Underlying Business Profit
grew by 11.3% to
HK$10,515
million

Total Revenue
increased by
22.7%

Strong Credit Ratings
AA+
by Standard & Poor's
(long-term)

PROFIT AND LOSS

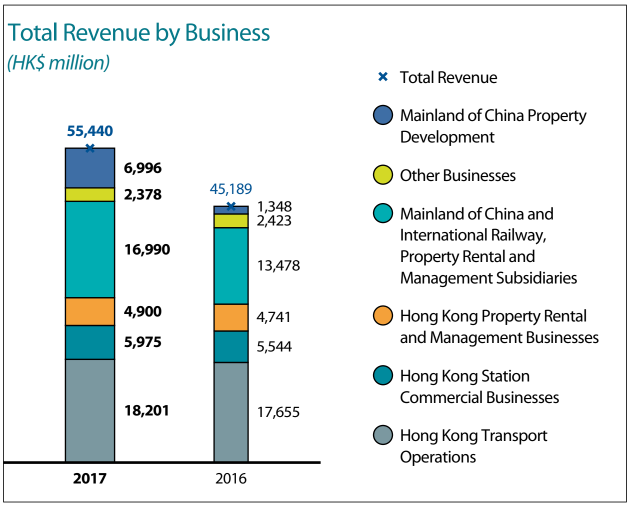
The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong Transport Operations, Hong Kong Station Commercial Businesses, Hong Kong Property Rental & Management Businesses, Mainland of China and International Railway, Property Rental and Management Businesses and Other Businesses)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

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

In 2017, the Group achieved reasonable financial results, with a 11.3% increase in our underlying business profit to HK$10,515 million and a 64.1% increase in net profit attributable to shareholders of the Company to HK$16,829 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 2017, the Group recorded an overall revenue growth. Total revenue increased by 22.7% to HK$55,440 million, reflecting mainly the contributions from Tiara, the full 12-month operation of the Stockholms pendeltåg service by MTR Pendeltågen AB since the franchise commencement in December 2016 and the increase in design and construction activities of the Sydney Metro Northwest (SMNW) PPP project.

Overview
Business Review and Analysis
Corporate Governance
Financials and Other Information

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

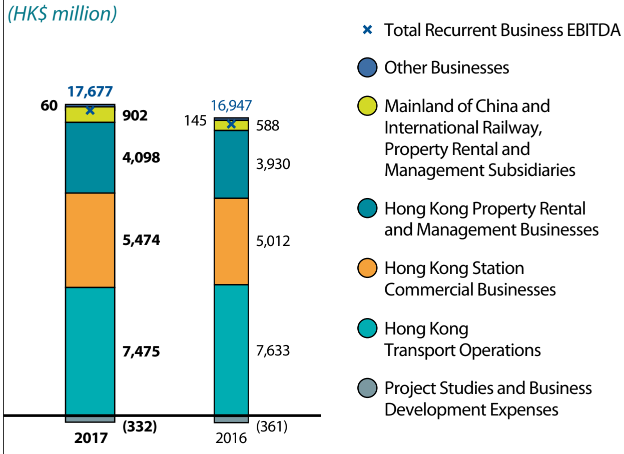
HK$ million		2017		2016	2017 vs 2016 Inc./(Dec.)	
Recurrent Businesses						
EBITDA		**17,677**		16,947	730	4.3%
Depreciation and Amortisation		**(4,855)**		(4,127)	728	17.6%
Variable Annual Payment		**(1,933)**		(1,787)	146	8.2%
EBIT		**10,889**		11,033	(144)	(1.3%)
Interest and Finance Charges		**(1,051)**		(702)	349	49.7%
Share of Profit or Loss of Associates and Joint Venture		**494**		537	(43)	(8.0%)
Income Tax		**(1,696)**		(1,858)	(162)	(8.7%)
Non-controlling Interests		**(56)**		(94)	(38)	(40.4%)
Recurrent Business Profit		**8,580**		8,916	(336)	(3.8%)
Property Development Businesses						
Post-tax Property Development Profit						
– Hong Kong Property Development	**916**		267		649	243.1%
– Mainland of China Property Development	**1,019**		263		756	287.5%
Post-tax Property Development Profit		**1,935**		530	1,405	265.1%
Underlying Business Profit		**10,515**		9,446	1,069	11.3%
Investment Property Revaluation		**6,314**		808	5,506	681.4%
Net Profit Attributable to Shareholders of the Company		**16,829**		10,254	6,575	64.1%
Earnings per Share (in HK$)		**HK$2.83**		HK$1.74	HK$1.09	62.6%
Earnings per Share on Underlying Business Profit (in HK$)		**HK$1.77**		HK$1.61	HK$0.16	9.9%
Total EBITDA Margin (in %)		**36.1%**		38.3%	(2.2%) pts.	
Total EBITDA Margin (excluding Mainland of China and International Subsidiaries) (in %)		**53.3%**		53.9%	(0.6%) pt.	
Total EBIT Margin^ (in %)		**23.8%**		25.2%	(1.4%) pts.	
Total EBIT Margin (excluding Mainland of China and International Subsidiaries)^ (in %)		**32.2%**		34.8%	(2.6%) pts.	
Return on Average Equity Attributable to Shareholders of the Company Arising from Underlying Businesses (in %)		**6.7%**		5.9%	0.8% 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 decreased by 3.8% to HK$8,580 million, mainly due to increase in depreciation and amortisation charges resulting from the full 12-month effect of the opening of the Kwun Tong Line Extension and the South Island Line, as well as increase in interest and finance charges as interest cost relating to these two lines can no longer be capitalised after opening. These were partly offset by higher EBIT of Hong Kong Station Commercial Businesses, Hong Kong Property Rental and Management Businesses, and subsidiaries of Mainland of China and International Railway, Property Rental and Management Businesses. Further details of the divisional performance are set out in the ensuing paragraphs.

