FINANCIAL REVIEW

Strong Credit Ratings

AA+

by Standard & Poor's (long-term)

Underlying Business Profit increased by 7.1% to

HK$11,263 million

Total Revenue from Recurrent Businesses increased by

11.2%

PROFIT AND LOSS

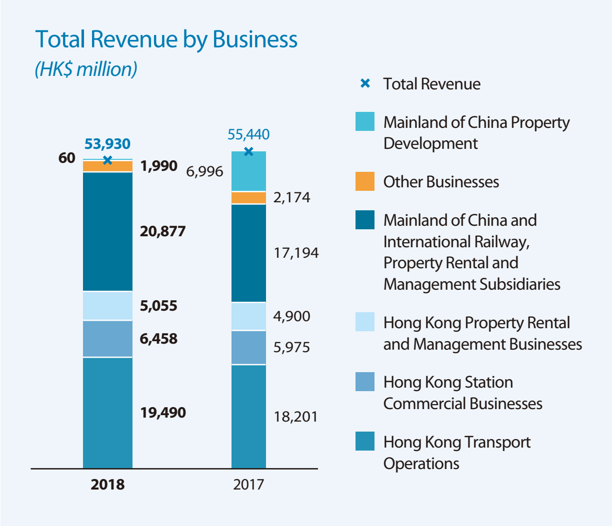
The Group's underlying businesses consist of (i) recurrent businesses (comprising Hong Kong Transport Operations, Hong Kong Station Commercial Businesses, Hong Kong Property Rental & Management Businesses, Mainland of China and International Railway, Property Rental and Management Businesses and Other Businesses) and (ii) property development businesses.

Net profit attributable to shareholders of the Company is arrived at after adjusting the underlying business profit with any gain or deficit arising from investment property revaluation, which is a non-cash accounting item.

In 2018, the Group achieved solid financial results in our underlying businesses. Underlying business profit increased by 7.1% to HK$11,263 million. With a lower gain arising from investment property revaluation in 2018, net profit attributable to shareholders of the Company decreased by 4.9% to HK$16,008 million.

The financial review of the Group's total revenue, underlying business profit and net profit attributable to shareholders of the Company are provided in the following sections.

Total Revenue



In 2018, total revenue from recurrent businesses increased by 11.2% to HK$53,870 million, mainly reflecting the increase in franchise payments and project revenue under the renewed concession of MTM in Australia as well as the incremental contribution from the High Speed Rail ("HSR") following the commencement of passenger service in September 2018. Including revenue from Mainland of China Property Development, total revenue decreased by 2.7% to HK$53,930 million, mainly due to the significant contributions from Tiara in 2017 not repeated in 2018.

Underlying Business Profit and Net Profit Attributable to Shareholders of the Company

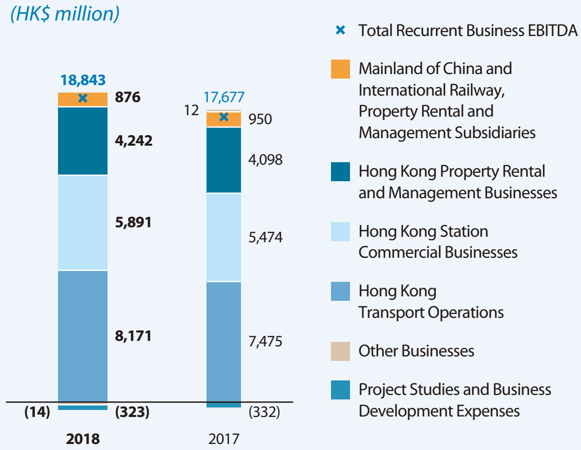
HK$ million		2018		2017	2018 vs 2017 Inc./(Dec.)	
Recurrent Businesses						
EBITDA		**18,843**		17,677	1,166	6.6%
Depreciation and Amortisation		**(4,985)**		(4,855)	130	2.7%
Variable Annual Payment		**(2,305)**		(1,933)	372	19.2%
EBIT		**11,553**		10,889	664	6.1%
Interest and Finance Charges		**(1,208)**		(1,051)	157	14.9%
Share of Profit or Loss of Associates and Joint Venture		**658**		494	164	33.2%
Income Tax		**(1,835)**		(1,696)	139	8.2%
Non-controlling Interests		**(148)**		(56)	92	164.3%
Recurrent Business Profit		**9,020**		8,580	440	5.1%
Property Development Businesses						
Post-tax Property Development Profit						
– Hong Kong Property Development	**2,153**		916		1,237	135.0%
– Mainland of China Property Development	**90**		1,019		(929)	(91.2%)
Post-tax Property Development Profit		**2,243**		1,935	308	15.9%
Underlying Business Profit		**11,263**		10,515	748	7.1%
Investment Property Revaluation		**4,745**		6,314	(1,569)	(24.8%)
Net Profit Attributable to Shareholders of the Company		**16,008**		16,829	(821)	(4.9%)
Earnings per Share (in HK$)		**HK$2.64**		HK$2.83	(HK$0.19)	(6.7%)
Earnings per Share on Underlying Business Profit (in HK$)		**HK$1.86**		HK$1.77	HK$0.09	5.1%
Total EBITDA Margin (in %)		**35.0%**		36.1%	(1.1%) pts.	
Total EBITDA Margin (excluding Mainland of China and International Subsidiaries) (in %)		**54.5%**		53.5%	1.0% pt.	
Total EBIT Margin^ (in %)		**21.5%**		23.8%	(2.3%) pts.	
Total EBIT Margin (excluding Mainland of China and International Subsidiaries)^ (in %)		**32.8%**		32.2%	0.6% pt.	
Return on Average Equity Attributable to Shareholders of the Company Arising from Underlying Businesses (in %)		**6.5%**		6.7%	(0.2%) pt.	

