





RAILWAY BUSINESSES IN THE
MAINLAND OF CHINA



PROPERTY BUSINESSES
IN THE MAINLAND OF CHINA



EUROPEAN RAILWAY
BUSINESSES



AUSTRALIAN
RAILWAY BUSINESSES

Mainland of China and International Businesses

Our Aims and Achievements

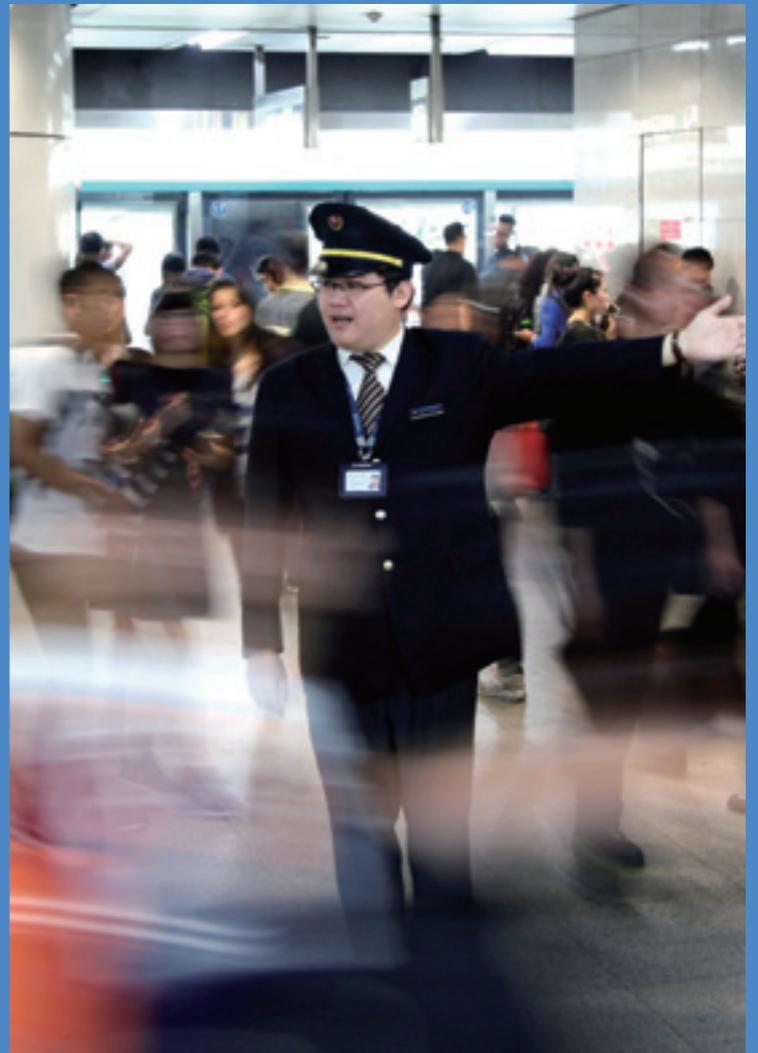
As part of our aim to become a leading multinational company, we are taking our strategy of growing and connecting communities into markets beyond Hong Kong. We have established a presence in three key geographies – the Mainland of China, Europe and Australia. In each of these, we aim to become recognised as the best rail operator through focusing on delivering what customers really want.

In 2016, our existing operations in the Mainland of China, the UK, Sweden and Australia continued to improve their reliability and levels of customer satisfaction, benefitting the communities we serve. During the year we began operating two new lines, Beijing Metro Line 16 Phase 1 and Stockholm commuter rail (“Stockholms pendeltåg”), the commuter rail service which connects the Swedish capital with surrounding suburban areas. We also handed over to buyers a number of sold units from Tiara in Shenzhen, our first property development outside Hong Kong.



Our Strategies

- Continue to capture rail construction, operation and maintenance opportunities in markets where we already operate
- Explore other business models in these markets, such as “Rail plus Property” to help address the demands of growing urban populations
- Selectively pursue opportunities in new markets
- Ensure that best practice is shared among our different businesses in and outside of Hong Kong, so as to deliver on our aim of becoming a leading multinational company



Financial Performance

The financial performance of the Mainland of China and international businesses is summarised below:

