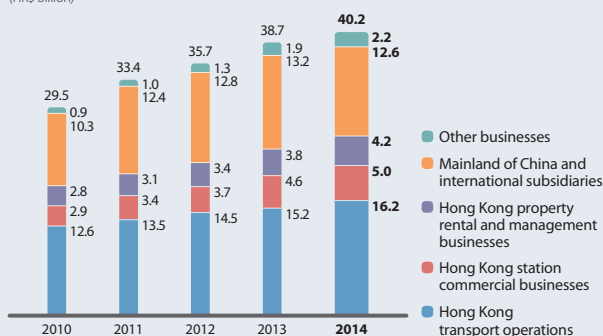


Financial Review

Turnover

Turnover showed continuous growth and increased by 3.7% to HK\$40.2 billion in 2014.

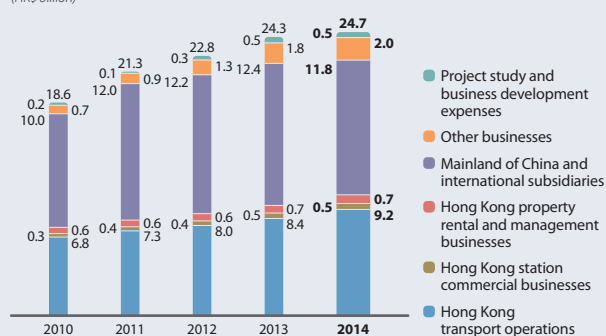
(HK\$ billion)



Operating Expenses

Operating expenses in 2014 increased to HK\$24.7 billion in support of various service enhancement initiatives.

(HK\$ billion)



Profit and Loss

In 2014, the Group achieved good financial results, with continued growth in our recurrent businesses locally and overseas as well as higher property development profit.

Hong Kong transport operations reported total fare revenue of HK\$16,066 million, up 7.0% against 2013. Fare revenues in 2014 amounted to HK\$11,318 million for the Domestic Service (to which the Island Line was extended to Western District on Hong Kong Island on 28 December 2014), HK\$3,049 million for the Cross-boundary Service, HK\$915 million for the Airport Express, HK\$639 million for Light Rail and Bus services and HK\$145 million for Intercity. Demand for our rail and bus services was higher and total patronage increased by 4.5% to 1,904.6 million in 2014. Average fares for the Domestic, Cross-boundary, Light Rail and Bus services were higher than in 2013, rising by 2.6%, 2.8%, 4.2% and 4.1% respectively. The increases were due to the fare adjustments under the FAM after accounting for fare concessions. The Airport Express and Intercity are not subject to the FAM, and the average fare of the Airport Express decreased by 0.4% due to fare promotions targeted at achieving higher patronage, while the average fare of Intercity increased marginally by 0.1%. Including other rail-related income of HK\$157 million, total revenue from Hong Kong transport operations increased by 7.0% to HK\$16,223 million. Expenses related to Hong Kong transport operations grew by 9.3% to HK\$9,236 million in 2014 to support various service enhancements initiatives such as increases in train trips and systems upkeep. As a result, the operating profit for Hong Kong transport operations rose by 4.0% to HK\$6,987 million, while the operating margin declined by 1.2 percentage points to 43.1%.

Hong Kong station commercial businesses generated solid growth, with total revenue of HK\$4,963 million, up 8.2% over 2013. Enhancement of our trade mix and the introduction of new brands in the MTR network contributed to higher rental rates and turnover rents, and station retail revenue grew by