Post-tax Property Development Profit

Post-tax property development profit in 2017 was HK$1,935 million, mainly derived from profit recognition of the high-rise units handed over at Tiara in Shenzhen (which formed the vast majority of the development) and sundry income sources in Hong Kong.

Dividend

In line with the Company's progressive ordinary dividend policy, the Board has proposed a final ordinary dividend of HK$0.87 per share (with a scrip dividend option offered), giving a full year ordinary dividend of HK$1.12 per share, higher than the HK$1.07 per share in 2016.

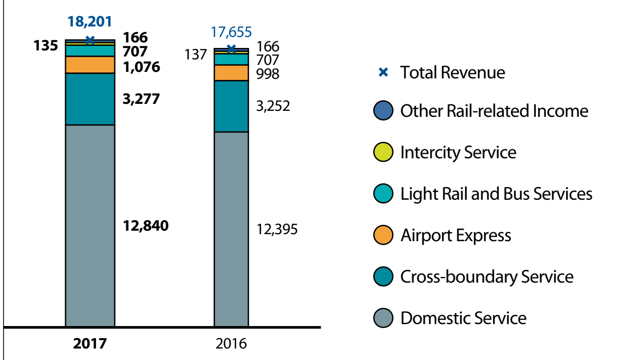
RECURRENT BUSINESSES

Hong Kong Transport Operations

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**18,201**	17,655	546	3.1%
Total Expenses	**(10,726)**	(10,022)	704	7.0%
EBITDA	**7,475**	7,633	(158)	(2.1%)
EBIT*	**1,656**	2,572	(916)	(35.6%)
EBITDA Margin (in %)	***41.1%***	*43.2%*	*(2.1%)*	*pts.*
EBIT Margin (in %)*	***9.1%***	*14.6%*	*(5.5%)*	*pts.*

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

Total Revenue
(HK$ million)



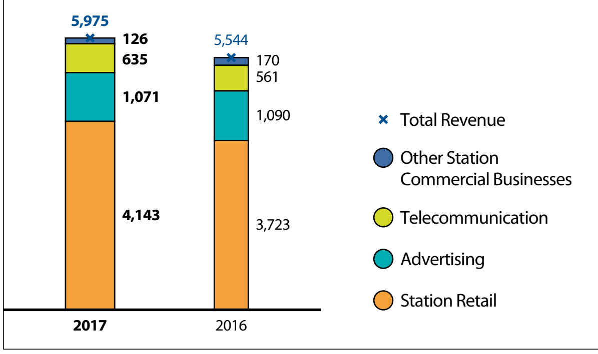
Despite the roll-over of the fare increase under the FAM in June 2017, total revenue increased by 3.1%. The increase was mainly due to the patronage contributions after the opening of the Kwun Tong Line Extension and the new South Island Line in the last quarter of 2016. Average fares for the Domestic Service increased by 0.3% and Cross-boundary Service by 1.4%, while average fares for Light Rail decreased by 0.1% and Bus Service by 0.5%. Average fares for Airport Express and Intercity services, which are not subject to FAM, increased by 4.7% and decreased by 0.1% respectively. Total patronage of all our rail and bus passenger services increased by 2.6%, surpassing the 2 billion passenger trips per annum mark. Total expenses increased mainly owing to higher staff costs and the full 12-month operating costs for the two new lines in 2017, as well as refund of Government rent and rates in 2016. Depreciation and amortisation charges increased significantly by 18.5% to HK$4,479 million, mainly due to the opening of the two new lines and the addition of new assets. Variable annual payment to KCRC increased by 4.6% to HK$1,340 million as the incremental fare revenue was charged at the top progressive rate of 35%. As a result, EBIT decreased by 35.6% to HK$1,656 million and EBIT margin decreased by 5.5 percentage points to 9.1%.

