



MTR Corporation

2014 Annual Results

16 March 2015

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

Mr. Lincoln Leong, CEO

A Year of Achievements and Challenges

Good operational and financial results

Achievements

*Opening of Western Extension of Island Line
Successful property tendering
Growth outside Hong Kong on track*

Challenges

Hong Kong rail projects schedules and costs revised

Financial Highlights

(HK\$m)

	2014	2013	Change
Total revenue	40,156	38,707	3.7%
Revenue (before Mainland of China & international subsidiaries)	27,529	25,461	8.1%
Total EBITDA	15,423	14,399	7.1%
Recurrent EBITDA (before Mainland of China property development)	15,478	14,399	7.5%
EBITDA (before Mainland of China & international subsidiaries)	14,617	13,608	7.4%
Total EBITDA margin	38.40%	37.20%	1.2%pts
EBITDA margin (before Mainland of China & international subsidiaries)	53.10%	53.40%	(0.3)%pt
HK Property development profit	4,216	1,396	202%
Profit before taxation	18,293	15,027	21.7%
Reported net profit attributable to equity shareholders ⁽¹⁾	15,606	13,025	19.8%
Reported EPS (HK\$) ⁽¹⁾	2.69	2.25	19.6%
Profit from recurrent businesses	8,024	7,437	7.9%
Profit from underlying businesses	11,571	8,600	34.5%
Underlying businesses EPS (HK\$)	1.99	1.48	
Dividend per share (HK\$)	1.05	0.92	14.1%

1. Excluding non-controlling interests



Hong Kong Transport Operations

Hong Kong Transport Operations

On time performance maintained at 99.9%
Added over 1,100 weekly train trips services
Launched new fare promotions

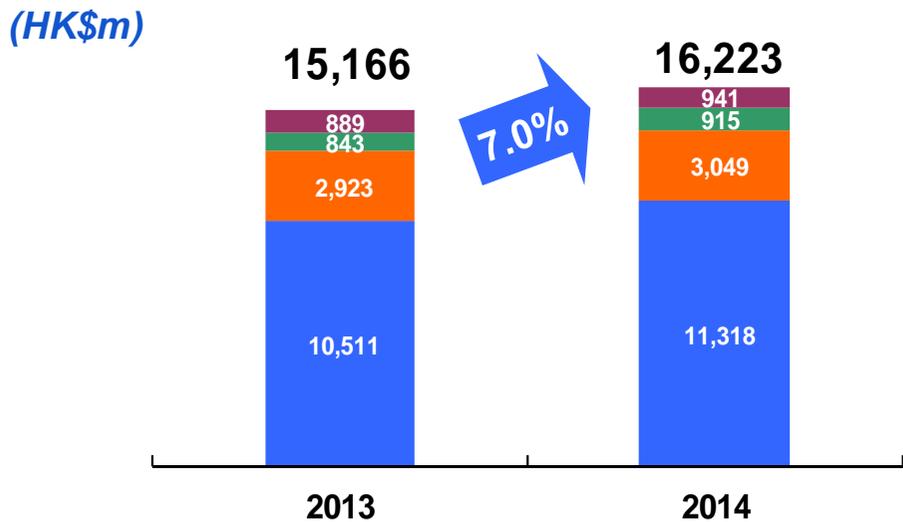
Over \$6 billion spent on maintenance and upgrade
Over \$3 billion contract for signalling
Refurbishing or replacing 78 trains

Sai Ying Pun Station opens on 29 March

Hong Kong Transport Operations

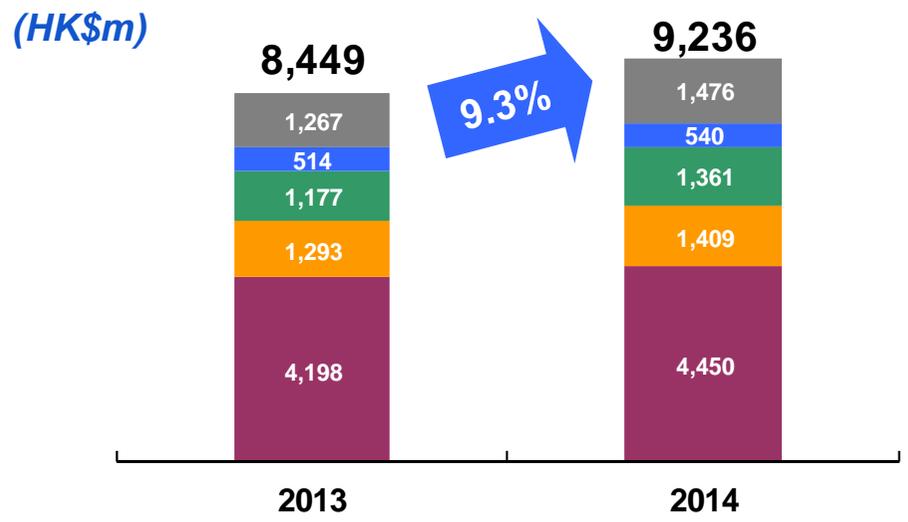
Total Patronage: 1,904.6million ↑ 4.5%

Revenue



- Domestic Service⁽¹⁾
- Cross-boundary Service
- Airport Express
- Others⁽²⁾

Cost



- Staff costs and related
- Energy and utilities
- Maintenance and related
- Stores and spares consumed
- General Admin, Railway Support & others

EBITDA: HK\$6,987m ↑ 4.0 %

EBITDA Margin: 43.1% ↓ 1.2%pts

1. Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
 2. Others comprise Light Rail, Bus, Intercity and other rail related income
 MTR Corporation

Revenue from Hong Kong Transport Operations

Fare revenue for Domestic Service⁽¹⁾:
HK\$11,318m



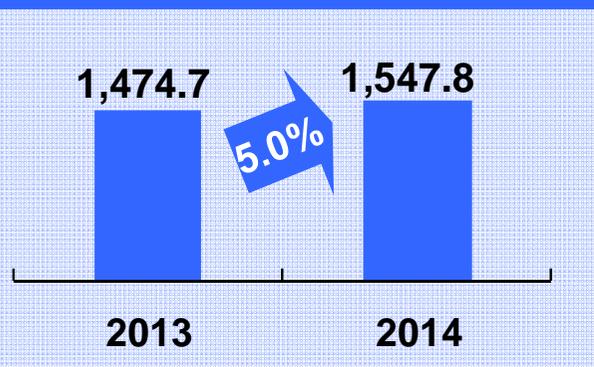
Fare revenue for Cross-boundary Service:
HK\$3,049m



