



# ASX Announcement

4 May 2007

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**Part one:** AMP Financial Services announces March quarter net cashflows

**Part two:** Presentation to Macquarie Securities conference

4 May 2007

## AMP Financial Services announces March quarter net cashflows

AMP Financial Services (AFS) has today reported solid cashflows for the first quarter of 2007.

Releasing the figures at a conference in Sydney today, Chief Executive Officer Andrew Mohl said the business had experienced increased inflows through financial planners and corporate superannuation in what is traditionally the slowest quarter of the calendar year for AMP.

Net cashflows rose to A\$753 million from A\$358 million in the first quarter of 2006. Cash inflows rose by 28 per cent to A\$3.4 billion, while cash outflows were 16 per cent higher at A\$2.6 billion.

Persistency was broadly steady at 86.0 per cent compared with 85.9 per cent in the first quarter of 2006.

### Cashflows by line of business – March quarter 2007

Table 1 shows details of March quarter 2007 cashflows by line of business:

Table 1:

	Q1 07			Q1 06 <sup>1</sup>		
	Inflows A\$m	Outflows A\$m	Net A\$m	Inflows A\$m	Outflows A\$m	Net A\$m
Australian contemporary wealth management	2,914	1,915	999	2,178	1,570	608
Australian contemporary wealth protection	136	97	39	123	81	42
Australian mature	186	478	(292)	208	501	(293)
New Zealand	162	155	7	139	138	1
<b>Total AMP Financial Services</b>	<b>3,398</b>	<b>2,645</b>	<b>753</b>	<b>2,648</b>	<b>2,290</b>	<b>358</b>

<sup>1</sup>Q1 06 cashflows have been restated due to a change in systems used by AMP to report cashflows. Q1 06 net cashflows have been restated upwards by A\$17 million.

### Australian contemporary wealth management

In contemporary wealth management, net cashflows rose 64 per cent to A\$999 million. A breakdown by product line is show in Table 2 below:

**Table 2:**

	Q1 07			Q1 06		
	Inflows A\$m	Outflows A\$m	Net A\$m	Inflows A\$m	Outflows A\$m	Net A\$m
Corporate superannuation	1,113	583	530	539	434	105
Retail superannuation	972	740	232	875	665	210
Allocated annuities/pensions	284	152	132	243	116	127
Retail investment	85	101	(16)	83	75	8
Fixed term annuities	40	62	(22)	39	70	(31)
External platforms	420	277	143	399	210	189
<b>Total contemporary wealth management</b>	<b>2,914</b>	<b>1,915</b>	<b>999</b>	<b>2,178</b>	<b>1,570</b>	<b>608</b>

Corporate superannuation inflows and net cashflows rose strongly, up A\$574 million and A\$425 million respectively (see page 5 for detail).

Combined inflows into retail superannuation and allocated pensions/annuities grew by 12 per cent to A\$1.256 billion from A\$1.118 billion previously. Combined net cashflows rose to A\$364 million from A\$337 million a year ago.

Retail superannuation inflows were up 11 per cent to A\$972 million. Outflows also rose 11 per cent to A\$740 million, with Assets Under Management (AUM) growing 16 per cent.

The increased focus on retention of customers transitioning from superannuation to retirement is continuing to produce good results, with allocated annuities/pensions inflows up 17 per cent. Outflows grew broadly in line with AUM.

External platform inflows rose A\$21 million to A\$420 million while outflows rose A\$67 million to A\$277 million, partially reflecting client movements from accumulation to retirement. Net cashflows fell by A\$46 million to A\$143 million.

#### **Australian contemporary wealth protection**

In contemporary wealth protection, cash inflows were up 11 per cent to A\$136 million, outflows were up 20 per cent to A\$97 million while net cashflows were down 7 per cent to A\$39 million, due largely to higher claims payments.

Individual risk annual premium income at March 2007 was A\$432 million, up 8 per cent on March 2006.

#### **Australian mature**

The mature book continued to post lower outflows, down by A\$23 million to A\$478 million. Net cash outflows were A\$1 million lower at A\$292 million.

#### **New Zealand**

New Zealand cashflows continued to improve with inflows up by A\$23 million to A\$162 million and net cashflows up from A\$1 million to A\$7 million.

Individual risk annual premium income at March 2007 was \$A94 million, up 13 per cent from A\$83 million at March 2006.

### Plan for Life/ASSIRT data

AFS expects to report net cashflows of A\$874 million for the first quarter to Plan for Life and ASSIRT which report industry-wide data in Australian retail managed funds (Australian retail products excluding regular premium and risk products). The comparative figure for the first quarter of 2006 was A\$462 million.