Hong Kong Station Commercial Businesses

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**5,975**	5,544	431	7.8%
Total Expenses	**(501)**	(532)	(31)	(5.8%)
EBITDA	**5,474**	5,012	462	9.2%
EBIT*	**4,722**	4,362	360	8.3%
EBITDA Margin (in %)	***91.6%***	*90.4%*	*1.2%*	*pts.*
EBIT Margin (in %)*	***79.0%***	*78.7%*	*0.3%*	*pt.*

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

Total Revenue
(HK$ million)



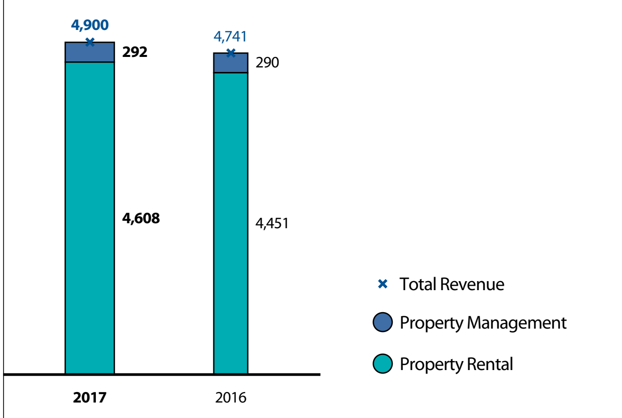
Total revenue increased by 7.8% mainly due to higher station retail revenue. This reflected rental income growth from the new contract of the Duty Free Shop at Lok Ma Chau Station and existing contract of the Duty Free Shop at Lo Wu Station, an increase in the number of station shops following the opening of the two new lines, as well as positive rental reversion because of a more resilient trade mix in our station shops. In addition, telecommunication revenue increased due to incremental revenue from the two new lines, as well as new service contracts and capacity enhancement projects. The increases were partly offset by decreases in revenue from advertising and other station commercial businesses. Total expenses decreased due to lower operating costs relating to advertising and other station commercial businesses in line with the decreases in related revenue. Variable annual payment to KCRC increased by 17.3% to HK$589 million owing to a higher level of revenue subject to variable annual payment. As a result, EBIT increased by 8.3% to HK$4,722 million and EBIT margin increased by 0.3 percentage point to 79.0%.

Hong Kong Property Rental and Management Businesses

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**4,900**	4,741	159	3.4%
Total Expenses	**(802)**	(811)	(9)	(1.1%)
EBITDA	**4,098**	3,930	168	4.3%
EBIT*	**4,082**	3,912	170	4.3%
EBITDA Margin (in %)	***83.6%***	*82.9%*	*0.7% pt.*	
EBIT Margin (in %)*	***83.3%***	*82.5%*	*0.8% pt.*	

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

Total Revenue
(HK$ million)



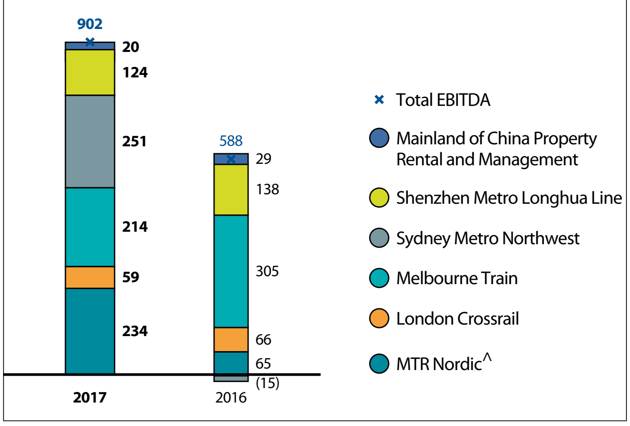
Property rental revenue saw a 3.5% increase in 2017. The openings of the seventh and eighth floors of Telford Plaza II in July 2017 and Maritime Square 2 in December 2017 contributed partly to the growth. This, together with the full year impact of positive rental reversion of shopping malls in Hong Kong at 3.4% in 2016, more than offset the impact from the negative rental reversion of shopping malls at 1.7% in 2017. As at 31 December 2017, our shopping malls and the Company's 18 floors in Two International Finance Centre remained close to 100% let. Property management income increased slightly, whilst total expenses decreased mainly due to the one-off provision made in 2016. As a result, EBIT increased by 4.3% to HK$4,082 million and EBIT margin increased by 0.8 percentage point to 83.3%.