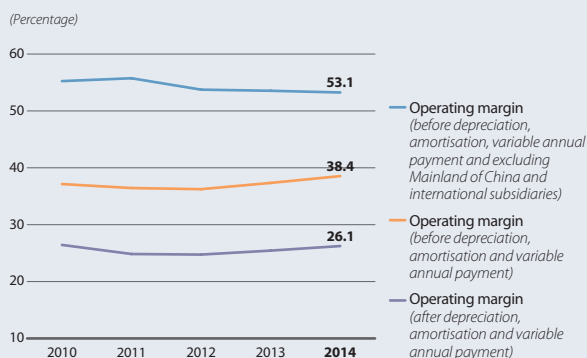
9.0% to HK\$3,197 million. Advertising revenue was up 6.2% to HK\$1,118 million as new and well-targeted advertising packages, including feature advertising in certain dedicated areas in stations, were introduced. Telecommunication revenue increased by 7.2% to HK\$479 million as there was greater demand from telecommunication operators for mobile data capacity. Revenue from other station commercial business amounted to HK\$169 million, up 9.0%. Expenses in relation to Hong Kong station commercial businesses increased by 11.0% to HK\$515 million, mainly due to higher Government rent and rates and agency fees relating to the advertising business. Overall, the operating profit of the Hong Kong station commercial businesses increased by 7.9% to HK\$4,448 million, while operating margin decreased slightly by 0.3 percentage point to 89.6%.

The Hong Kong property rental and management businesses continued to perform well and achieved total revenue of HK\$4,190 million, up 10.9% over 2013. Property rental income grew by 11.2% to HK\$3,945 million, as our shopping malls achieved double-digit growth in average rental reversion. An occupancy rate of close to 100% was achieved for our shopping malls and the office space at Two International Finance Centre. The property management business continued to grow, with Hong Kong property management revenue rising by 6.1% to HK\$245 million, mainly due to higher manager's remunerations. The number of residential units under management increased by 911 units to 91,434 units as at 31 December 2014. Expenses relating to our Hong Kong property rental and management businesses increased by 11.0% to HK\$747 million, in line with revenue growth. The resulting operating profit from Hong Kong property rental and management businesses increased by 10.9% to HK\$3,443 million, with operating margin maintained at 82.2%.

Our Mainland of China and international subsidiaries, comprising railway related and rail franchise operations in Australia, Sweden and the United Kingdom, as well as rail franchise operations and property related activities in the Mainland of China, recorded

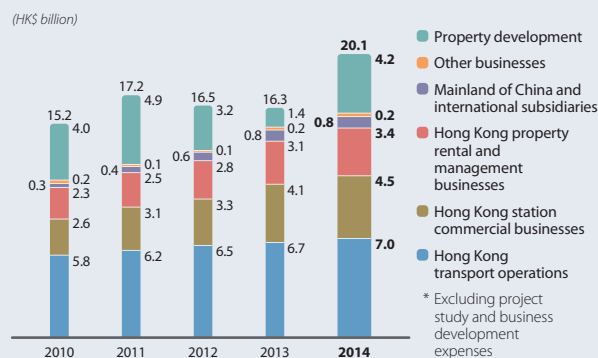
Operating Margin

Operating margin further improved to 38.4%.



Operating Profit Contributions*

Growth in operating profits was recorded across all business segments in 2014, particularly in our Hong Kong property development segment where profit was mainly derived from The Austin and Grand Austin.



revenue and expenses of HK\$12,627 million and HK\$11,821 million, respectively. The resulting operating profit of HK\$806 million, up 1.9% over 2013, included the initial losses of HK\$19 million in respect of our new franchises in Sweden and Australia together with marketing expenses of HK\$55 million for the preparation of the pre-sales of our property development in Shenzhen. Excluding the impact of the above, as well as on a constant exchange rate basis, the operating profit would be 17.6% higher than in 2013. In Australia, the revenue and expenses of MTM were HK\$8,476 million and HK\$7,896 million, respectively, with the resulting operating profit increasing by 5.1% to HK\$580 million in 2014. On a constant exchange rate basis, the resulting operating profit improved by 13.4%. In Sweden, MTRS reported revenue and expenses of HK\$3,347 million and HK\$3,220 million, respectively. The resulting operating profit was HK\$127 million, down from HK\$138 million in 2013, as an arbitration settlement with the local transport authority for energy cost provision amounting to HK\$46 million was awarded in favour of MTRS in 2013. In the Mainland of China, the revenue and expenses of the Shenzhen Metro Longhua Line were HK\$601 million and HK\$455 million, respectively. The resulting operating profit rose by HK\$68 million to HK\$146 million, mainly due to higher patronage. The Group's property rental and management businesses in the Mainland of China recorded an operating profit of HK\$27 million, an increase of HK\$4 million from 2013.