^ *Excluding Profit on Hong Kong Property Development and Share of Profit or Loss of Associates and Joint Venture*

Recurrent Business EBITDA

Recurrent Business EBITDA by Business

(HK$ million)



Recurrent Business Profit

Recurrent business profit increased by 5.1% to HK$9,020 million, mainly due to higher EBIT of Hong Kong Transport Operations, Hong Kong Station Commercial Businesses and Hong Kong Property Rental and Management and higher Share of Profit of Associates and Joint Venture, partly offset by lower EBIT of Mainland of China & International Subsidiaries and Other Businesses as well as increase in interest and finance charges due to higher interest rates in 2018 and the absence of the exchange gain recorded in 2017. Further details of the performance of each individual business are set out in the ensuing paragraphs.

Post-tax Property Development Profit

Post-tax property development profit in 2018 was HK$2,243 million, mainly derived from profit booking of Wings at Sea and Wings at Sea II (LOHAS Park Package 4), sale of inventory car parking spaces, as well as further surplus proceeds arising from the finalisation of development costs and release of provision for completed projects.

Dividend

In line with the Company's progressive ordinary dividend policy, the Board has proposed a final ordinary dividend of HK$0.95 per share (with a scrip dividend option offered), giving a full year ordinary dividend of HK$1.20 per share, higher than the HK$1.12 per share in 2017.

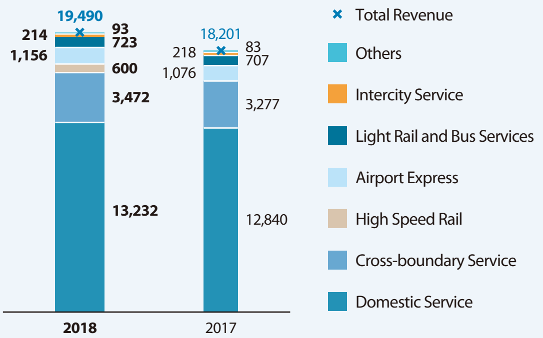
RECURRENT BUSINESSES

Hong Kong Transport Operations

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**19,490**	18,201	1,289	7.1%
Total Expenses	**(11,319)**	(10,726)	593	5.5%
EBITDA	**8,171**	7,475	696	9.3%
EBIT*	**1,985**	1,656	329	19.9%
EBITDA Margin (in %)	***41.9%***	*41.1%*	*0.8%*	*pt.*
EBIT Margin (in %)*	***10.2%***	*9.1%*	*1.1%*	*pts.*

* *EBIT represents EBITDA net of depreciation, amortisation and variable annual payment*

Total Revenue
(HK$ million)



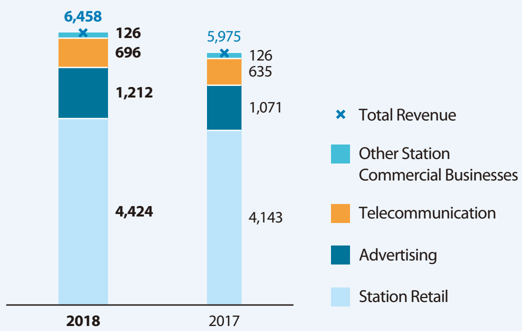
Total revenue increased by 7.1%, mainly due to the incremental contribution from the HSR which commenced passenger service in September 2018, fare adjustments under the FAM net of concessions, and overall patronage growth. Average fares for the Domestic Service increased by 1.1%, Cross-boundary Service 1.6%, Light Rail 2.0% and Bus Service 1.0%. Average fares for the Airport Express and Intercity services, which are not subject to FAM, increased by 0.8% and decreased by 0.1% respectively. Total patronage of our rail and bus passenger services increased by 2.2% reaching 2.04 billion passenger trips per annum. Total expenses increased by 5.5%, mainly owing to incremental operating costs brought by the HSR and higher energy costs, partly offset by a one-off accounting provision made in 2017 for annual lump-sum awards which was not repeated in 2018, improved operational efficiency and a refund of Government rent and rates in 2018. Depreciation and amortisation charges increased by 2.2% to HK$4,578 million, mainly due to asset additions in the Hong Kong railway network. Variable annual payment to KCRC increased by 20.0% to HK$1,608 million as the incremental revenue, including that from the HSR, was charged at the top progressive rate of 35%. As a result, EBIT increased by 19.9% to HK$1,985 million and EBIT margin increased by 1.1 percentage points to 10.2%.