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

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**16,990**	13,478	3,512	26.1%
Total Expenses	**(16,088)**	(12,890)	3,198	24.8%
EBITDA	**902**	588	314	53.4%
EBIT#	**766**	468	298	63.7%
EBITDA Margin (in %)	***5.3%***	*4.4%*	*0.9% pt.*	
EBIT# Margin (in %)	***4.5%***	*3.5%*	*1.0% pt.*	

\# *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*

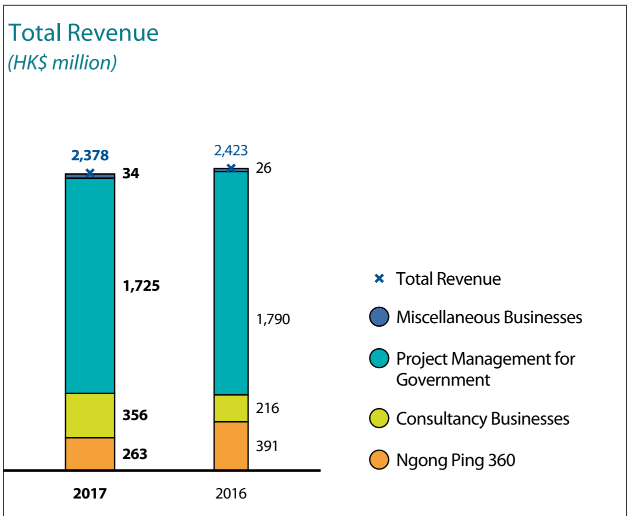
Total revenue increased by 26.1%, total expenses by 24.8%, and total EBITDA by 53.4%. In Australia, EBITDA of HK$251 million was recognised for the SMNW PPP project. However, the EBITDA of MTM decreased mainly due to higher expenses from operations, as well as margin decrease in its project activities. In Sweden, the higher EBITDA of Nordic Group was mainly brought by the contributions from MTR Pendeltågen AB. In the United Kingdom, the EBITDA of London Crossrail maintained at a similar level to 2016. In the Mainland of China, EBITDA of Shenzhen Metro Longhua Line decreased mainly due to higher growth in operating costs.

Total depreciation and amortisation charges increased by 13.3% to HK$136 million. As a result, EBIT increased by 63.7% to HK$766 million and EBIT margin increased by 1.0 percentage point to 4.5%.

Other Businesses

HK$ million	2017	2016	2017 vs 2016 Inc./(Dec.)	
Total Revenue	**2,378**	2,423	(45)	(1.9%)
Total Expenses	**(2,318)**	(2,278)	40	1.8%
EBITDA	**60**	145	(85)	(58.6%)
EBIT*	**(5)**	80	(85)	N/A
EBITDA Margin (in %)	***2.5%***	*6.0%*	*(3.5%) pts.*	
EBIT Margin (in %)*	***-ve***	*3.3%*	*N/A*	

* *EBIT represents EBITDA net of depreciation and amortisation*



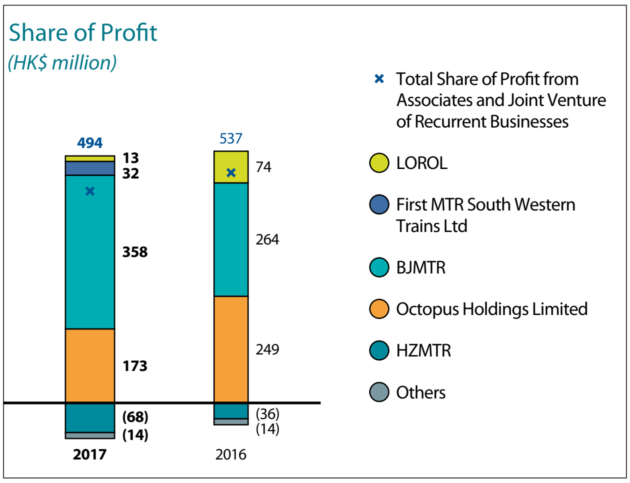
Income from project management services to Government is from entrustment works on the Express Rail Link and Shatin to Central Link, which is booked on a cost recovery basis. Revenue from Ngong Ping 360 decreased by 32.7% due to the service suspension of the Ngong Ping Cable Car from 9 January 2017 to 4 June 2017 to carry out rope replacement. Income from consultancy businesses increased by 64.8% mainly due to the contributions from our contract to provide management and technical assistance to the Macau Light Rapid Transit Project. Total expenses increased as a result of more activities in consultancy businesses.

After accounting for the depreciation charges of Ngong Ping 360, a loss in EBIT of HK$5 million was recorded in 2017 compared with a profit in EBIT of HK$80 million in 2016.

Depreciation and Amortisation

Depreciation and amortisation increased mainly due to the full 12-month operations of the Kwun Tong Line Extension and the South Island Line.

Share of Profit from Associates and Joint Venture of Recurrent Businesses



Share of profit from associates and joint venture of recurrent businesses decreased mainly due to share of lower profit from Octopus Holdings Limited, as well as lower contributions from LOROL as the concession ended in November 2016. The decrease was partly offset by higher share of profits from BJMTR resulting from revenue improvement.