Other businesses, including Ngong Ping 360, consultancy business and project management service to the Government for the entrustment works regarding the Express Rail Link and Shatin to Central Link, recorded an overall operating profit of HK\$193 million, up 30.4% from 2013. The increase was mainly due to higher visitor numbers as well as the full year impact of the fare rise at Ngong Ping 360 in December 2013. Overall operating margin rose by 1.3 percentage points to 9.0%. Revenue

from entrustment works on behalf of Government amounted to HK\$1,561 million, up 6.8%, and has been recognised on a cost recovery basis.

Including marketing expenses of HK\$55 million incurred by MTR Property Development (Shenzhen) Company Limited as mentioned above and project study and new business development expenses amounting to HK\$454 million in 2014, operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment increased by 7.1% to HK\$15,423 million. Operating margin increased by 1.2 percentage points to 38.4%.

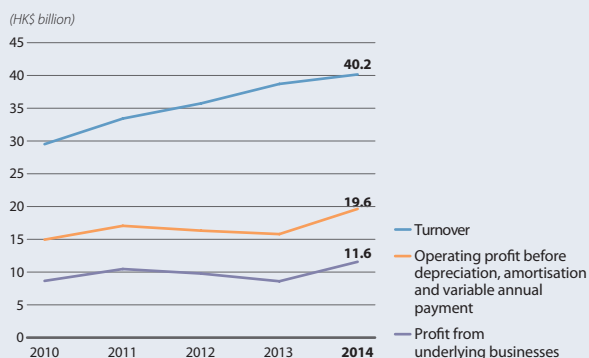
Hong Kong property development profit before tax in 2014 was HK\$4,216 million, comprising profit recognitions from The Austin and Grand Austin, surplus from the sale of inventory and agency fee income from the West Rail property developments. In 2013, Hong Kong property development profit before tax amounted to HK\$1,396 million, which was derived mainly from the sale of inventory units at The Riverpark at Che Kung Temple Station and car parking spaces at various developments.

Variable annual payment to Kowloon-Canton Railway Corporation ("KCRC") on relevant revenue generated from use of KCRC assets was HK\$1,472 million, increasing by 18.0% over 2013 as a higher level of relevant revenue was generated and charged at the highest 35% charge band. Depreciation and amortisation increased by 3.4% to HK\$3,485 million in 2014. Net interest and finance charges were HK\$545 million, down from HK\$732 million in 2013 due to lower average debt balances. Investment property revaluation gain amounted to HK\$4,035 million in 2014, down from HK\$4,425 million in 2013.

Share of profits from associates decreased from HK\$158 million in 2013 to HK\$121 million in 2014. Profit sharing from Octopus Holdings Limited amounted to HK\$226 million, about the same level as in 2013. Share of profit from Beijing MTR Corporation

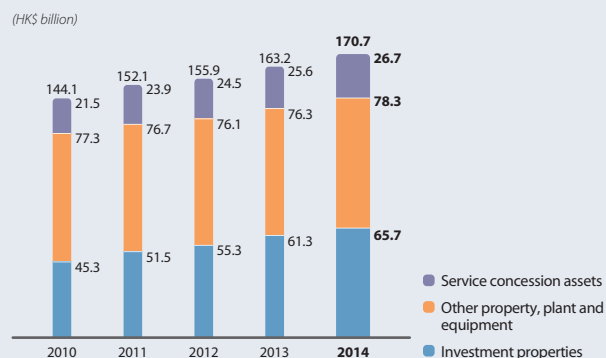
Net Results from Underlying Businesses

Supported by the profit growth in both recurrent and property development businesses, underlying business profit in 2014 reported a record high at HK\$11.6 billion.



Fixed Assets Growth

Fixed assets in 2014 increased to HK\$170.7 billion mainly due to asset additions for the Hong Kong rail system, revaluation gains in investment properties, as well as assets commissioned upon the opening of Western extension of the Island Line in December 2014.