Hong Kong Station Commercial Businesses

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**6,458**	5,975	483	8.1%
Total Expenses	**(567)**	(501)	66	13.2%
EBITDA	**5,891**	5,474	417	7.6%
EBIT*	**5,025**	4,722	303	6.4%
EBITDA Margin (in %)	***91.2%***	*91.6%*	*(0.4%)*	*pt.*
EBIT Margin (in %)*	***77.8%***	*79.0%*	*(1.2%)*	*pts.*

* *EBIT represents EBITDA net of depreciation, amortisation and variable annual payment*

Total Revenue
(HK$ million)



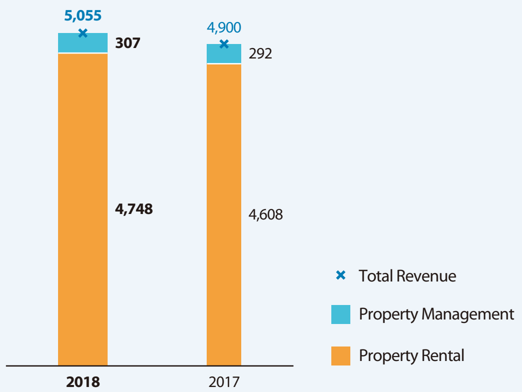
Total revenue increased by 8.1% mainly due to higher revenues from station retail and advertising businesses. For station retail business, the increase in revenue mainly reflected the rental income growth from the Duty Free Shop at Lok Ma Chau Station, the incremental contribution from the HSR, as well as positive rental reversion because of a more resilient trade mix in our station shops. For advertising business, revenue growth was mainly attributable to robust tourism and upbeat consumer market since the last quarter of 2017. Total expenses increased by 13.2% mainly due to higher advertising agency commission in line with revenue growth and incremental operating costs for the HSR. Variable annual payment to KCRC increased by 17.5% to HK$692 million owing to a higher level of revenue subject to variable annual payment. As a result, EBIT increased by 6.4% to HK$5,025 million, while EBIT margin decreased by 1.2 percentage points to 77.8%.

Hong Kong Property Rental and Management Businesses

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**5,055**	4,900	155	3.2%
Total Expenses	**(813)**	(802)	11	1.4%
EBITDA	**4,242**	4,098	144	3.5%
EBIT*	**4,225**	4,082	143	3.5%
EBITDA Margin (in %)	***83.9%***	*83.6%*	*0.3% pt.*	
EBIT Margin (in %)*	***83.6%***	*83.3%*	*0.3% pt.*	

* *EBIT represents EBITDA net of depreciation, amortisation and variable annual payment*

Total Revenue
(HK$ million)



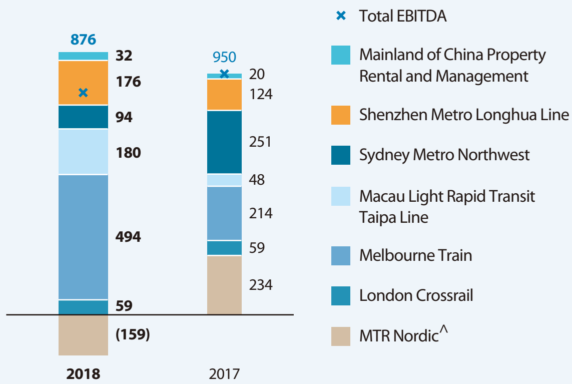
Property rental revenue saw a 3.0% increase, mainly reflecting the full year contribution from the seventh and eighth floors of Telford Plaza II and Maritime Square 2 which opened in the second half of 2017 and rental growth in accordance with lease agreements. Rental reversion in 2018 in our shopping mall portfolio in Hong Kong recorded a 1.5% growth. For 2018 full year, our shopping malls and the Company's 18 floors in Two International Finance Centre were close to 100% let. Property management revenue increased by 5.1% due to higher manager's remuneration income resulting from higher spending in managed properties and new intake of managed units. Total expenses increased moderately by 1.4%. As a result, EBIT increased by 3.5% to HK$4,225 million, and EBIT margin increased slightly by 0.3 percentage point to 83.6%.