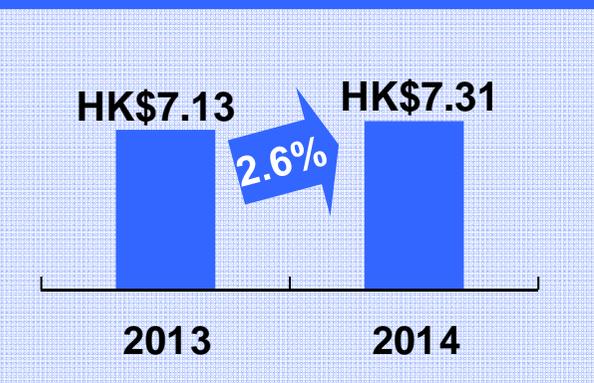
Fare revenue for Airport Express: HK\$915m



Domestic Service Patronage (m)



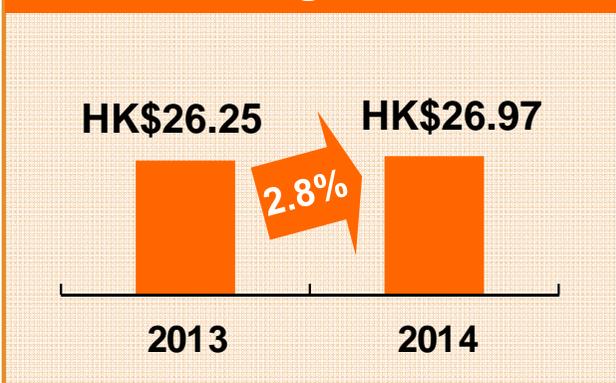
Domestic Service Average Fare



Cross-boundary Service Patronage (m)



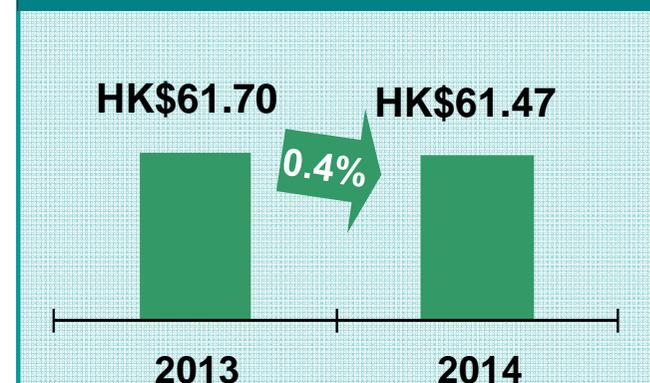
Cross-boundary Service Average Fare



Airport Express Patronage (m)



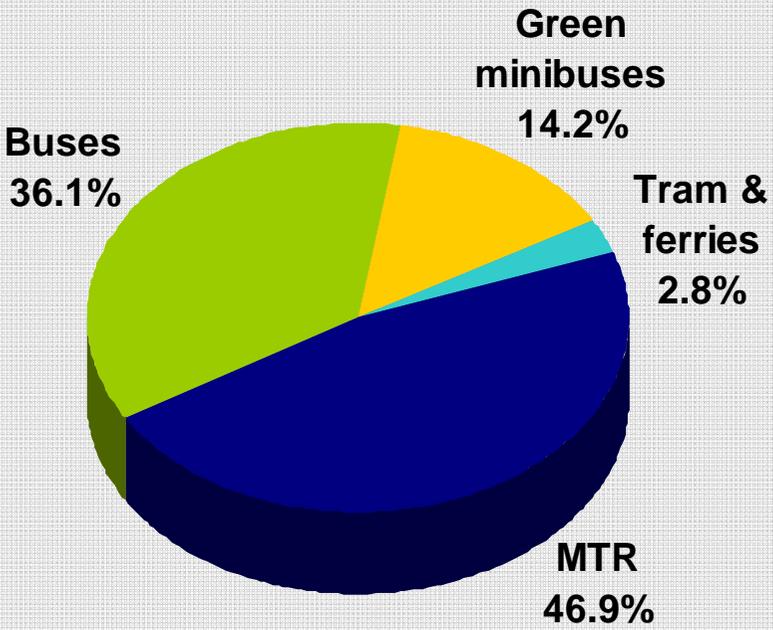
Airport Express Average Fare



1. Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
MTR Corporation

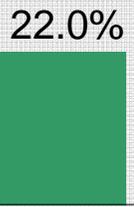
Market Share

Hong Kong Franchised Public Transport



2013

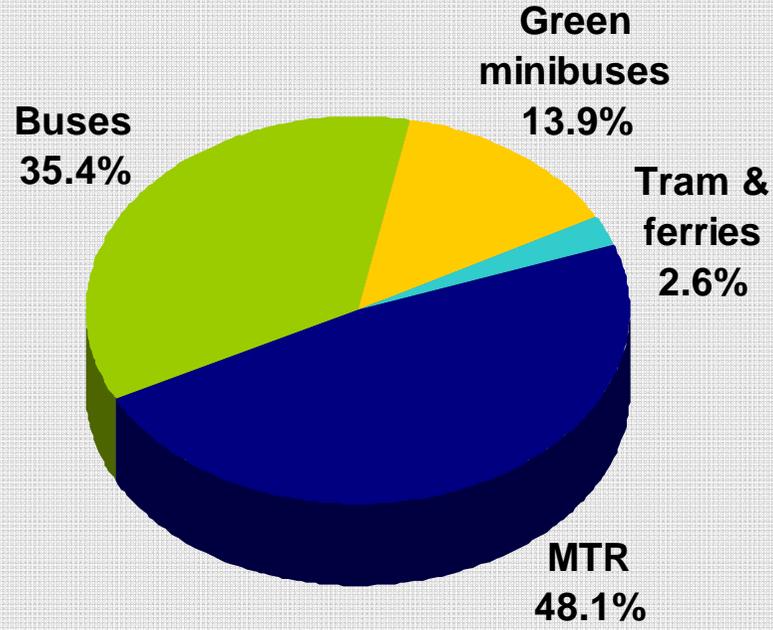
Airport Express



2013 ⁽¹⁾



2014 ⁽¹⁾

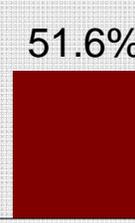


2014

Cross-boundary



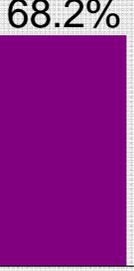
2013



2014



2013



2014

Sources: The Transport Department / Immigration Department / Airport Authority Hong Kong