PROPERTY DEVELOPMENT BUSINESSES

Post-tax Profit from Hong Kong Property Development

Post-tax profit from Hong Kong Property Development in 2017 was derived from the agency fee income from the West Rail property developments (mainly including Cullinan West, Cullinan West II, Ocean Pride, Ocean Supreme, THE PAVILIA BAY, PARC City and The Spectra), sales of inventory units and car parking spaces, and further surplus proceeds arising from the finalisation of development costs for completed property development projects. This was HK$649 million higher than 2016 mainly due to higher agency fee income recorded in 2017.

Post-tax Profit from Mainland of China Property Development

Post-tax profit from Mainland of China Property Development in 2017 was derived predominantly from profit recognition of the high-rise units handed over at Tiara which comprised the vast majority of the development. This was HK$756 million higher than 2016 when profit of the first batch of units handed over at Tiara was recognised.

STATEMENT OF FINANCIAL POSITION

HK$ million	**At 31 December 2017**	At 31 December 2016	2017 vs 2016 Inc./(Dec.)	
Fixed Assets	**209,772**	201,942	7,830	3.9%
Property Development in Progress	**14,810**	17,484	(2,674)	(15.3%)
Interests in Associates and Joint Venture	**6,838**	7,015	(177)	(2.5%)
Debtors and Other Receivables	**7,058**	4,073	2,985	73.3%
Cash, Bank Balances and Deposits	**18,354**	20,290	(1,936)	(9.5%)
Other Assets	**6,936**	6,536	400	6.1%
Total Assets	**263,768**	257,340	6,428	2.5%
Total Loans and Other Obligations	**(42,043)**	(39,939)	2,104	5.3%
Creditors and Other Payables	**(28,166)**	(32,629)	(4,463)	(13.7%)
Amounts Due to Related Parties	**(2,226)**	(11,783)	(9,557)	(81.1%)
Obligations Under Service Concession	**(10,470)**	(10,507)	(37)	(0.4%)
Deferred Tax Liabilities	**(12,760)**	(12,125)	635	5.2%
Other Liabilities	**(1,677)**	(801)	876	109.4%
Total Liabilities	**(97,342)**	(107,784)	(10,442)	(9.7%)
Net Assets	**166,426**	149,556	16,870	11.3%
Represented by:				
Total Equity Attributable to Shareholders of the Company	**166,304**	149,461	16,843	11.3%
Non-controlling Interests	**122**	95	27	28.4%
Total Equity	**166,426**	149,556	16,870	11.3%

Fixed Assets

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

Property Development in Progress

Property development in progress decreased mainly due to profit recognition of Tiara.

Debtors and Other Receivables

Debtors and other receivables increased mainly due to the purchase of tax reserve certificates and prepayment for the future acquisition of a shopping centre to be developed on the Beiyunhe Station site of Tianjin Metro Line 6.

Cash, Bank Balances and Deposits

Cash, bank balances and deposits decreased mainly due to payments of the second tranche of special dividend under the XRL Agreement, ordinary dividends and capital expenditure. 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 increased mainly due to the fixed rate notes issued by the Company, of which more than HK$3 billion of these notes were issued pursuant to our Green Bond Framework.

Creditors and Other Payables

Creditors and other payables decreased mainly due to the sales proceeds of Tiara previously received and accounted for as creditors now being recognised in the profit and loss account, as well as the payment of the second tranche of special dividend under the XRL Agreement to independent shareholders. The decrease was partly offset by the cash receipts from Hong Kong property development.

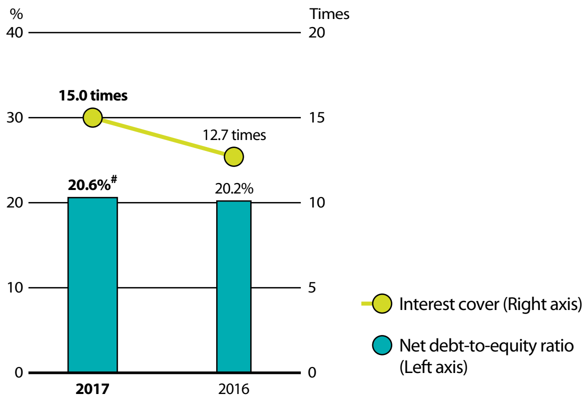
Amounts Due to Related Parties

Amounts due to related parties decreased mainly due to the payment of the second tranche of special dividend under the XRL Agreement to the Government.

Total Equity

The increase in total equity of HK$16,870 million was mainly due to the profit recorded for the year, partly offset by the payments of 2016 final ordinary dividend and 2017 interim ordinary dividend during the year.