Mainland of China and International Railway, Property Rental and Management Subsidiaries

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**20,877**	17,194	3,683	21.4%
Total Expenses	**(20,001)**	(16,244)	3,757	23.1%
EBITDA	**876**	950	(74)	(7.8%)
EBIT*	**722**	814	(92)	(11.3%)
EBITDA Margin (in %)	***4.2%***	*5.5%*	*(1.3%) pts.*	
EBIT Margin (in %)*	***3.5%***	*4.7%*	*(1.2%) pts.*	

* *EBIT represents EBITDA net of depreciation and amortisation*

EBITDA
(HK$ million)



^ *Representing businesses in Sweden which include MTR Nordic AB, MTR Tunnelbanan AB, MTR Tech AB, MTR Express (Sweden) AB & MTR Pendeltågen AB*

Total revenue increased by 21.4%, total expenses by 23.1%, and total EBITDA decreased by 7.8%. The decrease in EBITDA is mainly attributable to the Stockholm commuter rail service operated by MTR Pendeltågen AB in Sweden, with a material operating loss resulting from train driver shortage, train availability problems and timetable change leading to production loss and significant penalties. In Australia, the EBITDA increase in MTM, brought about by the improvement in margin from operations under the renewed franchise agreement and a higher contribution from project works from a higher level of activities, was partly offset by the EBITDA decrease in Sydney Metro Northwest, which recognised initial profit in 2017. In Mainland of China, the EBITDA increase in Shenzhen Metro Longhua Line was mainly driven by patronage growth. In Macau, the EBITDA increase was mainly due to higher project management income.

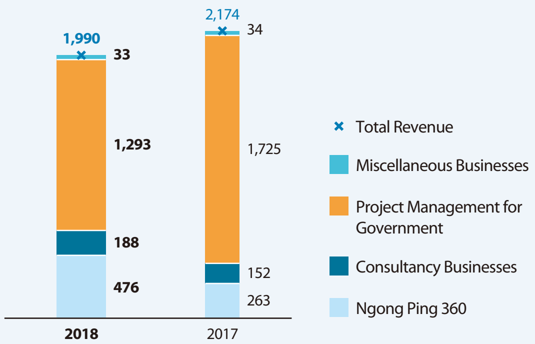
Total depreciation and amortisation charges increased by 13.2% to HK$154 million. As a result, EBIT decreased by 11.3% to HK$722 million and EBIT margin decreased by 1.2 percentage points to 3.5%.

Other Businesses

HK$ million	2018	2017	2018 vs 2017 Inc./(Dec.)	
Total Revenue	**1,990**	2,174	(184)	(8.5%)
Total Expenses	**(2,004)**	(2,162)	(158)	(7.3%)
EBITDA	**(14)**	12	(26)	N/A
EBIT*	**(81)**	(53)	(28)	(52.8%)
EBITDA Margin (in %)	***-ve***	*0.6%*	*N/A*	
EBIT Margin (in %)*	***-ve***	*-ve*	*N/A*	

* *EBIT represents EBITDA net of depreciation and amortisation*

Total Revenue
(HK$ million)



Total revenue decreased by 8.5% mainly due to less project management services performed for Government in 2018. Income from project management services for Government is from entrustment works on the HSR and Shatin to Central Link, which is booked on a cost recovery basis. Revenue from Ngong Ping 360 increased by 81.0% following the completion of its cable car rope replacement programme in 2017. Revenue from consultancy businesses increased by 23.7% mainly due to more works performed for the Automatic People Mover System at the Hong Kong International Airport. Total expenses decreased by 7.3%, mainly due to less project management services performed as mentioned above.

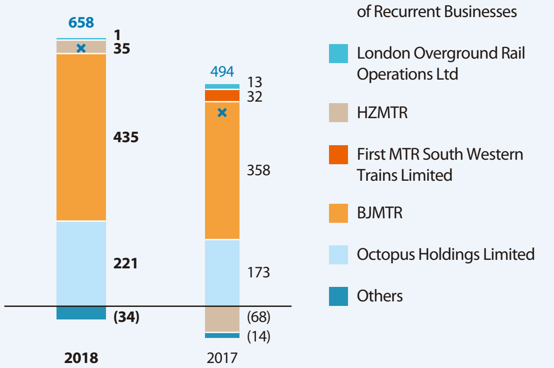
EBIT is at a loss of HK$81 million, compared with a loss of $53 million in 2017.