Limited amounted to HK\$185 million in 2014, a decrease of HK\$18 million from 2013 due to an increase in energy tariff and train overhaul expenses. Share of profit from London Overground Rail Operations Limited and management fee income to the Group amounted to HK\$24 million and HK\$14 million, an increase from HK\$18 million and decrease from HK\$15 million in 2013, respectively. For Hangzhou MTR Corporation Limited, our share of loss amounted to HK\$315 million, a similar level as in 2013. Share of profit from Tunnelbanan Teknik Stockholm AB amounted to HK\$5 million in 2014, a decrease from HK\$17 million in 2013 due to an increase in operating expenses. Share of profits from the other associates amounted to a loss of HK\$4 million in 2014, mainly due to initial losses in respect of our new franchise in Australia.

Net profit attributable to shareholders, after deducting income tax of HK\$2,496 million and profits shared by non-controlling interests of HK\$191 million, increased from HK\$13,025 million in 2013 to HK\$15,606 million in 2014. Earnings per share therefore increased from HK\$2.25 to HK\$2.69. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK\$11,571 million, up 34.5% against 2013, with earnings per share also increasing from HK\$1.48 in 2013 to HK\$1.99 in 2014. Underlying profit from our recurrent businesses grew by 7.9% to HK\$8,024 million, while post-tax property development profits increased from HK\$1,163 million in 2013 to HK\$3,547 million in 2014.

In line with our progressive dividend policy, the Board has proposed a final dividend of HK\$0.80 per share, giving a full year dividend of HK\$1.05 per share, an increase of 14.1% over 2013, with a scrip dividend option offered.

Balance Sheet

Our balance sheet remained strong, as net assets increasing by 7.1% to HK\$163,482 million at the end of 2014 as compared with the end of 2013.

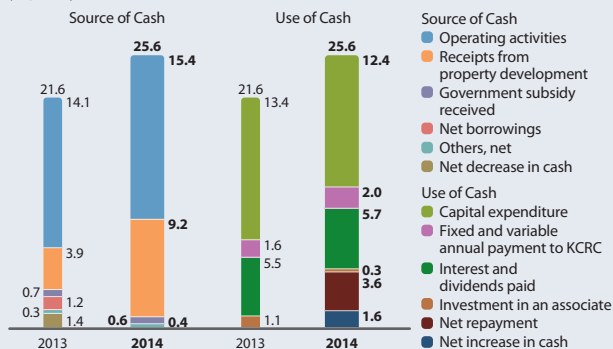
Total assets increased by HK\$11,329 million during the year to HK\$227,152 million at 31 December 2014. Total fixed assets increased by HK\$7,500 million to HK\$170,656 million. The increase was mainly due to asset additions, revaluation gains on our investment properties and self-occupied properties as well as the transfer of the construction costs of the Island Line extension from railway construction in progress upon opening of the stations in December 2014, after depreciation, amortisation and disposals were deducted. Railway construction in progress increased by HK\$4,681 million to HK\$16,229 million as a result of further construction works for the South Island Line (East) and Kwun Tong Line Extension. Interests in associates increased by HK\$520 million to HK\$5,797 million, mainly due to further equity injection into Tianjin TJ-Metro MTR Construction Company Limited ("TJ-MTR") and our share of profits from associates in 2014. Amounts due from related parties amounted to HK\$1,073 million, an increase of HK\$419 million, mainly relating to costs recoverable from Government for the Shatin to Central Link. Property development in progress decreased by HK\$3,743 million to HK\$7,490 million as cash was received from the developer for the reimbursement of land premium at Austin Station sites. Cash, bank balances and deposits increased by HK\$1,596 million to HK\$18,893 million, mainly due to cash receipts from our property development projects net of repayments of bank borrowings.

Total liabilities of the Group increased slightly from HK\$63,121 million at the beginning of 2014 to HK\$63,670 million at the end of 2014, while total bank borrowings decreased by HK\$4,004 million to HK\$20,507 million. Creditors and accrued charges increased by HK\$2,628 million to HK\$16,421 million mainly due to increases in project accruals for our Hong Kong rail extension projects as well as project management fees received in advance for our entrustment works on behalf of Government. Amounts due to related parties amounted to HK\$1,607 million, an increase of HK\$219 million that was mainly due to an increase in variable annual payment due to KCRC. Current and deferred tax liabilities