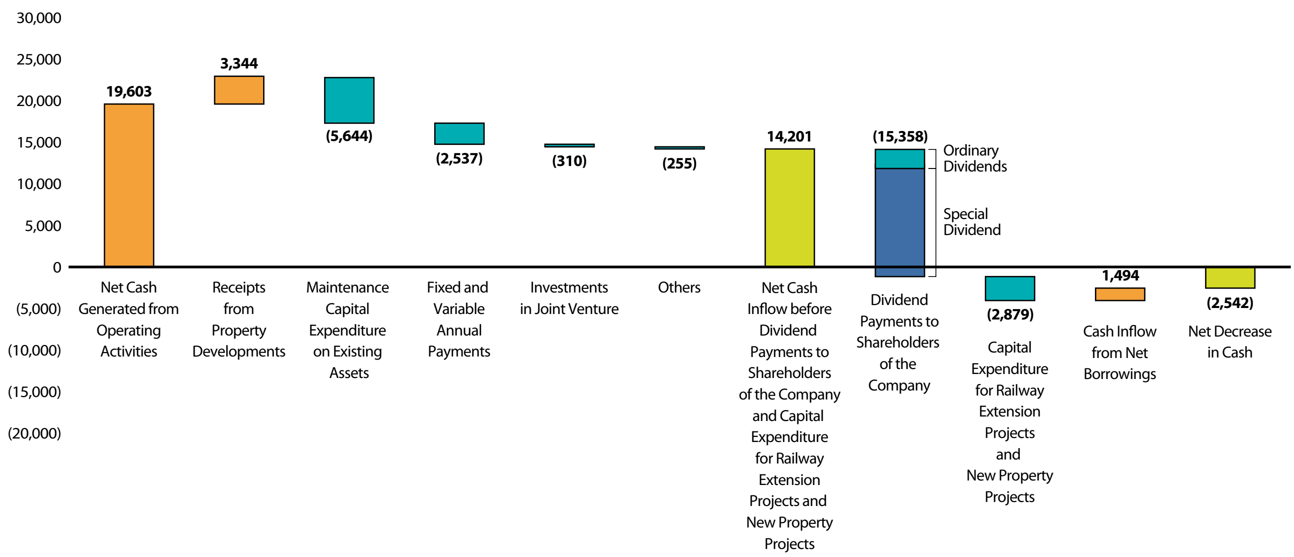
Debt Servicing Capability



If the land premium in respect of Wong Chuk Hang Station Package 2 (which was paid in January 2018) was excluded from the cash balance, the Group's net debt-to-equity ratio at 31 December 2017 would have been 23.7%

Cash Flow for the Year Ended 31 December 2017

(HK$ million)

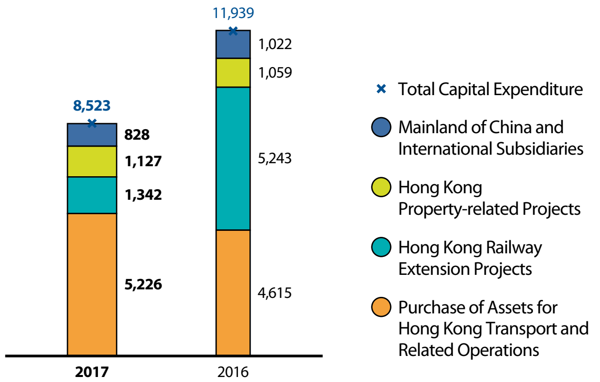


CASH FLOW

HK$ million	2017	2016
Net Cash Generated From Operating Activities	**19,603**	17,135
Receipt from Hong Kong and Shenzhen Property Developments	**3,344**	5,403
Other Receipts	**517**	1,160
Net Cash Receipts	**23,464**	23,698
Capital Expenditure	**(8,523)**	(11,939)
Fixed Annual Payment	**(750)**	(750)
Variable Annual Payment	**(1,787)**	(1,649)
Net Interest Payment	**(578)**	(519)
Investments in Associates and Joint Venture	**(310)**	(1,273)
Other Payments	**(92)**	(112)
Dividends Paid to Shareholders of the Company	**(15,358)**	(18,508)
Dividends Paid to Holders of Non-controlling Interests	**(102)**	(108)
Total Cash Outflow	**(27,500)**	(34,858)
Net Cash Outflow before Financing	**(4,036)**	(11,160)
Cash Inflow from Net Borrowings	**1,494**	19,431
(Decrease)/Increase in Cash	**(2,542)**	8,271
Cash, Bank Balances and Deposits as at 1 January	**20,290**	12,318
(Decrease)/Increase in Cash	**(2,542)**	8,271
Effect of Exchange Rate Changes	**606**	(299)
Cash, Bank Balances and Deposits as at 31 December	**18,354**	20,290

