

**ADDRESS BY CEO ANDREW MOHL  
TO THE AMP ANNUAL GENERAL MEETING  
17 MAY 2007**

I want to cover three issues with you this morning.

- First, our operating performance in 2006.
- Secondly, the significant drivers of value in AMP and what we are doing to protect and enhance them.
- Finally, the future growth opportunities in our industry and our plans to capitalise on them.

Let me start with our 2006 operating performance.

AMP delivered its third consecutive year of good financial performance last year, reflecting our focus on running the business better than it has ever been run before.

We saw strong growth in cashflows and in assets under management, which drive revenue in the organisation.

At the same time we limited cost growth to low single digits after five successive years of absolute reductions in costs.

Overall that led to a significant growth in our operating earnings and underlying profit.

As you know, the board measures AMP's short term progress against five key metrics.

These are our underlying return on equity, our operating earnings, our cost to income ratio, our value measures and the investment performance of our fund manager.

We made significant progress against all five measures last year. In particular:

- our underlying return on equity is now over 30 per cent and set to rise substantially higher this year
- our operating earnings rose by 16 per cent to \$752 million
- our cost to income ratio fell below 40 per cent – and is the lowest in the industry
- our value measures grew strongly, and
- our investment manager again delivered high returns for our customers on the funds we manage for them and was recognised as the multi-sector fund manager of the year.

We are also seeing evidence of a more agile and innovative organisation. This can be seen in AMP Financial Services' success in the employer-sponsored superannuation market, with a product we launched a couple of years ago and which now has almost \$5 billion in assets under management.

Similarly, AMP Capital Investor's first forays into the Asia Pacific market have attracted over \$5 billion in funds from the region across a range of asset classes.

Another 2006 highlight was AMP's strong balance sheet, which reflects our disciplined approach to capital management.

The level of debt in AMP is now below \$1 billion, almost \$4 billion lower than at the end of 2002. Our gearing and interest cover ratios are robust and our 'A' credit rating at group level is on positive outlook with Standard & Poor's.

The strength of our balance sheet has allowed us to propose a third successive capital return of 40 cents a share, making a cumulative \$1.20 a share return to shareholders since the middle of 2005, in addition to ordinary dividends.

Finally, we announced a goal in mid 2005 to achieve a doubling in the value of an investment in AMP, including dividends and capital returns, by mid 2010, requiring average growth in value of 15 per cent a year.

The timeframe for this goal was reduced to four years last year and we are continuing to make strong progress against that revised target.

#### **AMP Financial Planning's enforceable undertaking**

Not everything, however, went smoothly last year and the chairman has already mentioned the biggest issue we faced during the year – the enforceable undertaking our financial planning subsidiary offered to one of our key regulators, ASIC, in July.

At the core of the enforceable undertaking were different interpretations by the regulator and by us of the requirements under principles-based legislation in giving advice to customers who were changing superannuation funds.

Specifically, what was at issue was the level of detail provided about the fund or funds customers were moving from and the clarity in our written documents about the reasons for recommending the change and why the customer would be better off.

We believe the majority of our customers were and are in fact better off as a consequence of implementing the advice they were given, but we acknowledge that our documentation and disclosures could have been better.

Ultimately, we accepted the regulator's interpretation of the legislation and agreed to change our business practices in line with this.

That's what the enforceable undertaking sets out – it's a legally binding agreement offered by AMP Financial Planning to ASIC to change certain business processes and practices.

We've used this experience to strengthen our business. Since July last year:

- we have put in place a new management structure in AMP Financial Planning to enhance the focus on both field management and operational support
- we have developed and implemented new advice standards and new disclosure documents reflecting those standards. Importantly, we now have a process of continuous improvement in place for these key documents
- and we've implemented new training, auditing and compliance procedures for our planners.

We've also contacted about 35,000 customers who may have had advice to move their superannuation accounts and offered them a free review of that advice.

To date, about 5 per cent or around 1,700 of the customers contacted have requested a review and those reviews are now under way.

If the reviews find that there was no reasonable basis for the advice given, we will offer to move the customers back to their original fund or funds. We will also refund all fees and charges associated both with the original move and the switch back. Customers can then consider our offer and indicate whether or not they wish to remain with AMP.

I should point out that we expect to make this offer to most of the customers who ask for a review. This is because we are reviewing all files – even those written more than two years ago – against the new standards that we have agreed with ASIC and against verification criteria specifically agreed for this process.

Our old standards did not require our planners to provide as much detail, particularly on the funds that customers were moving from, whereas in contrast our new standards do. So we don't expect many of those old files will meet our new standards.

We believe that this is a responsible and appropriate approach for a company like AMP to take. If there is any doubt, we prefer to err on the side of caution and ensure we do the right thing by our customers.

AMP is a company that has always stood behind the advice it gives and the products it recommends, and this situation is no different.

### **AMP's value**

And this approach is part of what drives the value of your company.

AMP today is valued at around \$20 billion. Yet if you look at our balance sheet, shareholder equity was \$2.7 billion as at December 2006.

The difference between our market value and that book value reflects the intangible assets in AMP – particularly our brand, our technology and our people and culture.

These three intangible assets drive much of the earnings power of the group. It's critical that we continue to build momentum in all three areas to ensure AMP's future prosperity.

### **Brand**

As you know, we have a robust brand that stands for trust and security – two very important qualities for a financial services company.