Depreciation and Amortisation

Depreciation and amortisation increased mainly due to new asset additions in our Hong Kong railway network.

Share of Profit from Associates and Joint Venture of Recurrent Businesses

Share of Profit
(HK$ million)



Share of profit from associates and Joint Venture of recurrent businesses increased mainly due to Hangzhou MTR turning profit making for the first time benefitting from patronage growth as well as Beijing MTR having good operational and financial performance. The above increases were partly offset by First MTR South Western Trains Limited turning from a share of profit of $32 million in 2017 to breakeven in 2018 as a result of lower patronage growth, higher operating costs and higher franchise premium.

PROPERTY DEVELOPMENT BUSINESSES

Post-tax Profit from Hong Kong Property Development

Post-tax profit from Hong Kong Property Development in 2018 mainly comprised of the profit booking of Wings at Sea and Wings at Sea II, sale of inventory car parking spaces, as well as further surplus proceeds arising from the finalisation of development costs and the release of provisions for completed projects. This was HK$1,237 million higher than 2017 when profit was derived from sundry sources with no surplus proceeds booking from new property development packages.

Post-tax Profit from Mainland of China Property Development

Post-tax profit from Mainland of China Property Development in 2018 was mainly interest income from Tiara. It is HK$929 million lower than 2017 when profit was recognised for the high-rise units handed over at Tiara which comprised the vast majority of the development.

STATEMENT OF FINANCIAL POSITION

HK$ million	**At 31 December 2018**	At 31 December 2017	2018 vs 2017 Inc./(Dec.)	
Fixed Assets	**215,925**	209,772	6,153	2.9%
Property Development in Progress	**14,840**	14,810	30	0.2%
Interests in Associates and Joint Venture	**8,756**	6,838	1,918	28.0%
Debtors and Other Receivables	**9,576**	7,058	2,518	35.7%
Cash, Bank Balances and Deposits	**18,022**	18,354	(332)	(1.8%)
Other Assets	**7,568**	6,936	632	9.1%
Total Assets	**274,687**	263,768	10,919	4.1%
Total Loans and Other Obligations	**(40,205)**	(42,043)	(1,838)	(4.4%)
Creditors and Other Payables	**(25,947)**	(28,166)	(2,219)	(7.9%)
Amounts Due to Related Parties	**(2,676)**	(2,226)	450	20.2%
Obligations Under Service Concession	**(10,409)**	(10,470)	(61)	(0.6%)
Deferred Tax Liabilities	**(12,979)**	(12,760)	219	1.7%
Other Liabilities	**(1,852)**	(1,677)	175	10.4%
Total Liabilities	**(94,068)**	(97,342)	(3,274)	(3.4%)
Net Assets	**180,619**	166,426	14,193	8.5%
Represented by:				
Total Equity Attributable to Shareholders of the Company	**180,447**	166,304	14,143	8.5%
Non-controlling Interests	**172**	122	50	41.0%
Total Equity	**180,619**	166,426	14,193	8.5%

Fixed Assets

Fixed assets increased mainly due to revaluation gains on our investment properties, as well as renewal and upgrade works for our existing Hong Kong railway network.

Interests in Associates and Joint Venture

Interests in associates and joint venture increased mainly due to the equity injection into Hangzhou Metro Line 5 and share of profit from associates and joint venture.

Debtors and Other Receivables

Debtors and other receivables increased mainly due to the increase in receivables arising from profit recognition from Wings at Sea and Wings at Sea II.

Cash, Bank Balances and Deposits

Cash, bank balances and deposits decreased mainly due to capital expenditure, payment of the land premium in respect of Wong Chuk Hang Station Package 2 to Government and net repayment of borrowings. The decrease was partly offset by cash inflow from operating activities and cash receipts in respect of Hong Kong property development.

Total Loans and Other Obligations

Total loans and other obligations decreased mainly due to the net repayment of borrowings, primarily bank loans.

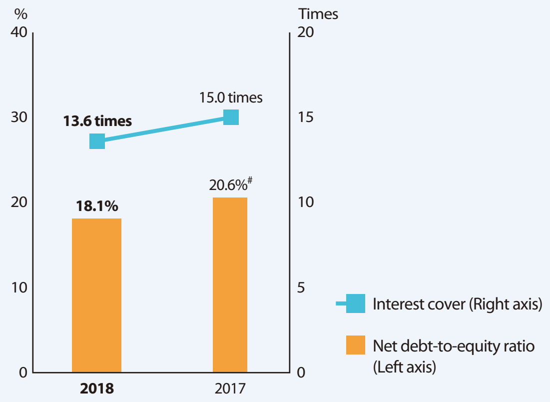
Creditors and Other Payables

Creditors and other payables decreased mainly due to the payment of the land premium in respect of Wong Chuk Hang Station Package 2 to Government, partly offset by payments received from property developers.