Capital Expenditure

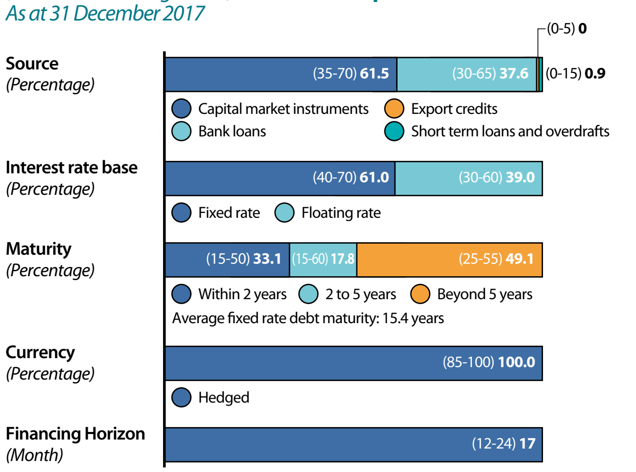
(HK$ million)



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 2017



Investment in Joint Venture

Investment in joint venture in 2017 related to equity contribution for our investment in Hangzhou Metro Line 5.

Dividend Payments to Shareholders of the Company

Dividend payments to shareholders of the Company in 2017 included an amount of HK$13,009 million being the second and final tranche of special dividend paid under the XRL Agreement.

FINANCING ACTIVITIES

The US economy continued to display strength and resilience, with strong labour market conditions but subdued inflation. Nevertheless, the US Federal Reserve carried out three 0.25% rate hikes in 2017 and started shrinking its balance sheet in October, seeing the low inflation rate as transitory.

With this backdrop, while 3-month USD LIBOR rose from 1.00% p.a. to 1.69% p.a. for the year, longer-term USD interest rates did not show the same trend. The 10-year Treasury yield ended the year at 2.41% p.a., slightly lower than the 2.44% p.a. seen at the start of the year, after touching a low of 2.04% p.a. in September, while the 30-year Treasury yield dropped from 3.07% p.a. to 2.74% p.a. over the year.

Interest rates in Hong Kong followed a similar yield-curve flattening pattern. The 3-month HKD HIBOR rose from 1.02% p.a. to 1.31% p.a. at year end as domestic liquidity was mopped up by the issuance of HK$80 billion of exchange fund bills by HKMA. The 5-year, 10-year and 15-year HKD swap rates ended the year lower at 2.12% p.a., 2.28% p.a. and 2.47% p.a. respectively from 2.32% p.a., 2.63% p.a. and 2.79% p.a. at the start of the year, with lows of 1.44% p.a., 1.79% p.a. and 1.93% p.a. during the year.

Taking advantage of the lower long-term interest rates, the Company issued several fixed rate notes totalling HK$7.7 billion through private placements, with maturities ranging from 5 to 30 years in HK, US and AU dollars. These notes helped to further extend and diversify the Company's debt maturity profile. More than HK$3 billion of these notes were issued pursuant to our Green Bond Framework as we saw increasing investor interest in our green bonds following the debut green bond issuance in 2016. Notably the Company issued Asia's first off-shore AU dollar green medium term note and the first HK dollar green bond through private placements. In recognition of our efforts in social responsibility, the Group was awarded "Asia SRI Issuer of the Year" by mtn-i. FORTUNE also highlighted our Green Bond issuance as a consideration factor when naming the Group on the "Change the World" Top 50 list.

COST OF BORROWING

The Group's consolidated gross debt position increased from HK$39,939 million at year-end 2016 to HK$42,043 million at year-end 2017. The weighted average borrowing cost of the Group decreased to 2.5% from 2.9% p.a. due to the lower interest rates on the new fixed rate borrowings.

FINANCING CAPACITY

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

Capital expenditure for Hong Kong railway projects comprises of spending related to new projects owned by the Company, as well as outlays for maintaining and upgrading existing rail lines. Capital expenditure for concession projects like the Express Rail Link ("XRL") and the Shatin to Central Link ("SCL") are generally funded by the Government and therefore not included in the Group's capital expenditure programme, although the Company may have to pick up some costs for the XRL if the total cost exceeds HK$84.42 billion and will incur certain costs for the rolling stock and signalling systems attributable to the East Rail and Ma On Shan Lines in relation to the SCL project.

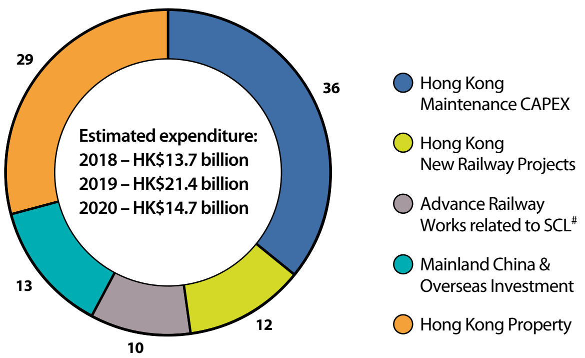
Capital expenditure for Hong Kong property investment and development comprises mainly of costs associated with works for property development, fitting-out and renovating the shopping centres, and partial development costs for certain property development projects. Expenditures for Mainland of China and overseas investment are primarily the equity contribution to the Beijing Metro Line 16, Hangzhou Metro Line 5 and Sydney Metro Northwest projects.