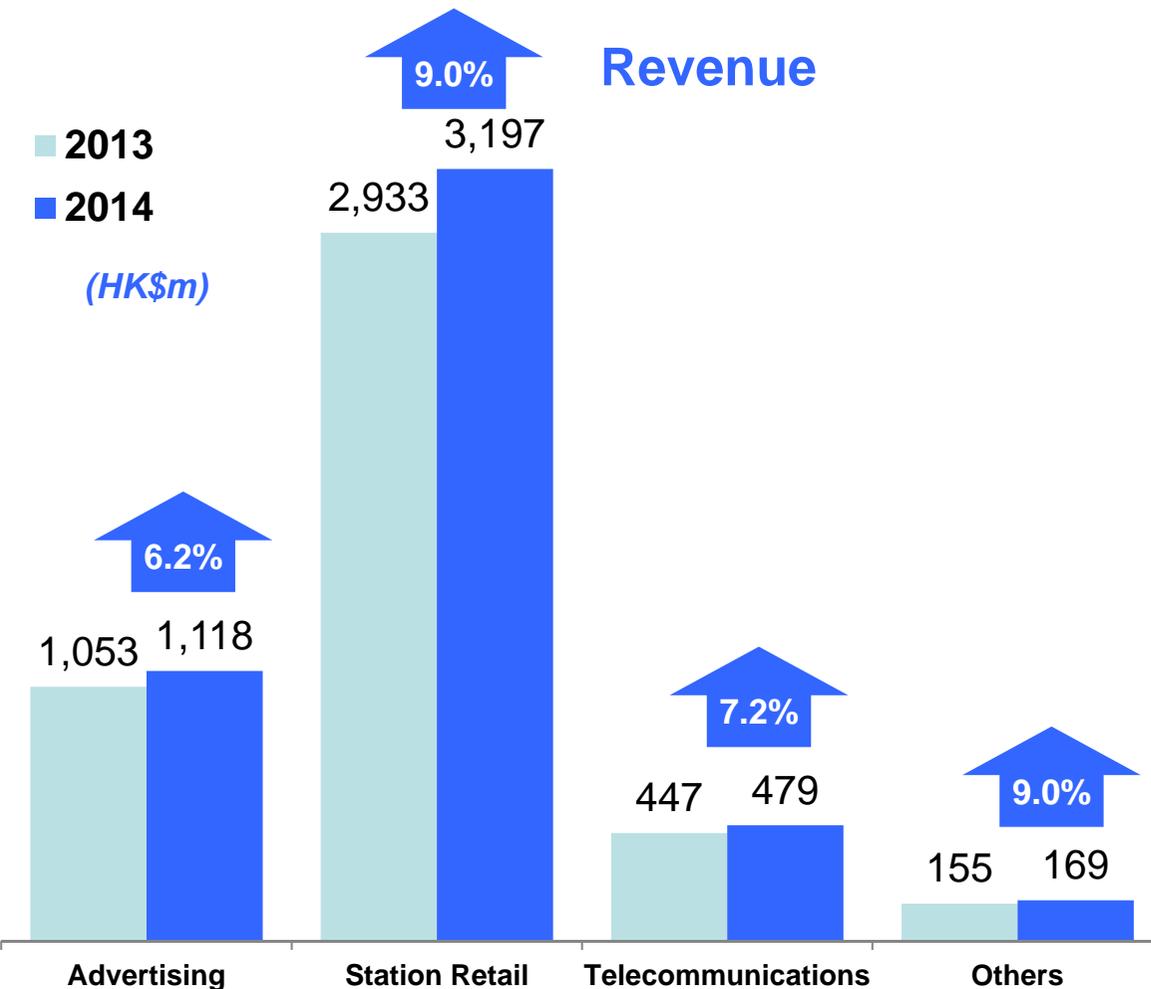
1. Calculation based on the proportion of air passenger using Airport Express over the total air passenger figures reported by the Airport Authority Hong Kong



Hong Kong Station Commercial Business

Hong Kong Station Commercial Business

Revenue: HK\$4,963m ↑ 8.2%	Cost: HK\$515m ↑ 11.0%	EBITDA: HK\$4,448m ↑ 7.9%
---	---	--



- Advertising revenue growth driven by continual launch of timely sales packages
- Station retail revenue growth mainly due to trade mix refinements and rental renewals of our station shops, and rental increases from duty free shops
- 1,350 shops and 55,696 sqm station retail space as at 31 Dec 2014⁽¹⁾
- Telecom revenue growth mainly due to more mobile data capacity projects

EBITDA Margin:
 89.6% ↓ 0.3%pt

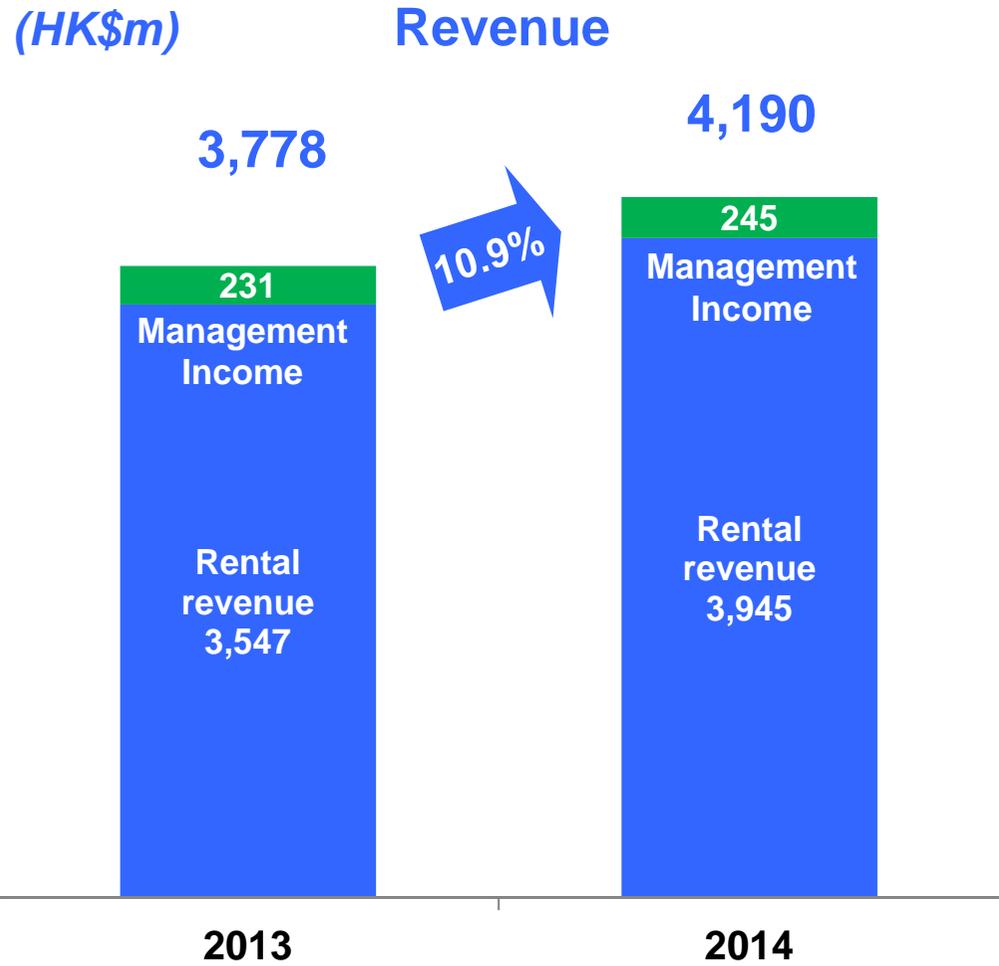
1. Overall retail space decreased by 1% from 2013