Cash Utilisation

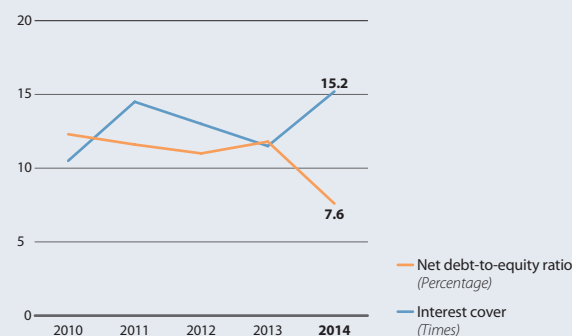
Net increase in cash in 2014 was mainly contributed by higher cash inflow from operating activities and property development.

(HK\$ billion)



Debt Servicing Capability

Interest cover and gearing ratio were enhanced in 2014.



balances increased by HK\$647 million and HK\$688 million to HK\$996 million and HK\$10,977 million in 2014, respectively.

Share capital and other statutory capital reserves increased by HK\$838 million to HK\$45,280 million as a result of new shares issued under the employee share option schemes. Together with the increase in retained earnings, net of dividends paid, and an increase in fixed asset revaluation reserve and other reserves of HK\$9,930 million, total equity attributable to shareholders of the Company increased by HK\$10,768 million to HK\$163,325 million at 31 December 2014.

The net debt-to-equity ratio decreased from 11.8% at 2013 year-end to 7.6% at 2014 year-end.

Cash Flow

Cash generated from operations, net of taxes paid and working capital movements, increased by HK\$1,289 million to HK\$15,392 million in 2014, mainly due to the increase in operating profit. Receipts from property developments of HK\$9,176 million mainly relate to the recovery of land premium and surplus proceeds for Austin Station sites as well as other surplus proceeds from The Riverpark, Lake Silver, Le Prestige and The Palazzo. Government subsidy for the Shenzhen Metro Longhua Line received was HK\$652 million. Including other cash receipts, such as dividends received from associates and proceeds from new shares issued under the employee share option schemes, totalling HK\$375 million, net cash receipts increased from HK\$19,042 million in 2013 to HK\$25,595 million in 2014.

For railway operations, total capital expenditure during the year was HK\$9,771 million, including HK\$2,960 million for the purchase of assets for our Hong Kong transport operations' existing railways and related operations, HK\$6,340 million for the construction of Hong Kong railway extension projects, and HK\$471 million for Shenzhen Metro Longhua Line railway operations. For property related businesses, total capital expenditure was HK\$2,588 million, including HK\$410 million

and HK\$681 million for Hong Kong and Shenzhen property development projects, respectively, and HK\$1,497 million for property renovation and fitting out works for our investment properties and land premium paid in relation to the Maritime Square Extension project. During the year, the Group also made a further equity injection into TJ-MTR of HK\$294 million. The Group paid fixed and variable annual payments to KCRC amounting to HK\$1,997 million and dividends to our equity shareholders amounting to HK\$4,944 million. After net interest payment of HK\$602 million and dividends to holders of non-controlling interests of HK\$153 million, net cash payments decreased from HK\$21,624 million in 2013 to HK\$20,349 million in 2014.

Overall, a net cash inflow before financing activities of HK\$5,246 million was generated. After net loan repayment of HK\$3,650 million, the Group's cash balance increased from HK\$17,297 million at 31 December 2013 to HK\$18,893 million at 31 December 2014.

Financing Activities

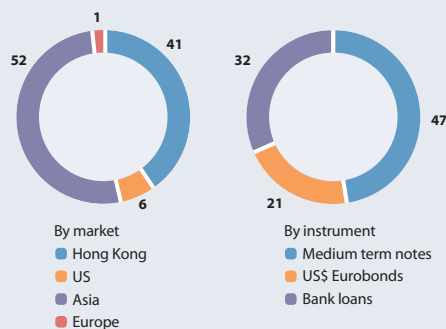
During the year, the U.S. economy continued to grow in a moderate pace with improvement in employment, housing and consumer sentiment. The US Federal Reserve ended its bond buying programme ('QE') in October as expected and began preparing the market for its first rate hike since 2006. In anticipation, the short-to-medium end of the treasury yield curve became increasingly volatile with the 2-year Treasury yield rising to as high as 0.74% p.a. before ending the year at 0.66% p.a..

