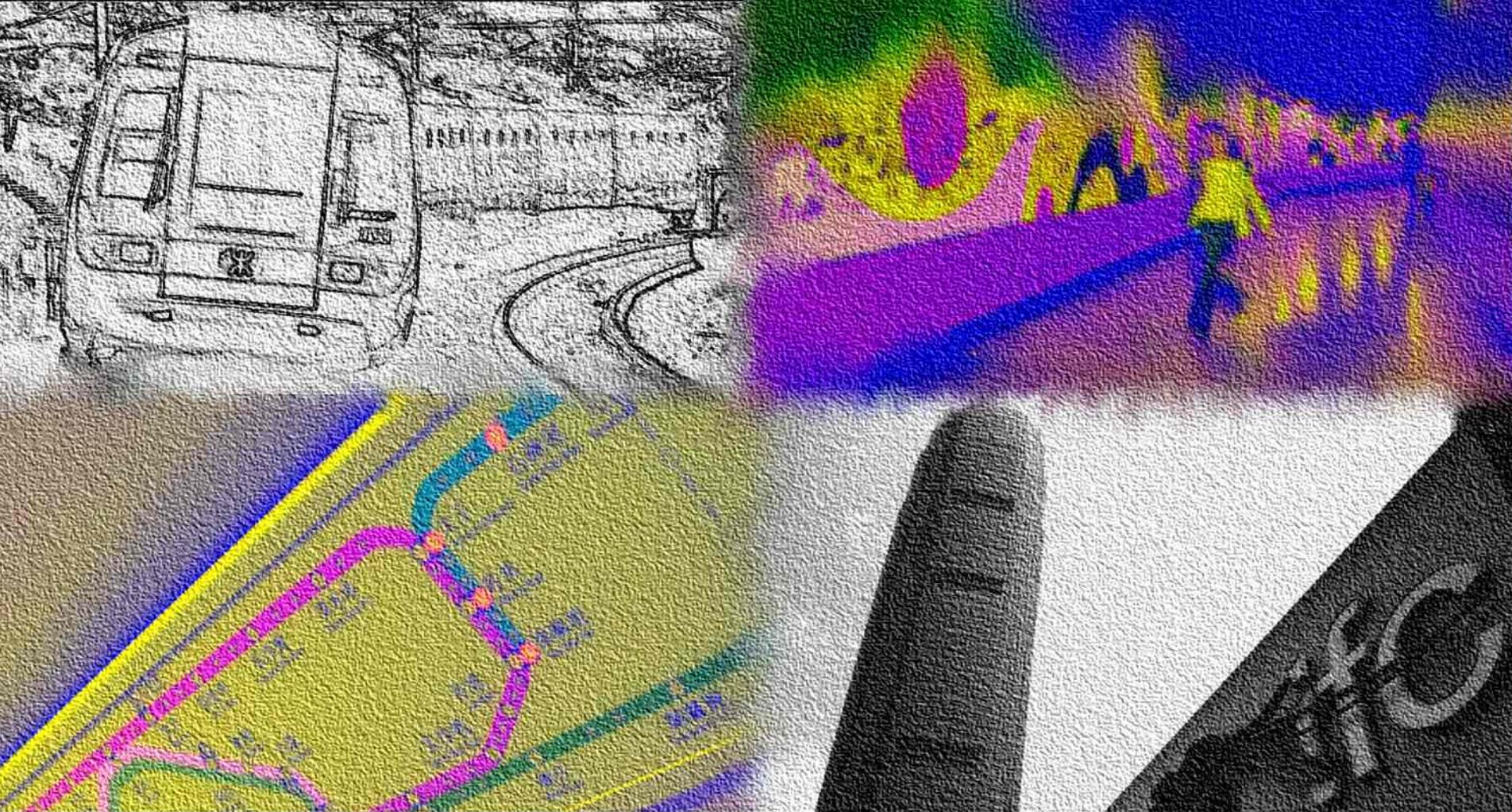
■ Net interest expense : HK\$1,450m

5.8%

Compare to 2003 figures

	2004	2003
Debt/Equity ratio	47.8%	55.9%
Interest coverage	6.1x	5.6x
Return on Average Shareholder Fund	7.4%	8.0%

Outlook



Outlook for 2005



Railway	<ul style="list-style-type: none">■ Increased economic activity will lead to patronage growth■ But competition will remain intense
Non-fare	<ul style="list-style-type: none">■ Strong correlation with Hong Kong economic growth
Property investment & management	<ul style="list-style-type: none">■ Satisfactory growth, higher rental from 4 main shopping centers plus “the Lane” in Hang Hau opening
Property Development	<ul style="list-style-type: none">■ Development profits will depend on sale, construction progress and OP issuance■ Given current expectation of developments on which profit could be booked, development profits can be lower than 2004
Accounting standard changes	<ul style="list-style-type: none">■ Will impact on financial results, extent being assessed

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.