Total Equity

The increase in total equity of HK$14,193 million was mainly due to the profit recorded for the year, partly offset by the payments of the 2017 final ordinary dividend and 2018 interim ordinary dividend during the year.

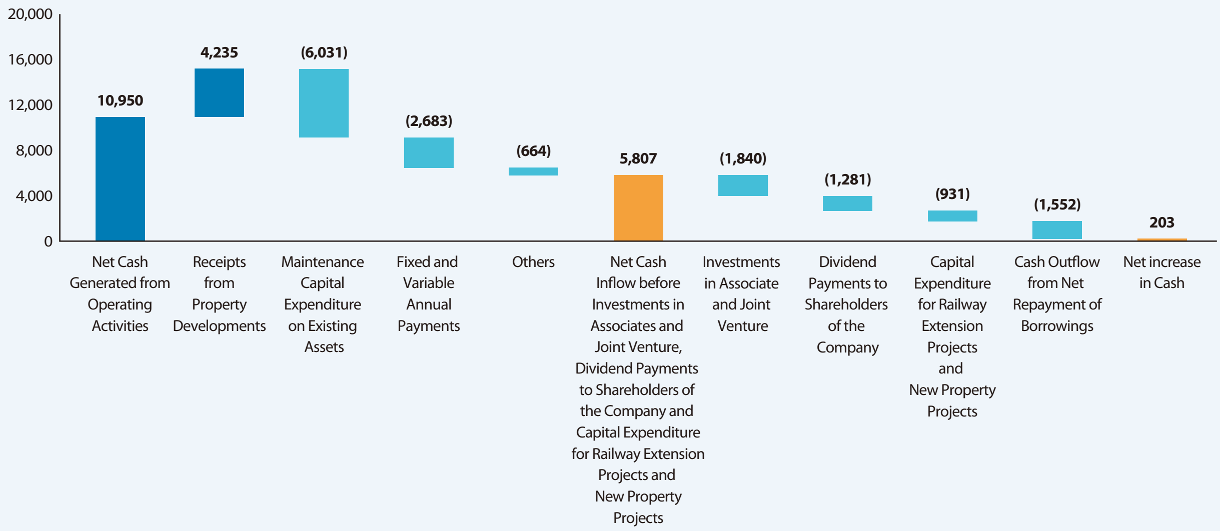
Debt Servicing Capability



If the cash received from the developer relating to the land premium payment for Wong Chuk Hang Station Package 2 (which was paid to Government in 2018) was excluded from the cash balance, the Group's net debt-to-equity ratio as at 31 December 2017 would have been 23.7%.

Cash Flow for the Year Ended 31 December 2018

(HK$ million)



CASH FLOW

HK$ million	2018	2017
Net Cash Generated From Operating Activities	**10,950**	19,603
Receipt from Hong Kong and Shenzhen Property Developments	**4,235**	3,344
Other Receipts	**493**	517
Net Cash Receipts	**15,678**	23,464
Capital Expenditure	**(6,962)**	(8,523)
Fixed Annual Payment	**(750)**	(750)
Variable Annual Payment	**(1,933)**	(1,787)
Net Interest Payment	**(842)**	(578)
Investments in Associates and Joint Venture	**(1,840)**	(310)
Other Payments	**(239)**	(92)
Dividends Paid to Shareholders of the Company	**(1,281)**	(15,358)
Dividends Paid to Holders of Non-controlling Interests	**(76)**	(102)
Total Cash Outflow	**(13,923)**	(27,500)
Net Cash Inflow/(Outflow) before Financing	**1,755**	(4,036)
Cash (Outflow)/Inflow from Net (Repayment)/Borrowings	**(1,552)**	1,494
Increase/(Decrease) in Cash	**203**	(2,542)
Cash, Bank Balances and Deposits as at 1 January	**18,354**	20,290
Increase/(Decrease) in Cash	**203**	(2,542)
Effect of Exchange Rate Changes	**(535)**	606
Cash, Bank Balances and Deposits as at 31 December	**18,022**	18,354

Receipts from Property Developments

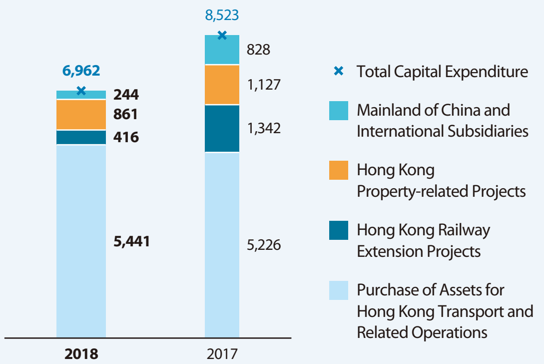
Receipts from property development were mainly from Hemera (LOHAS Park Package 3), Yau Tong Ventilation Building, Wong Chuk Hang Station Package 3, Ho Man Tin Station Package 2 and West Rail property developments.