Hong Kong Property Businesses

Hong Kong Property Rental and Management Businesses

Revenue: HK\$4,190m ↑ 10.9%	Cost: HK\$747m ↑ 11.0%	EBITDA: HK\$3,443m ↑ 10.9%
--	---	---



- Average increase of 13% in rental reversion at shopping malls in Hong Kong
- Renewal of lease with a major tenant at Two IFC in mid-2014
- MTR shopping malls and the 18 floors at Two IFC remained close to 100% let
- Investment portfolio – Dec 2014
 - HK Retail: 212,500 sqm⁽¹⁾
 - HK Offices: 41,006 sqm⁽¹⁾

EBITDA Margin:
 82.2% No Change

1. Lettable floor area attributable to MTR Corporation

Hong Kong Property Development

HK Property Development Profit

- Profits of HK\$4.2 billion mainly from the booking of profits at The Austin and Grand Austin

Property tendering

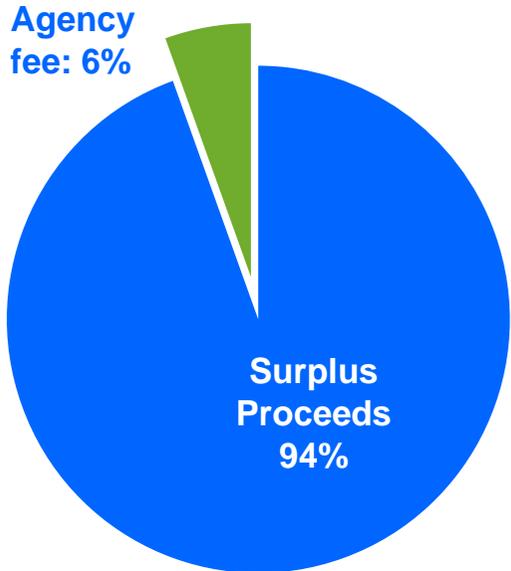
2014

- LOHAS Park Package 4 - a subsidiary of Sun Hung Kai in April
- Tai Wai Station Site - a subsidiary of New World Development in Oct
- LOHAS Park Package 5 - a subsidiary of Wheelock in Nov

2015 to date

- LOHAS Park Package 6 - a subsidiary of Nan Fung in Jan 2015
- Tin Wing Stop (Light Rail) Site - a subsidiary Sun Hung Kai in February 2015

At LOHAS Park, total number of units increased by 4,000 to a maximum of 25,500 units