We are continuing to invest in our brand, with a major new advertising campaign this year that explains more clearly how we can help Australians better prepare for their retirements by making their super work harder for them.

But a brand like AMP is much more than an advertising campaign. The AMP brand has been built over 158 years of doing the right thing by our customers.

It's what we do day in and day out and how we treat our customers that ultimately creates our brand.

Our customers trust us to do the right thing. After all, we insure their lives, protect their incomes and manage their retirement savings, often for several decades and generations of families, and they expect AMP to be there when they need us.

It is our duty to live up to that trust to ensure that our brand remains strong and valuable for a very long time to come.

### **Technology**

At the same time, we must make sure that we meet our customers' expectations as efficiently as we can. And that's where our technology plays an important role.

One of our critical competitive advantages is that we have one technology platform on which we run all our superannuation and annuities and pensions business. We are easily the market leader in managing the largest volume of funds on a single contemporary platform.

This is one of the ways we are able to maintain our low cost position.

It means we are able to respond to a changing market more quickly and cost effectively than our competitors.

We believe the way we manage IT services within AMP also gives us a competitive edge.

Our in-house technology teams work in close partnership with the business and this partnership is critical to delivering projects that drive business success. Our technology area now has a long record of successful program delivery that we can build on with confidence as we plan our future.

### **People and culture**

The chairman has already spoken about the critical importance of our third major intangible asset – our people and culture. It's something that the board is very focused on.

As CEO, I believe building a constructive, high performance culture in AMP is critical to ensure sustainable strong growth for this company.

Culture is a hard issue to grapple with because of its intangibility – and it takes a long time to change. Yet it really boils down to “the way we do things around here”.

We are striving to build a business marked by high performing people working with passion, commitment and integrity to help Australians and New Zealanders manage their financial well-being.

We believe achievement of this will drive sustainable, strong financial performance for our shareholders over the medium to long term.

We are working very hard to do this. We have measures in place to give us a very detailed picture of the culture we currently have at a group, business unit, divisional and team level. At each level, we've compared that picture to our ideal culture, worked out where the gaps are and we are working to close those gaps, with a particular focus on leadership, coaching and performance management.

This is work in progress. I'm pleased to say that we have seen considerable improvement in the past few years. Our cultural profile is now significantly better than the financial services industry average. This is encouraging, but we are still some way short of our ideal cultural profile.

### **Growth opportunities**

One of the reasons I believe culture is so important to our future is that we are fortunate enough to operate in a market with a broad range of growth opportunities.

We need the right people with the right values and the right way of working together to ensure we capitalise on these opportunities to their fullest extent.

The Australian retirement savings market is expected to grow at more than 10 per cent a year, on average, for at least the next decade. That is a unique growth outlook for any industry or market, to my knowledge.

That growth outlook has been enhanced by the changes to simplify the superannuation system that the Federal Government announced last year and which largely come into effect in July.

We believe that these changes will encourage Australians to save progressively more through their superannuation as it is clearly the preferred investment structure for retirement saving.

For most people, super is not a top of mind issue, so we don't expect to see a big sea change overnight.

But we do expect to see changes over the medium to long term, as more and more people become aware of the advantages of saving through super. And that's great news for AMP as Australia's leading provider of superannuation.

To fully capitalise on this opportunity, we need to keep strengthening our core business. That includes increasing the number of planners who work with us and the productivity of those planners. This is a critical issue, because we currently work in a supply constrained industry. That is, there is not a lack of people looking for financial advice, but rather a lack of financial planners, as evidenced in financial planner numbers in the industry being similar today to three years ago.

The financial planners working with us are also constrained in the number of clients that they can see because of the administrative and regulatory requirements they face.

We have to work with them to help reduce the impact of those requirements, so that they can be even more effective and productive, and at the same time, lift our efforts to attract more people into our industry.

We also have to develop complementary advice channels to serve a wider customer base. Not everyone wants to see a financial planner face to face on every issue and it is not economic for planners to see every customer. We have to understand better what customers want at different stages of their lives, and what is the best channel for them to receive the support they're after.

And we have to make sure that we have relevant products and advice propositions for our customers at all different lifestages, so we can retain our customers for as long as possible.

We also have to continue to build our investment management capabilities. The search for attractive absolute returns in new products and out-performance in traditional asset classes is relentless. We need to be both innovative and high performing, delivering good returns in our core and specialist funds.

These are all key priorities when we talk about continuing to find ways to run our business better than it's ever been run before.

**Conclusion**

We believe that 2007 will be another exciting and profitable year for AMP.

We have a great business model operating in a high growth industry, whose prospects have only been enhanced by the Simpler Super reforms.

We have a very sharp focus on our core business - and we know from experience that the better we get at running the business, the more opportunities we find to improve.

We have a broad basis for growth across a range of market segments – retail and corporate superannuation, retirement income products, risk insurance, retail investments and institutional funds.

We have a strong balance sheet and cashflow, with a rising return on equity.

We have very clear short term and long term goals in terms of what matters and how we deliver increasing value for you, our shareholders.

In particular, we are confident that we can continue to double the value of an investment in AMP over each rolling five year period, consistent with annual average growth in value of around 15 per cent a year.

In summary, we are striving to drive strong growth in shareholder value by optimising the assets and capabilities of your company.

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