Investments in Associate and Joint Venture

Investments in associate and joint venture in 2018 mainly related to equity contribution for our investment in Hangzhou Metro Line 5.

Capital Expenditure

(HK$ million)

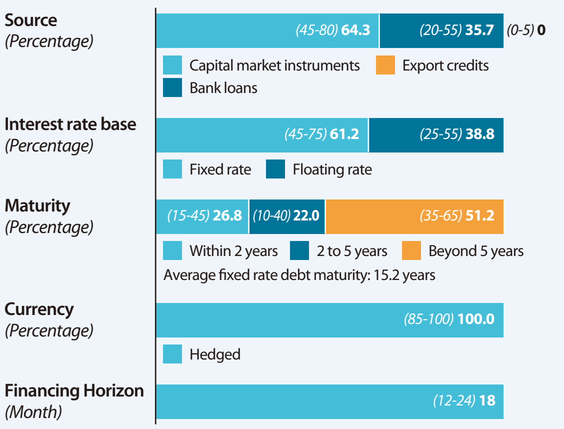


FINANCING ACTIVITIES

Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile**
As at 31 December 2018



The US Federal Reserve hiked the Fed Funds Target Rate four times in 2018, by 0.25 percentage points each time. Correspondingly, 3-month USD-Libor rose steadily from 1.69% p.a. at the beginning of the year to 2.81% p.a. at year end. 3-month HKD-Hibor also followed the USD lead to move up from 1.31% p.a. to 2.33% p.a.

Longer term interest rates were more volatile, the yield on the 10-year US Treasury note started the year at a low of 2.41% p.a., climbed to a high of 3.24% p.a. in November before falling sharply to close at 2.68% p.a. Likewise, the 10-year HKD swap rate started the year at a low of 2.26% p.a., saw a high of 3.17% p.a. in October before giving up a significant portion of the gains to close the year at 2.45% p.a.

Bond investors were demanding higher credit spreads in such an environment, with the Markit iTraxx Asia ex-Japan Investment Grade index rising from 66.82 at the beginning of the year to close at 96.03.

During the first half of the year, before credit spread moved much higher, the Company took advantage of the liquidity in the HKD markets to complete most of its financing exercise for the year. A total of HK$ 1.5 billion of fixed rate notes with maturities ranging from 1 year to 30 years were issued through private placement. Several bilateral bank facilities were also arranged, partly to replace existing facilities that had shorter remaining tenors but were more expensive.

On the back of the successful Green Bond Framework set up in 2016, a Green Finance Framework was developed in June to include green loans and other green financing instruments under the new framework. During the year, three green bonds with a total amount of HK$ 1 billion and one HK$ 2.5 billion green bilateral revolving credit facility were concluded.

COST OF BORROWING

The Group's consolidated gross debt position decreased from HK$42,043 million at year-end 2017 to HK$40,205 million at year-end 2018. The weighted average borrowing cost of the Group increased to 2.8% from 2.5% p.a. due to higher HKD floating interest rates and higher proportion of fixed rate debt.

FINANCING CAPACITY

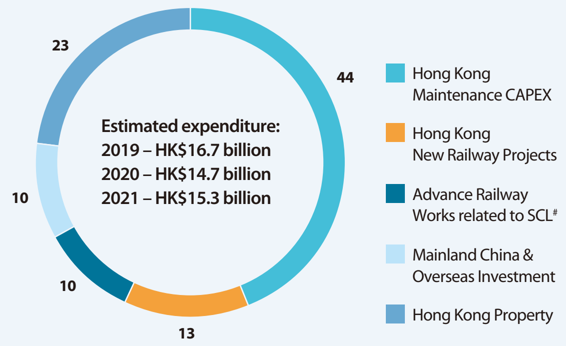
The Group's capital expenditure and investment consists mainly of three parts – Hong Kong railway projects (including maintenance), Hong Kong property investment and development, and Mainland of China and overseas investments. The total spending from 2019 to 2021 is estimated at HK$ 46.7 billion.

Capital expenditure on the Hong Kong railway projects (including maintenance cost for the Hong Kong railway system) would continue to constitute a significant portion of the capital expenditure in 2019 – 2021. Expenditure on Hong Kong property investment and development are mainly related to the contributions to the LOHAS Park Package 7 and enabling works in Lohas Park. Expenditures for Mainland of China and overseas investment are primarily for the equity contribution to Beijing Metro Line 16 and Hangzhou Metro Line 5, as well as the conditional acquisition of a shopping centre on the Beiyunhe Station site.