In HK\$ million	Year ended 31 December		Inc./{Dec.} %
	2016	2015	
Mainland of China Businesses			
Railway, Property Rental and Property Management subsidiaries			
Total Revenue	814	819	(0.6)
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	167	164	1.8
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	159	155	2.6
Property Development subsidiary			
Total Revenue	1,348	–	N/A
EBITDA	366	(140)	N/A
EBIT	366	(140)	N/A
Share of profit of associates	226	85	165.9
International Businesses			
Railway subsidiaries			
Total Revenue	12,664	11,753	7.8
EBITDA	421	562	(25.1)
EBIT	309	478	(35.4)
Share of profit of associates	60	41	46.3
Total EBITDA	954	586	62.8
Total EBIT	834	493	69.2
Total EBITDA Margin (in %)	6.4%	4.7%	1.7% pts.
Total EBIT Margin (in %)	5.6%	3.9%	1.7% pts.
EBIT from Mainland of China and International Railway, Property Rental and Management Subsidiaries net of non-controlling interest plus share of profit from railway associates (before interest and tax)	888	852	4.2
Number of passengers carried by our railway subsidiaries and associates outside of Hong Kong (in million)	1,828	1,598	14.4

In the Mainland of China businesses, the operating profit from our railway, property rental and property management subsidiaries remained steady. Operating profit from property development was derived from the hand-over of low-rise units in Tiara in Shenzhen. The increase in share of profit of associates was mainly due to improvements in the result of Hangzhou MTR Corporation Limited ("HZMTR"), which benefited from Hangzhou Metro Line 1 ("HZL1") patronage

growth, as well as a higher share of profits from Beijing MTR Corporation Limited ("BJMTR"), as the concession commenced for Beijing Metro Line 14 ("BJL14").

In the International businesses, the decrease in operating profit from our railway related subsidiaries was mainly due to lower profit contribution from Metro Trains Melbourne Pty. Ltd. ("MTM") in Australia resulting from refranchising costs and lower contribution from maintenance and overhaul activities.

Railway Businesses in the Mainland of China

Beijing

In China's capital, our 49% associate BJMTR operates four lines, Beijing Metro Line 4 ("BJL4"), the Daxing Line, BJL14 and the recently opened Phase 1 of Beijing Metro Line 16 ("BJL16"). Operational performance remained at high levels on the lines operated by BJMTR, with on-time performance in 2016 averaging over 99.9% across the three lines (excluding BJL16 which only opened on 31 December 2016).

Beijing Metro Line 4 and the Daxing Line

For BJL4 and the Daxing Line, combined ridership in 2016 was about 442 million passenger trips and average weekday patronage more than 1.29 million, increases of 3% and 4% respectively over last year.

Beijing Metro Line 14

The first three phases of BJL14 are now in service. The 30-year concession for BJL14 began on 31 December 2015, following the opening of the Phase 3 Middle Section in December 2015. One more station, at Chaoyang Park, was opened in December 2016. The three phases recorded a combined 191 million passenger trips and average weekday patronage of about 591,000 in 2016. MTR's equity contribution to BJMTR to support BJL14 is estimated at RMB 2.45 billion.

Beijing Metro Line 16

A Concession Agreement for the BJL16 Public-Private Partnership ("PPP") project was signed by BJMTR in November 2015. Operation of the first phase, the Northern Section of 19.6 km, began on 31 December 2016. Full line operation, which also starts the service concession, is targeted after 2018.

Shenzhen

Shenzhen Metro Line 4 ("SZL4") operated by our wholly-owned subsidiary MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved a 5% rise in patronage to about 199 million for the year (550,000 average weekday patronage) with solid operational and safety performance. On-time performance remained at a very high 99.9% for the year.

Although patronage has continued to increase on SZL4, there has been no increase in fares since we started operating the line in 2010. Unlike our rail businesses in Beijing and Hangzhou, MTR(SZ) does not benefit from a shadow fare

subsidy mechanism. We understand that discussions continue within the Shenzhen Municipal Government regarding fare adjustments. If such fare adjustments are not implemented, the long-term financial viability of SZL4 may be impacted.

In August 2016, our consultancy company in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4. This extension will be financed by the Shenzhen Municipal Government.

Hangzhou

Hangzhou Metro Line 1 and Extension

Our 49% associate in Hangzhou, HZMTR, operates HZL1 which in the year saw patronage increase by 12% to 199 million (537,000 average weekday patronage). Operational performance remains at high levels with on-time train performance of 99.9%. An extension of 5.7 km was added to HZL1 in November 2015; the extension was funded by Hangzhou Municipal Government and HZMTR operates it under an operating and maintenance concession.

With patronage lower than originally expected, HZMTR has been recording a net loss. However, the losses have reduced due mainly to higher revenue resulting from the increase in patronage.

Hangzhou Metro Line 5

MTR submitted a tender for Hangzhou Metro Line 5, another PPP project, in May 2016. In November 2016, Hangzhou Municipal Government withdrew the Competitive Negotiation since no other qualified tender was received. We are currently in discussion with Hangzhou Metro Group Company Limited on the way forward regarding Hangzhou Metro Line 5.

