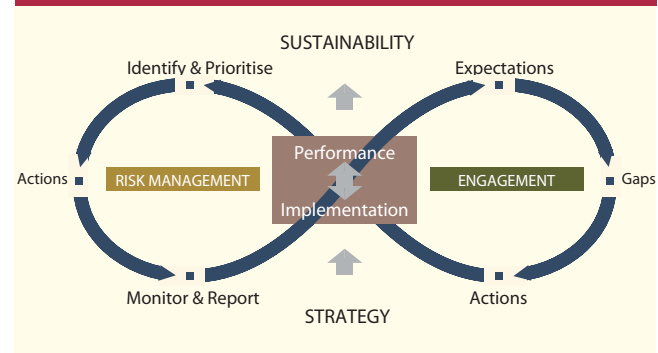


## STRATEGIC ENGAGEMENT

Operating under the unique business model of rail+property, the MTR Corporation is in the business of building and managing mass transit railway systems, providing related rail services, and developing and managing properties adjacent to our rail network. The corporate strategy to optimise this business model positions us for actively participating and positively influencing sustainable development in the communities we serve.

Stakeholder engagement, the focus of our 2005 sustainability reporting exercise, is a base tenet to our business strategy. It interacts with the risk management process to form a continuous dialogue of information sharing and process adjustment to maintain timely response and effective performance management. This interaction utilises appropriate avenues and formats to gauge stakeholder sensitivities and build business risk scenarios to arrive at constructive management decisions and ultimately, sustainable competitive advantage.

## SUSTAINABLE COMPETITIVE ADVANTAGE



Dialogue within this strategy is conducted through the framework of corporate social responsibility in which primary stakeholders are fielded for interests and their potential impact on company operations in terms of social, environmental and economic activities. While primarily focusing on risk and cost reductions,

the process conversely identifies value-added development opportunities and similarly, the areas of application for performance enhancement.

In 2005, the Corporation conducted an in-house study at executive director level to identify and prioritise major corporate stakeholders. Measured on a matrix mix of interest to the company against the ability to influence business, 15 groups were nominated and ranked accordingly. It was further recognised that these groups can change in priority and that communication with them is generally a one-way process without a comprehensive enterprise-wide strategy for engagement in place. As a result, a corporate-wide framework for stakeholder engagement is under development with steps in engagement taken forward during the year through the corporate social responsibility programme.

The 2005 Report addresses stakeholder issues and the initiatives undertaken to manage their interests and the risks they represent. These groups were organised into five core component groups comprising those identified in the matrix and generally aligning with common primary stakeholders of similar transport industry corporations. That is, staff, passengers, customers, community, project partners, suppliers and contractors, and, business partners and investors. These identified stakeholders with the addition of government regulators form a key constituent to our business risk management process.

### Risk Management

The Enterprise Risk Management (ERM) strategy was introduced during the year. Its purpose is to evolve further current strategy by providing a uniform corporate-wide visibility on risk thus giving internal stakeholders an understanding of how risks impact the whole of the organisation, rather than on the previous held division by division basis. The strategy establishes a common standard for identifying and measuring risks across all functions and business units and prioritises the primary risks to be collectively managed while encouraging a common risk management culture. From 2006 the ERM replaces the priority business risk strategy.

## SELECTED PRIORITY BUSINESS RISKS, KEY STAKEHOLDERS, PERFORMANCE INDICATORS AND 2005 PERFORMANCE

Priority Business Risk	Key Stakeholder	Performance Indicator	2005 Performance
<b>Social</b>			
Maintaining passenger numbers	Shareholders, Staff	Passenger trips	Average 2.5 million passenger trips per weekday
Maintain transport market share and maintain rail and retail patronage	Passengers	Customer Service Pledges % achieved: * Train service delivery * Passenger journeys on time - MTR - Airport Express * Train punctuality - MTR - Airport Express * Train reliability	99.9% 99.9% 99.9% 99.6% 99.9% 928,563
Develop and retain staff	Staff	Staff turnover rate	1.9%
Ensuring the health and safety of passengers, staff and contractors	Passengers	Passenger safety * Fatality * Number of serious injuries per 100 million passengers	0 5.77
	Staff	Staff safety on the operating railway * Fatality * Loss Time Injury frequency rate per 200,000 man-hours worked	0 0.77
	Contractors	Contractor safety on the operating railway * Fatality * Reportable accident frequency rate per 100,000 man-hours worked	0 0.12
	Construction and Contractors' Staff	Construction safety for railway extension projects * Fatality * Reportable accident frequency rate per 100,000 man-hours worked	0 0.88

## SELECTED PRIORITY BUSINESS RISKS, KEY STAKEHOLDERS, PERFORMANCE INDICATORS AND 2005 PERFORMANCE (CONT'D)

Priority Business Risk	Key Stakeholder	Performance Indicator	2005 Performance
<b>Economic</b>			
Growth of shareholder value	Shareholders	Total shareholder return as compared to Hang Seng Index	12.2%
<b>Environment</b>			
Breaches of statutory environmental requirements	Government	Legal compliance (MTRCL) number of successful prosecutions	0
	Government, Contractors	Legal compliance (project contractors) number of successful prosecutions	0
Long-term energy supply without renewables	Shareholders, Customers, Passengers, Suppliers, Community	Greenhouse gas emissions (tonnes CO <sub>2</sub> equivalent)	788,410

*Refer to page 56 of our 2005 Sustainability Report for definitions of the terms used*

## STEWARDSHIP - 2005 FOCUS

Our vision, to be a world-class enterprise, growing in Hong Kong and beyond, focusing on rail, property and related businesses, shapes our future as a company and as a workforce. We articulate this vision through clear working values and their consistent application across all businesses and markets in which we operate. These core values — excellent service, mutual respect, value creation and enterprising spirit form the foundation of our corporate social responsibility actions. The Code of Conduct, the CSR Guideline (introduced during the year) and the Corporation's signatory membership to the Hong Kong CSR Charter collectively express and direct how we apply our values in practice. The Code specifies employee conduct as representatives of the Company while the CSR Guideline and CSR Charter define the ethical approach to our working lives.