The Group believes that based on its cash balance and available committed banking facilities, as well as its ready access to both the loan and debt capital markets, it will have sufficient financing capacity to fund its capital expenditure and investment programme.

Capital Expenditure and Investment (2019 – 2021)

(Percentage)



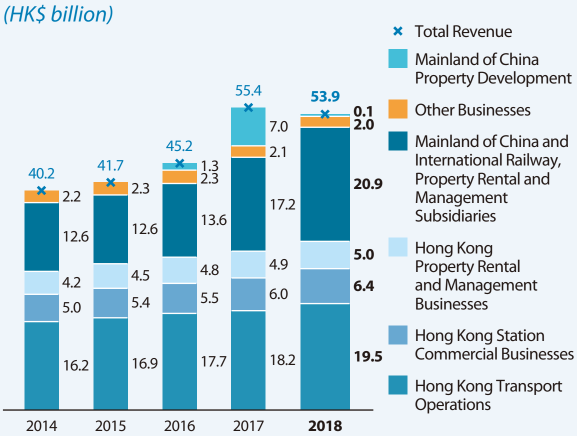
Advanced Railway Works involve modifications to or upgrades or expansion of assets for which MTR is responsible under the existing service concession agreement with KCRC. This will predominantly be covered by the reduction in future maintenance CAPEX during the construction period of SCL Project which MTR would have otherwise incurred.

Credit ratings	Short-term*	Long-term*
Standard & Poor's	A-1+/A-1+	AA+/AA+
Moody's	-/P-1	Aa2/Aa2
Rating & Investment Information, Inc. (R&I)	a-1+	AA+

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

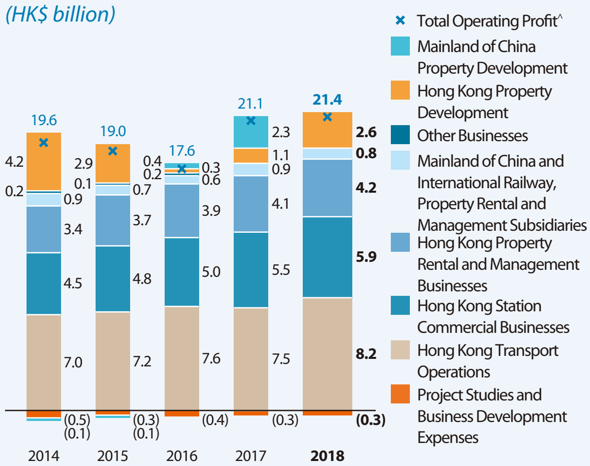
Total Revenue

(HK$ billion)



Operating Profit^ Contributions

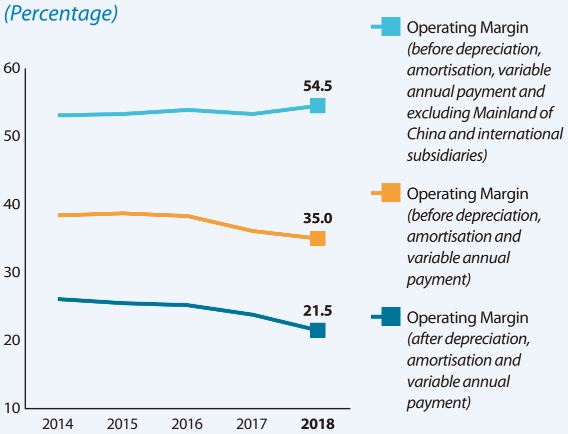
(HK$ billion)



^ *Representing operating profit before depreciation, amortisation and variable annual payment*

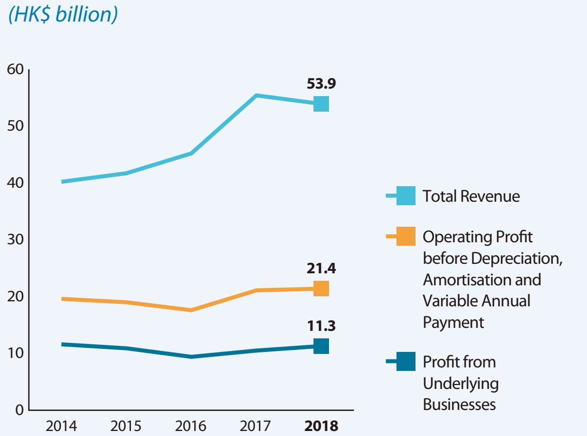
Operating Margin

(Percentage)



Net Results from Underlying Businesses

(HK$ billion)



Fixed Assets Growth

(HK$ billion)