### Cashflows by distribution channel

Table 3 shows details of March quarter 2007 cashflows by distribution channel.

Cashflows by Australian distribution channels reflect the overall impact of flows across contemporary wealth management, contemporary wealth protection and mature lines of business.

**Table 3:**

	Q1 07 inflows A\$m	Q1 06 inflows A\$m <sup>1</sup>	Change (%)	Q1 07 net A\$m	Q1 06 net A\$m <sup>1</sup>	Change (%)
AMP Financial Planning	1,690	1,498	13	265	277	(4)
Hillross	459	448	2	126	168	(25)
Corporate super - direct sales force	767	238	222	504	93	442
Customer care centre & other	163	188	(13)	(94)	(112)	16
3rd Party Distributors	157	137	15	(55)	(69)	20
New Zealand	162	139	17	7	1	600
<b>Total AMP Financial Services</b>	<b>3,398</b>	<b>2,648</b>	<b>28</b>	<b>753</b>	<b>358</b>	<b>110</b>

<sup>1</sup>Q1 06 cashflows have been restated due to a change in systems used by AMP to report cashflows. Q1 06 net cashflows have been restated upwards by A\$17 million.

**AMP Financial Planning** (AMPFP) recorded growth in cash inflows of 13 per cent to A\$1.69 billion, while net cashflows were A\$265 million, A\$12 million lower than a year earlier. New vetting procedures and processes for clients switching superannuation accounts, introduced following the Enforceable Undertaking signed with ASIC in July last year, impacted workflow processing times through this channel during the period. More automated processes have recently been introduced, which will streamline the approach that planners need to take in future periods.

**Hillross**, AMP's separately branded financial planning distribution channel, recorded growth in cash inflows of 2 per cent with net cashflows down A\$42 million. This reflects the inclusion in the 2006 figures of one-off transfers of around A\$50 million, related to the integration of the Arrive business.

**Corporate Super - direct sales force** cash inflows were A\$529 million higher at A\$767 million. This included a A\$380 million inflow from a large corporate superannuation win in 2006. Cash inflows are expected to return to more normal levels as all large tenders have now been transitioned. SignatureSuper has grown strongly in the last two years, with AUM increasing from A\$187 million at the end of the first quarter of 2005 to A\$4.9 billion at the end of the first quarter of 2007. This has largely reflected AMP's ability to capitalise on APRA licensing changes for corporate superannuation funds.

### **2007 cashflows outlook**

Mr Mohl said the impact of superannuation changes in recent years, as well as the additional Simpler Super reforms from 1 July 2007, would have a long-term impact on the attractiveness of the industry.

AMP has modelled the impact of the latest changes and expects assets under management for the sector to increase by an additional 1-1.5 per cent per annum in the medium to long term.

"Successive governments over two decades have shaped superannuation as the preferred structure for retirement savings and major reforms during the past two years have cemented this positioning," Mr Mohl said.

Anecdotally, AMP planners have experienced increased levels of inquiry and activity in recent months and are expecting a busy year. Given the mass market profile of the AMP customer base, the benefits of the Simpler Super changes are expected to encourage increased savings over the medium to long term, rather than a rush of one-off contributions of up to A\$1 million ahead of 30 June.

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# AMP – Driving shareholder value through simplicity, scale and efficiency

Andrew Mohl *Chief Executive Officer, AMP Limited*

May 2007



## Outline

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- Business model and transformation
- Key medium-term growth assumptions underpinning goal to grow shareholder value at 15% pa:
  - Markets
  - Volumes
  - Margins
  - Costs
- Capital management
- Wrap up

## AMP – a simple, scaleable business model focused on operational excellence in a high growth industry

- Australasian wealth management group
- Integrated business model
- High growth industry
- Highly scaleable business
- Low cost manufacturing platform
- Reducing capital intensity
- Focusing on operational excellence
- Targeting growth in shareholder value at 15% pa

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## Key drivers and enablers of AMP business model

### Six drivers

Brand	Distribution	Products & Platforms	Cost Efficiency	Asset Management	Packaging
Pre-eminent brand in retirement savings	Largest planner force in Australia / New Zealand	Large, scaleable contemporary platform > \$40b	Cost to income ratio < 40%	Broadly based AUM > \$100b	Rapidly growing AUM > \$20b

### Four enablers

People & Culture	Technology	Operations & Risk Management	Capital Management
Increasingly constructive culture	Close partnership with business and long record of program delivery	Strong risk management framework	Invest in core businesses, targeting 'A' credit rating, with excess capital returned to shareholders

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## Business transformation has proceeded apace