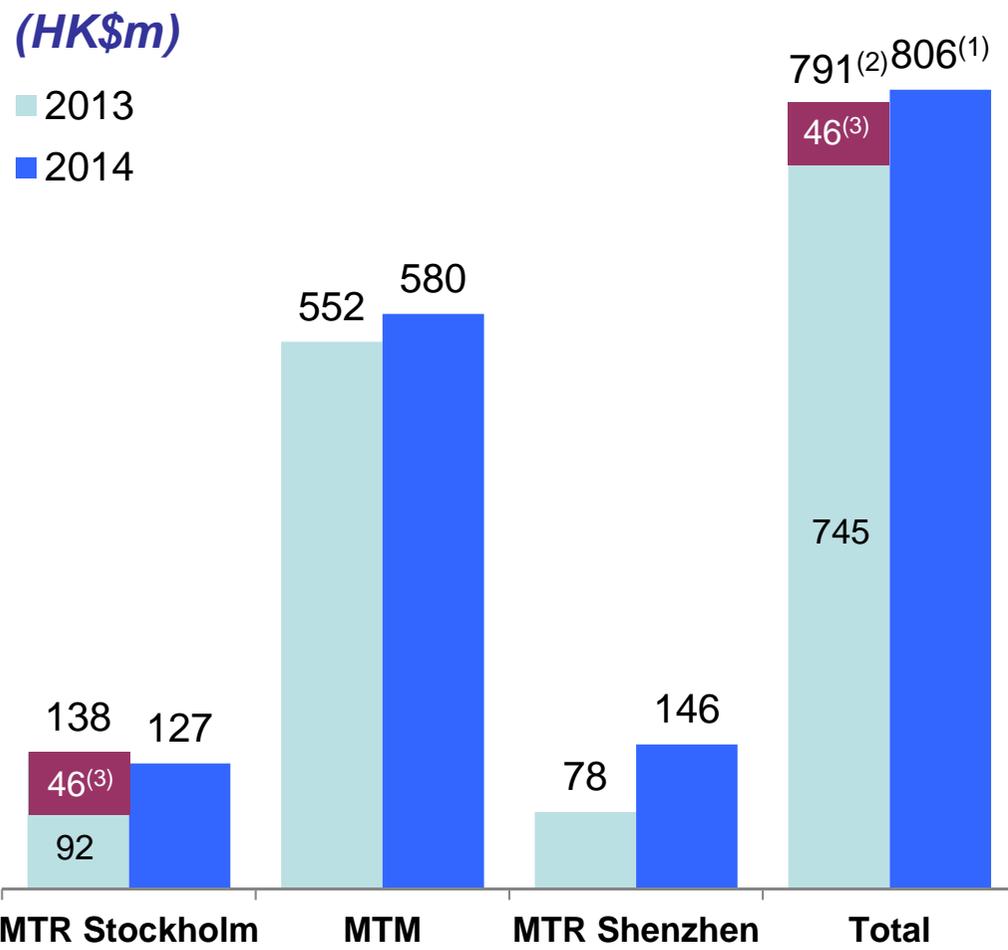




Mainland of China & International Businesses

Mainland of China and International Businesses - Subsidiaries

EBITDA contribution: HK\$806m

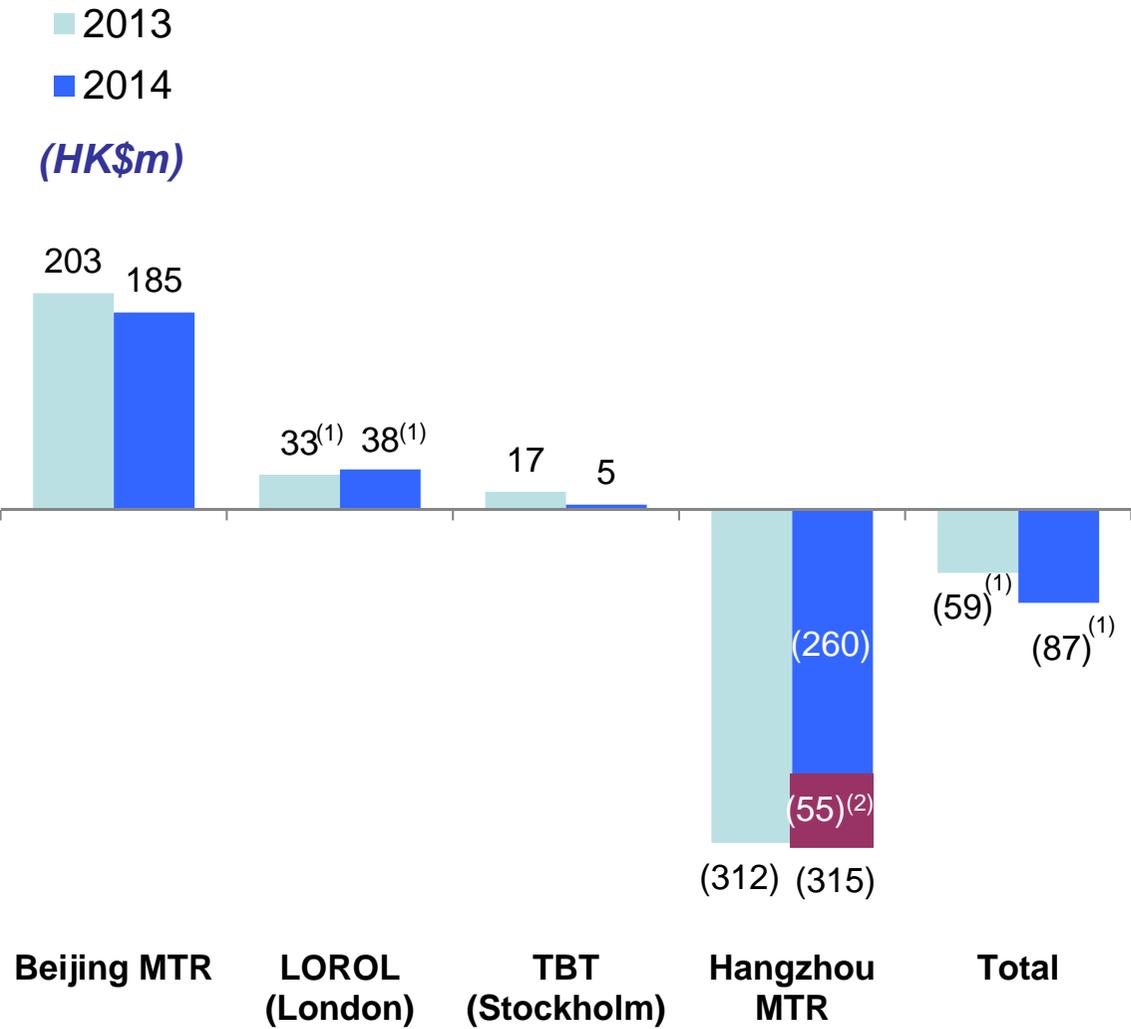


- **MTR Stockholm**
 - Good operational and financial performance
 - Higher revenue from franchise fee and better operational performance
- **Metro Trains Melbourne (MTM)**
 - Good operational and financial performance
 - More contribution from projects despite unfavourable currency movement
- **MTR Shenzhen**
 - Good operational and financial performance due to increased patronage
 - Capacity increased by 50% with all the trains in service converted from 4-car to 6-car trains

1. Includes operating loss of HK\$47 million from Mainland of China property development, rental and management, MTR Express and Northwest Rail Link in 2014
 2. Includes EBITDA of HK\$23 million from Mainland of China property rental and management in 2013
 3. One-off recovery of energy cost charged for prior years

Mainland of China and International Businesses - Associates

Analysis of results by associates: HK\$(87)m



- Beijing MTR (BJMTR), Mainland of China**
 - Good operational performance
 - Phase 2 of Beijing Line 14 opened in Dec 2014
 - Fare increase applied across the entire Beijing metro system on 28 Dec 2014

- London Overground (LOROL), UK**
 - Continued its award-winning service
 - Appointed to run additional 28 stations and 42km of route length starting May 2015

- Hangzhou MTR (HZMTR), Mainland of China**
 - Second anniversary of operation in Nov 2014
 - Patronage in 2014 up 56% to 144.4 million with average weekly at 380,000
 - Financial performance did not mirror the rise in patronage due to prior year adjustments and increases in interest expenses in 2H14

1. Included a management fee income booked under consultancy business
 2. Expenses relating to prior year items that should have been charged in 2013