The Group believes that based on its available cash balance and unused 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 the above capital expenditure.

Capital Expenditure and Investment (2018 – 2020)

Total spending for the next three years from 2018 to 2020 is estimated at HK$49.8 billion

(Percentage)



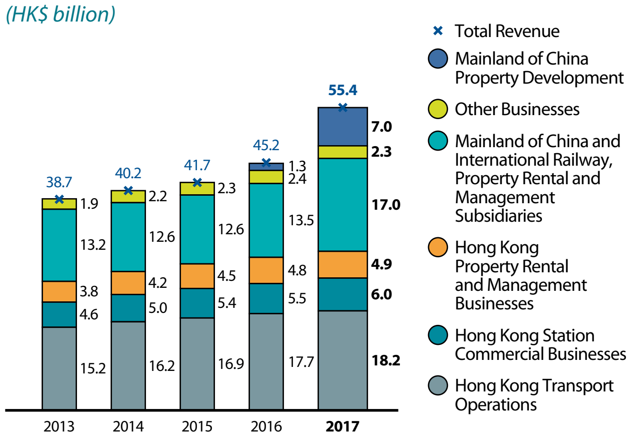
Advance Railway Works involve modifications to or upgrades or expansion of assets for which MTR is responsible under the existing service concession agreement with KCRC. This will predominantly be covered by the reduction in future maintenance CAPEX during the construction period of SCL Project which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

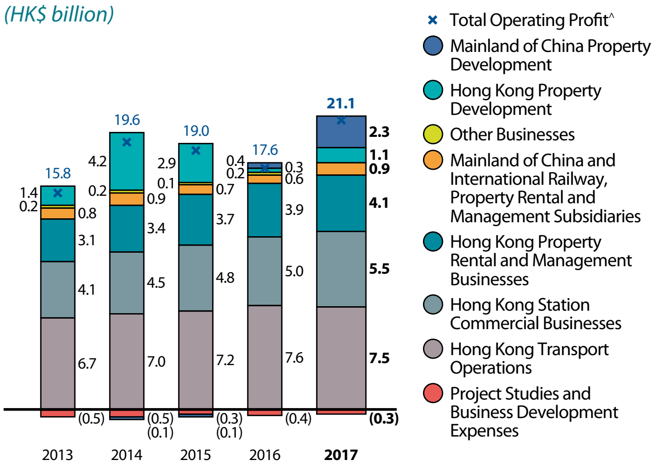
Total Revenue

(HK$ billion)



Operating Profit^ Contributions

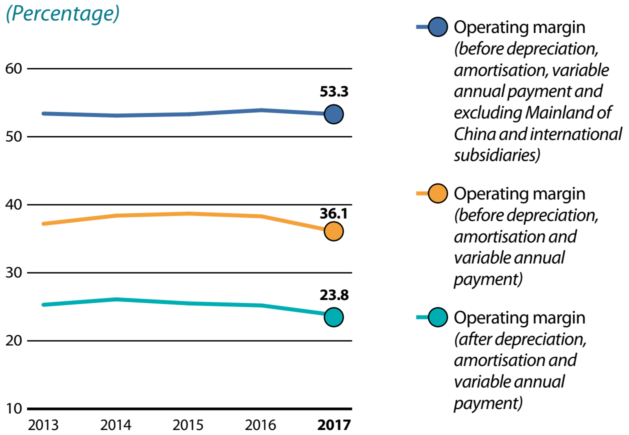
(HK$ billion)



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

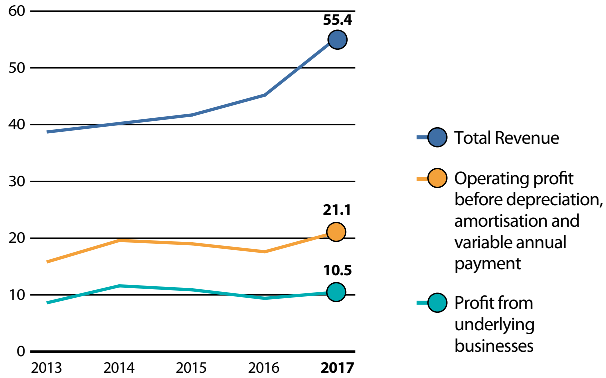
Operating Margin

(Percentage)



Net Results from Underlying Businesses

(HK$ billion)



Fixed Assets Growth

(HK$ billion)