By contrast, despite the ending of QE, long-term treasury yields continued to decline during the year to near historical lows on the back of subdued inflation, significantly lower energy and commodity prices, as well as safe haven flows from other underperforming or politically troubled economies. Yields on 10-year and 30-year Treasuries declined from a high of 3.03% p.a. and 3.97% p.a. in the beginning of 2014 to end the year

Sources of Borrowing

Although Hong Kong is our main market, our strategy is to diversify our funding sources and maintain ready access to other important international markets.

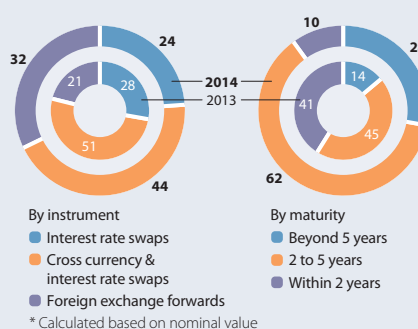
(Percentage) (As at 31 December 2014)



Use of Interest Rate and Currency Risk Hedging Products

The Company uses derivative financial instruments for hedging purposes, and has a strict policy of limiting their usage for hedging purposes only.

(Percentage*) (As at 31 December 2014)



respectively at 2.17% p.a. and 2.75% p.a., while the 3-month USD-LIBOR rate rose slightly from 0.25% p.a. to 0.26% p.a.. In Hong Kong, yield on 10-year Hong Kong Exchange Fund Notes trended down to 1.86% p.a. from 2.31% p.a., while the 3-month HKD-HIBOR remained at 0.38% p.a..

During the year, a core financing strategy of the Group was to arrange bilateral banking facilities to provide sufficient coverage of forward funding needs whilst taking advantage of near historical low interest rates to lock in fixed rate funding via selective private placements of long-term notes. Following this strategy, the Group took advantage of improved liquidity in the Hong Kong banking market to arrange additional bilateral banking facilities totalling over HK\$4,000 million at more competitive fees and tighter credit margins.

The Group also took advantage of the lower long-term rates and favourable arbitrage funding opportunities in the Australian dollar market to issue 12-year and 15-year notes in Australian dollars which were swapped into HK dollars at very favourable fixed rate levels. Totalling about HK\$550 million, these notes helped further lengthen and diversify the Group's debt maturity profile whilst helping to lock in attractive fixed rate long-term funding.

Cost of Borrowing

The Group's consolidated gross debt position decreased from HK\$24,511 million at year-end 2013 to HK\$20,507 million at year-end 2014 whilst the weighted average borrowing cost remained the same at 3.6% in 2014, resulting in lower net interest expense charged to the Profit and Loss Account of HK\$545 million as compared to HK\$732 million in 2013.

Treasury Risk Management

The Board of Directors approves policies for overall treasury risk management covering areas of liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and investment of excess liquidity.

The Group's well established Preferred Financing Model (the "Model") is an integral part of our risk management policy. The Model specifies the preferred mix of fixed and floating rate debt, sources of funds from capital and loan markets and debt maturity profile, as well as a permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which financing related liquidity, interest rate and currency risks are monitored and controlled.

In accordance with Board policy, derivative financial instruments shall only be used for controlling or hedging risk exposures, and not for speculation. Derivative instruments currently used by the Group are over-the-counter derivatives comprising mainly interest rate swaps, cross currency swaps and foreign exchange forward contracts.

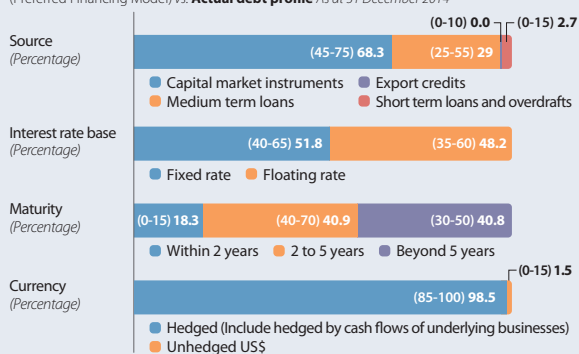
To control and diversify counterparty risks, the Group limits exposure to credit risk by placing deposits and transacting derivative instruments with financial institutions having acceptable investment grade credit ratings.