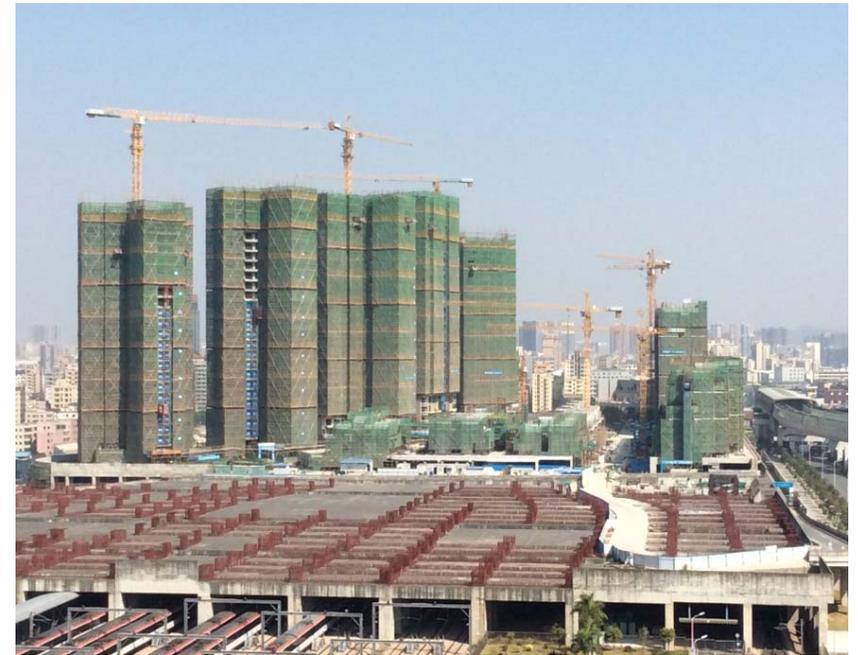


Growth Initiatives outside of Hong Kong

Expansion outside Hong Kong – Mainland of China

Shenzhen Property Development - Tiara

- GFA: 206,167 sqm
- Approximately 1,700 units plus commercial area of 10,000 sqm
- Total Investment RMB¥4.1b (estimated) including RMB¥2b land premium
- Phase 1 presales expected in 1H 2015
- Part of net profits shared with Shenzhen Municipality to support metro development in Shenzhen



Tianjin Property Development

- Joint venture between MTR (49%) and Tianjin Metro (51%)
- Total investment: RMB¥5b (estimated) including RMB¥2.075b land premium
- Total GFA: 278,650 sqm
- Residential and commercial use
- Design works have largely been completed

Expansion outside Hong Kong – International

United Kingdom

Crossrail (O&M franchise), London

- Concession agreement granted
- 8 year concession with an option to extend to 10 years
- 118km (40 stations) including 42 km of new tunnels across London
- To commence service in phases from 2015 to 2019



Australia

North West Rail Link (PPP), Sydney

- Contract awarded to MTR consortium
- New 36km rail line with project completion targeted in 2019
- MTR responsible for design and delivery of railway system together with O&M for 15 years
- MTR equity investment of approximately AUD63M

Sweden

MTR Express

- New train service between Stockholm and Gothenburg
- MTR Express will provide about 90 weekly train trips
- Total investment of approximately HK\$830 million
- Launch of service on 21 March 2015





Growth Initiatives in Hong Kong

MTR Owned Projects in Hong Kong

Western extension of Island Line

- Opened HKU and Kennedy Town Stations on 28 December 2014
- Sai Ying Pun Station now set to open on 29 March 2015 (excluding Ki Ling Lane entrance)
- Estimated project cost of HK\$18.5 billion (excluding capitalised interest)



MTR Owned Projects in Hong Kong

South Island Line (East)

- Current target opening at the end of 2016
- Major challenge which may impact the timetable – the underpinning works at Admiralty station
- Progress achieved:
 - Excavation of 3.2km Nam Fung Tunnel connecting Admiralty and Ocean Park stations was completed in Oct 2014
 - Structural works for Ocean Park and Wong Chuk Hang stations completed and fitting-out and E&M works in progress
- Current estimated project cost of HK\$15.2 billion (excluding capitalised interest) subject to further review and may be revised upwards

82% complete



MTR Owned Projects in Hong Kong



Kwun Tong Line Extension

- Current target opening in mid 2016
- Major challenge which may impact the timetable - excavation of the platform tunnel at Whampoa Station
- Progress achieved:
 - Excavation of both West and East concourses at Whampoa Station 88% completed
 - Ho Man Tin Station: 66% of structural works completed
- Current estimated project cost of \$5.9 billion (excluding capitalised interest) but will be reviewed and may be revised upwards



72% complete



MTR Entrusted Projects in Hong Kong

Express Rail Link

- Current target completion at end-2017
- Challenges: West Kowloon Terminus and cross-boundary tunnel
- Progress achieved:
 - Excavation of Mei Lai Road to Hoi Ting Road tunnels completed in Oct 2014
 - Excavation work of West Kowloon Terminus 88% complete
- Independent Board Committee (IBC) reports published in Jul and Oct with recommendations being implemented
- Government's Independent Expert Panel (IEP) report published in January 2015
- Review of project cost to take into account continued construction challenges and IBC experts' recommendation for the use of 'tiered contingency' funds which may result in significant increase to cost estimate