The CSR Charter commits the Corporation to promoting the principles of responsibility by positively managing our social, environmental and economic impacts within our organisation and in our sphere of influence. The CSR Guideline complements this commitment through setting the internal goals that bring responsible actions to the individual employee's workplace.

#### Corporate Social Responsibility Guideline

Through socially responsible behaviour, MTR Corporation aims to be a competitive and profitable enterprise able to make a long-term contribution to sustainable development by generating economic growth and providing jobs and careers whilst supporting the social and environmental needs of the society, locally and internationally.

The Sustainability and Corporate Social Responsibility (S&CSR) Steering Committee was established in 2005 to ensure cohesive and top-down integrated supervision of the CSR Guideline and the general corporate sustainability programme. To engender work place CSR, the Committee introduced a series of initiatives to promote learning, internal capacity building and community involvement that strengthens our vision, mission and values and ultimately, expands our corporate CSR footprint.

#### Eco-efficiency

The Environmental Management System (EMS) operating under ISO 14001 certification standards provides the uniform framework for managing and promoting best practice in our resource usage. During 2005, we achieved 96% our 126 identified EMS targets, again improving our year-on-year performance. We also continued our long-term strategies and programmes for performance improvement such as the rail network energy optimisation, the energy efficiency drive for our managed properties, and adopted in 2005, the voluntary PAS 55-1 certification system under our Integrated Management System to enhance the 'cradle to grave' life-cycle approach in managing hard assets.

In our rail projects, we are positioned to substantially influence environmental sustainability from the early planning stages.

With each project we address the unique challenges while employing the best of practice accumulated through project delivery experience. We utilise our Partnering Programme which, in collaboration with contractors and suppliers, aids in the continuous improvement in environmental impacts management. For our property development projects, in addition to our master urban planning and design for green communities, we stipulate as voluntary in all future tendering the use of the HK-BEAM (Hong Kong Building Environmental Assessment Method) by our development partners which provides the assessment and standards to measure, improve and label the environmental performance of buildings.

#### KEY ENVIRONMENTAL DATA (2004-2005)

Issue	Divisions	2004	2005
<b>Greenhouse Gas Emissions</b>			
Greenhouse gas emissions (CO <sub>2</sub> equivalent)	Corporate wide	779,144	788,410
<b>Electricity consumption</b>			
Total (MWh)	Operations	785,273	781,900
Per revenue car km(KWh/car km)		6.02	5.94
Traction energy (KWh/train km)	Operations	2.40	2.33
<b>Waste Generation</b>			
Metals recycled (tonnes)	Operations	1,231	1,258
Spent oil recycled (litres) (%total)	Operations	18,654 100%	25,792 100%
<b>Water usage</b>			
Water consumption (m <sup>3</sup> )		324,751	281,633

The accumulated knowledge and expertise gained through systems, processes, programmes and compliance management serve as the basis in promoting best practice in new markets. In mainland China, our rail projects in Beijing and Shenzhen are planned and designed to reflect long-term sustainability and where opportune, introduce innovation in applying eco-efficiencies while being responsive to stakeholder interests.

#### Fostering sustainability

As a builder and operator of mass transit systems, we are part of the global solution to sustainable transport. We plan and operate our business to reduce traffic congestion and other negative impacts of prime land loss to road systems by creating convenient inter-modal hubs linking major regional centres served by our rail system. We optimise eco-efficiencies and foster the growth of green communities around our network to ultimately bring positive change in the quality of life to the cities we serve.

Our benefits to communities reach beyond the environment to deliver modern lifestyle aspirations. In Hong Kong, through the convenience of our retail shopping centres, our 'Art in MTR' programmes and the enhancement of residential and commercial properties adjacent to our rail lines, we effectively create a network of modern community centres linked by our transport services.

#### Leadership

We recognise our position as a powerful conduit and model for corporate social responsibility and sustainable best practice. Our pioneering efforts have introduced ground breaking industry practices, services enhancements and efficiencies that benefit our corporate stakeholders and society as a whole.

We are pleased to be amongst the global leaders in sustainability with inclusion to the DJSI, FTSE4Good and Ethibel Stock Indices. The 2005 year is the fifth successive year in reporting under the GRI Guidelines - 2002 and the second year for WEF Corporate Citizenship Initiative inclusion in the preparation of our sustainability reporting.

Full discussion of our activities for the year is available in our 2005 Sustainability Report. An electronic version can be viewed and downloaded at [www.mtr.com.hk/sustainability](http://www.mtr.com.hk/sustainability). To receive a printed copy and for further enquires on the MTR Corporation's sustainability practices and programme, contact [sdmng@tr.com.hk](mailto:sdmng@tr.com.hk).