In accordance with Board policy, all derivative instruments with counterparties are subject to a counterparty limit based on the counterparty's credit ratings. Credit exposure is estimated based on estimated fair market value and largest potential loss arising from these instruments using a "value-at-risk" concept, and monitored and controlled against respective counterparty limits. To reduce risk further, the Group applies set-off and netting arrangements across different instruments with the same counterparty.

Preferred Financing Model and Debt Profile

The Preferred Financing Model exemplifies the Company's prudent approach to debt management and helps ensure a well balanced debt portfolio.

(Preferred Financing Model) vs. **Actual debt profile** As at 31 December 2014



Deposits and short-term investments are subject to separate counterparty limits based on the counterparty's credit ratings, its note issuing bank status in Hong Kong, and the length of time that a deposit or short-term investment to be maintained with the counterparty.

The Group actively monitors the credit ratings and credit related changes of all its counterparties using additional information such as credit default swap levels, and will, based on these changes, adjust the counterparty limits accordingly.

In managing liquidity risk, the Group will maintain sufficient cash balance and undrawn committed banking facilities to provide forward coverage of at least between six to 15 months of projected cash requirements. The Group also conducts regular stress testing to identify and estimate any potential shortfall in future cash flow, and would arrange new financings or take other appropriate actions as necessary to reduce risk of material liquidity shortfall.

Credit Rating

Throughout the year, the Company's credit ratings remained strong and on par with those of the Hong Kong SAR Government.

The Company's issuer and senior unsecured debt ratings as well as short-term rating were affirmed in June 2014 by Moody's Investors Service at respectively "Aa1" and "P-1" with a stable outlook.

The Company's long-term corporate credit and short-term ratings were affirmed in August 2014 by Standard & Poor's at respectively "AAA" and "A-1+" with a stable outlook.

This was followed in November 2014 by the affirmation of Rating & Investment Information Inc. of Japan of the Company's issuer and short-term credit ratings of respectively "AA+" and "a-1+", with a stable outlook.

Financing Capacity

The Group's capital expenditure programme consists of three parts – Hong Kong railway projects, Hong Kong property investment and development, as well as Mainland of China and overseas investments.

Capital expenditure for Hong Kong railway projects comprises investment in and expenditures relating to new ownership projects of West Island Line, South Island Line (East) and Kwun Tong Line Extension, as well as outlays for maintaining and upgrading existing rail lines. Concession projects of the Express Rail Link and the Shatin to Central Link are generally funded by the Government although for the latter the Company will share certain costs for the rolling stock and signalling systems attributable to the East Rail and Ma On Shan Lines.

Capital expenditure for Hong Kong property investment and development comprises mainly costs of enabling works for property development, fitting-out and renovation works of shopping centres, and payments of portions of land premium for certain property development projects. Expenditure for Mainland of China and overseas investments consists primarily of equity contribution to BJMTR for the Beijing Metro Line 14 project, remaining capital expenditure for Shenzhen Metro Longhua Line, and investment in the Longhua depot property development project.

Based on current programme, total net capital expenditure for the next three years from 2015 to 2017 (inclusive) is estimated at HK\$27.1 billion for Hong Kong railway projects, HK\$15.5 billion for Hong Kong property investment and development, and HK\$8.1 billion for Mainland of China and overseas investments for a total of HK\$50.7 billion. Out of this total, it is estimated that HK\$27.6 billion will be incurred in 2015, HK\$13.3 billion in 2016, and HK\$9.8 billion in 2017.

With forward financing coverage extending beyond 2015 and a strong financial position, the Group believes that it has sufficient financing capacity to fund these capital expenditure projects and to capture other potential investment opportunities.

Credit ratings	Short-term ratings*	Long-term ratings*
Standard & Poor's	A-1+/A-1+	AAA/AAA
Moody's	-/P-1	Aa1/Aa1
Rating & Investment Information, Inc. (R&I)	a-1+	AA+

* Ratings for Hong Kong dollar/foreign currency denominated debts respectively