66% complete



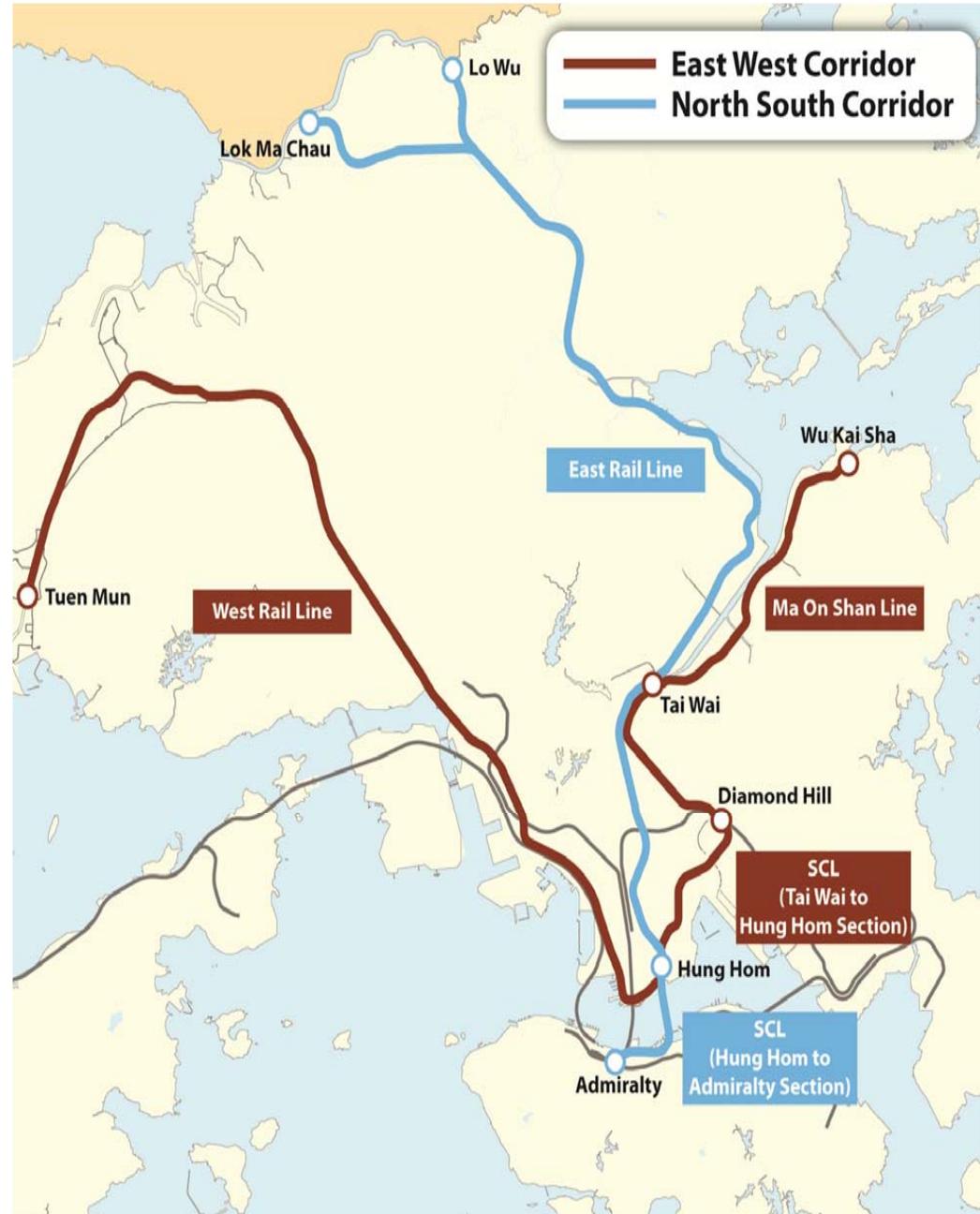
MTR Entrusted Projects in Hong Kong

Shatin to Central Link

- East-West Corridor – archaeological works in To Kwa Wan Station area resulted in 11 months delay to a target opening in 2019
- North-South Corridor – estimated delay of 6 months to a target opening in 2021 due to the expected late handover of the construction site by other infrastructure projects
- Progress achieved:
 - Diamond Hill and Hin Keng stations were 48% and 37% completed
 - Modification works on Ma On Shan Line station platforms to support the operation of 8-car trains 75% completed
- Project cost review to take into account archaeological works, delays, construction challenges and IBC recommendations



27% complete



New Initiative in Hong Kong

Maritime Square Extension

- Adding 12,100 sqm gross floor area to Maritime Square Shopping Centre in Tsing Yi
- Construction works commenced in 2014
- Estimated cost at HK\$2.4 billion (before capitalised interest)
- Target opening in 4Q 2017



Tai Wai Shopping Mall



- Total land premium: HK\$10.3 billion
- MTR contribution: HK\$7.5 billion
- MTR will take ownership of and invest further in fitting out the shopping mall
- Shopping mall GFA: 62,000 sqm
- Target opening in 2021
- Profit sharing from the residential development

Railway Development Strategy 2014



Project	Route Length (km)
Northern Link / Kwu Tung Station	10.7
Tuen Mun South Extension	2.4
Tung Chung West Extension	1.5
South Island Line (West)	7.4
North Island Line	5.0
East Kowloon Line	7.8
Hung Shui Kiu Station	-
Total	34.8



Financial Results

Mr. Stephen Law, Finance Director

Consolidated Income Statement

(HK\$m)

	2014	2013	% change
Revenue from HK transport operations	16,223	15,166	7.0
Revenue from HK station commercial, HK property rental and management businesses	9,153	8,366	9.4
Revenue from Mainland of China & international subsidiaries	12,627	13,246	(4.7)
Revenue from other businesses	2,153	1,929	11.6
Total revenue	40,156	38,707	3.7
Operating expenses before Mainland of China & international subsidiaries	(12,912)	(11,853)	(8.9)
Expenses relating to Mainland of China & international subsidiaries	(11,821)	(12,455)	5.1
Total operating expenses	(24,733)	(24,308)	(1.7)
EBITDA excluding Mainland of China & international subsidiaries	14,617	13,608	7.4
Total EBITDA	15,423	14,399	7.1
HK property development profit	4,216	1,396	202.0
Total operating profit	19,639	15,795	24.3
Variable annual payment	(1,472)	(1,247)	(18.0)
Depreciation & amortisation	(3,485)	(3,372)	(3.4)
Interest and finance charges	(545)	(732)	25.5
Investment property revaluation	4,035	4,425	(8.8)
Share of profit of associates	121	158	(23.4)
Profit before taxation	18,293	15,027	21.7
Income tax	(2,496)	(1,819)	(37.2)
Reported net profit attributable to equity shareholders⁽¹⁾	15,606	13,025	19.8
Reported earnings per share (HK\$)	2.69	2.25	19.6
Profit from underlying businesses	11,571	8,600	34.5
Underlying businesses EPS (HK\$)	1.99	1.48	34.5
Final dividend per share (HK\$)	0.80	0.67	19.4
Total dividend per share (HK\$)	1.05	0.92	14.1

1. Excluding non-controlling interests of HK\$191 million and HK\$183 million in 2014 and 2013 respectively.

Segmental Profits of Underlying Businesses

<i>(HK\$m)</i>	<u>2014</u>	<u>2013</u>	<u>% change</u>
HK Transport operations (after variable annual payment)	2,710	2,716	(0.2%)
Hong Kong Station Commercial	3,927	3,668	7.1%
Mainland of China and international railway, property, rental & management (including railway associates)	611	530	15.3%
Hong Kong property rental and management	3,427	3,092	10.8%
Others ⁽¹⁾	(103)	(185)	44.3%
EBIT on recurrent businesses	<u>10,572</u>	<u>9,821</u>	7.6%
Interests on recurrent profits	(595)	(715)	16.8%
Tax on recurrent profits	(1,953)	(1,669)	(17.0%)
Post-tax recurrent profits	8,024	7,437	7.9%
Pre-tax HK property development profits	4,216	1,396	202.0%
Tax on HK property development profits	(632)	(233)	(171.2%)
Pre-tax & pre-interest PRC property development profits	(56)	-	N/A
Tax & interest on PRC property development profits	19	-	N/A
Post-tax property development profits	3,547	1,163	205.0%
Profit from underlying businesses	11,571	8,600	34.5%

Note:

All segmental profits shown are pre-tax profits.