"Belt and Road" Initiative

MTR signed a Letter of Intent with China Railway Corporation in December 2016, agreeing to explore areas of strategic cooperation. These focus on high-speed rail construction, operations and related integrated development, as well as the training of railway professionals within and outside of the Mainland of China. This strategic partnership allows us to tap into opportunities arising from the Mainland's "Belt and Road" Initiative.

Property Development Businesses in the Mainland of China

Shenzhen

Following very successful presales in 2015 of Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1, the first batch of units, in the low-rise buildings on top of the depot, was handed over to buyers in December 2016. The high-rise units, which form the vast majority of the development, are scheduled to hand over by the middle of 2017. The Tiara project has a total developable gross floor area ("GFA") of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA).

Tianjin

In Tianjin, our 49% owned associate, Tianjin TJ-Metro MTR Construction Company Limited ("Tianjin MTR"), is involved in the development of the Beiyunhe Station project on Tianjin Metro Line 6. The project faces a number of obstacles, however, including softening market demand in Tianjin, especially for offices (the mixed use project has approximately 60,000 square metres GFA of offices) as well as a significant

increase in the estimated construction cost due to a more complex basement construction. We are currently exploring various options including one whereby Tianjin MTR and the project will be re-structured by the introduction of a third party.

Business Developments

In the second half of 2016, we signed a Cooperation Framework Agreement with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR to conduct joint preliminary studies on the integrated development of selected existing station and depot sites along BJL4 and the Daxing Line. Studies have commenced with a focus on an above depot development. We have also signed a Memorandum of Understanding with BIIC in January 2017 to extend the strategic co-operation to other, predominantly rail-related, property developments projects in Beijing in addition to investment, construction and operation of other railway projects.

Property Rental and Management Businesses in the Mainland of China

Our shopping mall in Beijing, Ginza Mall, was 99% occupied as at 31 December 2016. We also manage self-developed and third party properties in the Mainland of China which, as at

31 December 2016, covered a GFA of 520,000 square metres, increased by 290,000 square metres from the end of 2015.

European Railway Businesses

United Kingdom

London Overground

Our 50% owned associate London Overground Rail Operations Limited ("LOROL") has been very successful in operating the London Overground network for nine years. With the concession ending and our bid for the new concession being unsuccessful, the management of the network was handed over to a new operator in November 2016. Prior to the handover, we were honoured that LOROL was presented with the prestigious "Passenger Operator of the Year" award at the UK National Rail Awards.

TfL Rail / Elizabeth Line

Having commenced the Crossrail concession in 2015, MTR Corporation (Crossrail) Limited ("MTRXR") operates under the "TfL Rail" brand-name, providing services devolved from the previous Greater Anglia franchise covering 14 stations. It will be renamed the "Elizabeth Line" when the tunnel section through central London is completed and becomes operational, which is targeted to be in late 2018. When the fully integrated line is in service in 2019, it will serve 40 stations with a route length of 118 km. MTRXR has continued to deliver improved operational performance over the course of 2016.

Sweden

Stockholm Metro

The operational performance of Stockholm metro in 2016 was good with punctuality of all lines remaining above contractual targets and customer satisfaction at a record high. Ridership for the year was estimated at 349 million and average weekday patronage at 1.23 million.

MTR Tech

On 15 February 2016, MTR acquired the remaining 50% shareholding in Tunnelbanan Teknik Stockholm AB ("TBT") from our partner, Mantena AS, following which TBT was renamed as MTR Tech AB. The acquisition has brought rolling stock maintenance for the Stockholm metro fully under MTR management.

MTR Express

The MTR Express service that runs between Stockholm and Gothenburg also had a very high level of operational performance with punctuality consistently above market performance. Passenger numbers have continued to increase and customer satisfaction remains at a high level. Detailed plans are in place to continue to improve passenger numbers in 2017. Overall in 2016, MTR Express was rated as the best rail operator in Sweden by an independent survey.

Stockholm commuter rail (Stockholms pendeltåg)

In December 2015, we were awarded the concession to operate the Stockholms pendeltåg for ten years, with an option to extend for four more years. This concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate with EuroMaint Rail AB. The Stockholms pendeltåg serves the greater Stockholm area, with 53 stations and a total route length of 241 km. Our wholly-owned subsidiary MTR Pendeltågen AB began operating the service in December 2016 and performance to date has been satisfactory.

Business Developments

In the U.K., we have partnered with FirstGroup in a bid for the South Western Rail franchise, as a minority 30% shareholder. The tender was submitted in September 2016 and the result is due in April 2017. We have also pre-qualified to bid for the Wales and Borders rail franchise. The Welsh Government has invited qualified bidders to enter the Competitive Dialogue phase of the process in the first half of 2017, with the formal tender expected in the second half of 2017.

In Sweden, we have submitted a bid to tender for the Skåne county commuter rail ("Pågatåg") concession in December 2016. The result is expected to be announced by the second half of 2017.