1. Encompassing profit / loss from consultancy, Ngong Ping 360 and Octopus Holdings Limited, project study and business development expenses as well as services to Government.

Consolidated Balance Sheet

(HK\$m)

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Investment properties	65,679	61,285
Other property, plant and equipment	78,279	76,277
Service concession assets	26,698	25,594
Railway construction in progress	16,229	11,548
Property development in progress	7,490	11,233
Cash, bank balances and deposits	18,893	17,297
Debtors, deposits and payments in advance	3,797	3,621
Properties held for sale	1,076	1,105
Amounts due from related parties	1,073	654
Interest in associates	5,797	5,277
Others	2,141	1,932
	<u>227,152</u>	<u>215,823</u>
<u>Liabilities</u>		
Debts	20,507	24,511
Creditors and accrued charges	16,421	13,793
Obligations under service concession	10,614	10,658
Current taxation	996	349
Deferred tax liabilities	10,977	10,289
Others	4,155	3,521
	<u>63,670</u>	<u>63,121</u>
<u>Total Equity</u>	<u><u>163,482</u></u>	<u><u>152,702</u></u>

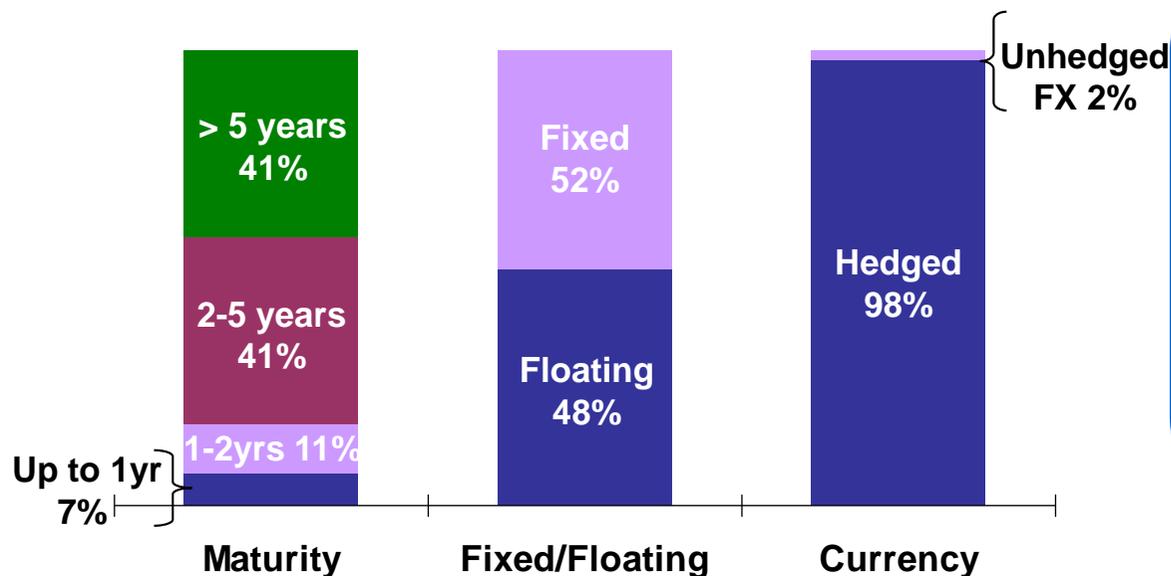
Cash Flow

(HK\$m)

	<u>2014</u>	<u>2013</u>
<u>Cash Inflow</u>		
Cash flows from operating activities before tax payment and working capital	15,513	14,551
Working capital movements	1,006	895
Receipt of government subsidy for Shenzhen Metro Longhua Line operation	652	661
Receipts in respect of property development	9,176	3,937
Others	375	341
Total inflows	26,722	20,385
<u>Cash Outflow</u>		
Tax paid	(1,127)	(1,343)
Fixed and variable annual payment	(1,997)	(1,633)
Capital expenditure		
- New rail	(6,340)	(6,849)
- Existing rail	(2,960)	(2,868)
- Property related	(2,588)	(3,062)
- Shenzhen Metro Longhua Line related	(471)	(577)
Investment in an associate	(294)	(1,111)
Net interest paid	(602)	(752)
Dividends paid	(5,097)	(4,772)
Total outflows	(21,476)	(22,967)
Net cash inflow/ (outflow) before financing	5,246	(2,582)
Net drawdown of loans	(3,649)	1,223
Increase/ (Decrease) in cash	<u>1,597</u>	<u>(1,359)</u>

Financing and Credit Ratios

Debt profile (31 Dec 2014)



Total borrowings outstanding
at HK\$20,507m (HK\$24,511m as at 31 Dec 2013)

Average borrowing cost:
3.6%

No Change

Net interest expense:
HK\$ 545 m

25.5%

Compared to 2013 figures

	Dec 2014	Dec 2013
Net Debt/Equity ratio⁽¹⁾	7.6 %	11.8%
Interest cover	15.2x	11.5x

1. Including obligations under service concession and loan from holders of non-controlling interests of a subsidiary as components of debt



Outlook

Outlook

- Economic outlook remains uncertain.
- Should Hong Kong economy and tourism continue to grow, with the opening of the Western extension of Island Line, we expect our rail business to experience further patronage increase.
- The rental renewals and reversions of our station commercial and property rental businesses will depend on market conditions.
- In property development business, sales for LOHAS Park Package 3 and presale of Phase 1 of the Shenzhen Tiara development are expected to be launched in the first half of 2015, depending on market conditions. As Occupation Permit for LOHAS Park Package 3 has already been obtained in December 2014, booking of profits will be based on the time when sales proceeds exceed the cost of development.
- In property tendering activities, subject to market conditions, we aim to tender out two or three packages in LOHAS Park as well as the Yuen Long Station site, where we act as agent for KCRC, between now and year end.



Q&A