Australian Railway Businesses

Melbourne's Metropolitan Rail Service

In Melbourne, our 60% owned subsidiary MTM, which operates the Melbourne metro network, achieved steady performance exceeding franchise requirements. This concession expires in November 2017 and MTM's good operational performance has qualified it to negotiate an extension of the franchise directly with the Government of Victoria. MTM submitted its proposal on 23 December 2016 for an extension for an additional seven years (plus three years option) and the result should be known in the first half of 2017.

Sydney Metro Northwest

In Sydney, a consortium of which MTR is a member is responsible for the design, construction, financing as well as the future operation and maintenance of the Sydney Metro Northwest ("SMNW") PPP project. When completed, it will be the country's first fully automated rapid transit system. Service commencement is expected in the first half of 2019.

Business Developments

Sydney Metro City and Southwest ("SMCSW") is a 30-km extension of SMNW. Construction of the early works is planned to start in 2017 and the line is expected to open in 2024. MTR is exploring potential participation in the SMCSW project.

Mainland of China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise / Expected Date of Commencement of Operation	Franchise / Concession Period (years)	Number of Stations	Route Length (km)
Projects In Operation						
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	Sep 2009	30	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	Dec 2010	10	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 West Section: May 2013 Phase 2 East Section: Dec 2014 Phase 3 Middle Section: Dec 2015	30 ^{Note 11}	Phase 1 West Section: 7 Phase 2 East Section: 12 Phase 3 Middle Section: 11	Phase 1 West Section: 12.4 Phase 2 East Section: 14.8 Phase 3 Middle Section: 16.6
Beijing Metro Line 16 ("BJL16")	49%	O&M Concession	Phase 1 : Dec 2016	Until full line ^{Note 2} opens	Phase 1 : 10 ^{Note 2}	Phase 1 : 19.6
Shenzhen Metro Longhua Line	100%	Build-Operate- ^{Note 3} Transfer	Phase 1: Jul 2010 Phase 2: Jun 2011	30	Phase 1: 5 Phase 2: 10	Phase 1: 4.5 Phase 2: 16
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	Nov 2012	25	31	48
HZL1 Extension	49%	O&M Concession	Nov 2015	End together with HZL1 concession	3	5.7
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8	40 (28) ^{Note 4}	118
Stockholm Metro, Sweden	100%	O&M ^{Note 5} Concession	Nov 2009	14 ^{Note 6}	100	110
MTR Express, Sweden	100%	Open Access Operation	Mar 2015 ^{Note 7}	N/A ^{Note 8}	5 ^{Note 9}	455
Stockholm commuter rail (Stockholms pendeltåg), Sweden	100%	O&M ^{Note 10} Concession	Dec 2016	10	53	241
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	Nov 2009	8	218	390
Projects In Progress						
BJL14, Mainland of China	49%	PPP	Full Line: After 2018	30 ^{Note 11}	Full Line: 37	Full Line: 47.3
BJL16, Mainland of China	49%	PPP	Full Line: After 2018	30 ^{Note 12}	Full Line: 29	Full Line: 49.8
Sydney Metro Northwest, Australia	Mixed	PPP (Operations, Trains & Systems)	2019 ^{Note 13}	15	13 ^{Note 14}	36 ^{Note 14}

Notes:

- 1 BJL14 Phase 2 East Section has 12 stations, 11 opened (one is currently bypassed). BJL14 Phase 3 Middle Section has 11 stations, nine opened (two are currently bypassed).
- 2 The O&M concession of BJL16 Phase 1 will run until full line opens, now has ten stations and nine opened (one is currently bypassed).
- 3 Shenzhen Metro Longhua Line Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited took over the operation of Phase 1 in July 2010.
- 4 MTR Crossrail will manage 28 out of the total 40 stations in the Elizabeth Line.
- 5 Rolling stock maintenance is provided by our subsidiary MTR Tech AB.
- 6 In September 2015, the eight-year operating concession of Stockholm Metro was extended for another six years (from 2017 to 2023) to a total of 14 years by Stockholm authority.
- 7 MTR Express initial service commenced on 21 March 2015 with full schedule started in August 2015.
- 8 The train paths to operate this service are subject to an annual renewal procedure.
- 9 MTR Express is not responsible for the management of these stations.
- 10 Rolling stock maintenance is provided by Emtrain AB, a 50:50 associate jointly owned by MTR and EuroMaint Rail AB.
- 11 BJL14 PPP concession started on 31 December 2015.
- 12 BJL16 PPP concession will start after full line opens.
- 13 Subject to arrangement of the government of New South Wales, Australia.
- 14 Sydney Metro Northwest has eight new stations and five retrofitted stations, and a 13-km existing line extended with a 23-km new line construction.