	2003*	2006
Contemporary earnings#	\$272m	\$532m
Mature earnings##	\$268m	\$257m
AUM*	\$76b	\$122b
Controllable costs	\$832m	\$851m
Controllable costs/AUM^	107bps	76bps
Capital* <sup>1</sup>	\$7.8b	\$3.7b
Capital/AUM*	10.3%	3.0%
Return on equity (underlying)	18.1%	31.0%
Dividend	16cps	40cps
Capital return	n/a	40cps

\* 2003 has not been restated for AIFRS

# Includes AMP Financial Services (AFS) contemporary wealth management, AFS wealth protection, AFS New Zealand and AMP Capital Investors

## Includes AFS mature and Cobalt/Gordian

\* End period

^ Average AUM in period

<sup>1</sup> Represents shareholder capital resources (equity plus debt)

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## Key assumptions underlying goal of 15% pa growth in shareholder value

- Equity market growth of around 6% pa, net of dividends
- Realising scale benefits from volume and market growth of 10% plus pa (retirement & post retirement sectors)
- Actively managing margin contraction of around 2-3% pa in AMP Financial Services (AFS) contemporary wealth management business
- Sustaining lowest unit cost position in the industry (approx cost of living type increases Group-wide pa)

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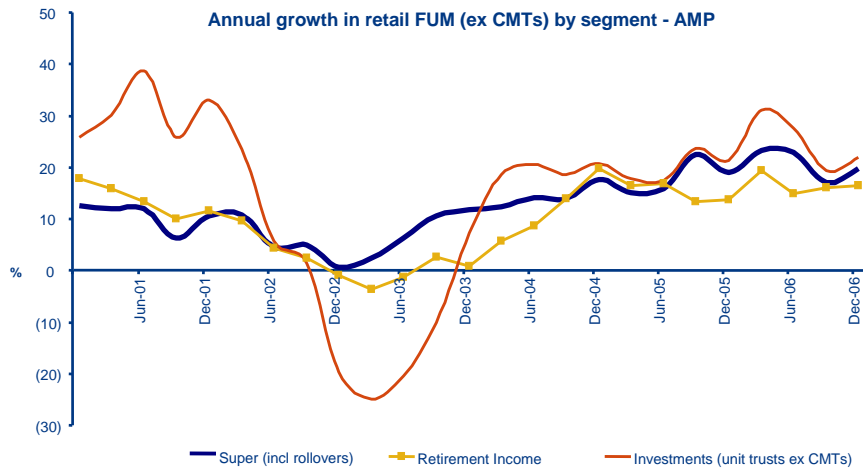
# Markets



## Sensitivity to sharemarkets is now modest

- Equity market growth assumption of around 6% pa, net of dividends
- AMP's sensitivity to weaker (or higher) markets is now modest
- Operating earnings are impacted by both price and volume effects of a market downturn
- "Price" effects in FY 06 of a 5% fall in equities (year-on-year) were \$14m
  - This is equivalent to 1.9% of operating earnings
  - Contemporary AUM is around 60% invested in equities
  - Average equity market levels are what matter, not point-to-point price movements
- "Volume" effects are second round effects in response to price impacts and are likely to be low
  - Superannuation flows have significant mandatory component, in particular corporate superannuation
  - Superannuation AUM is preserved to retirement
  - Volume effects on discretionary contributions typically only occur after large and sustained price changes

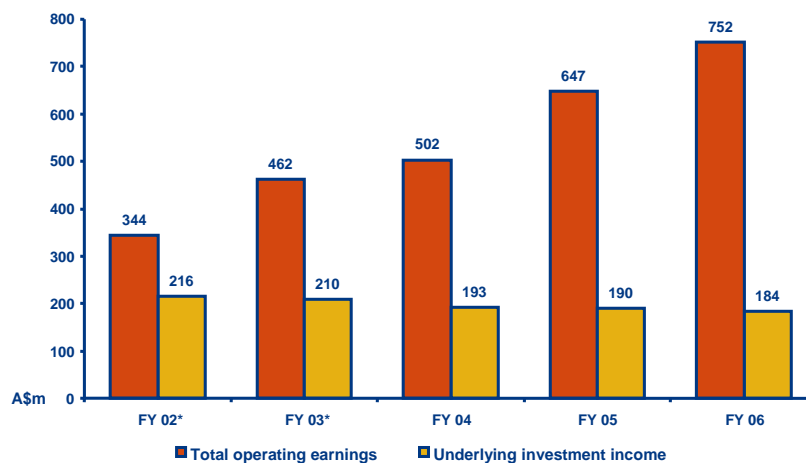
## Superannuation is least volatile segment in retail managed funds for AMP



Source: Plan for Life December 2006

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## Investment earnings continue to decline and are now less than a quarter of operating earnings



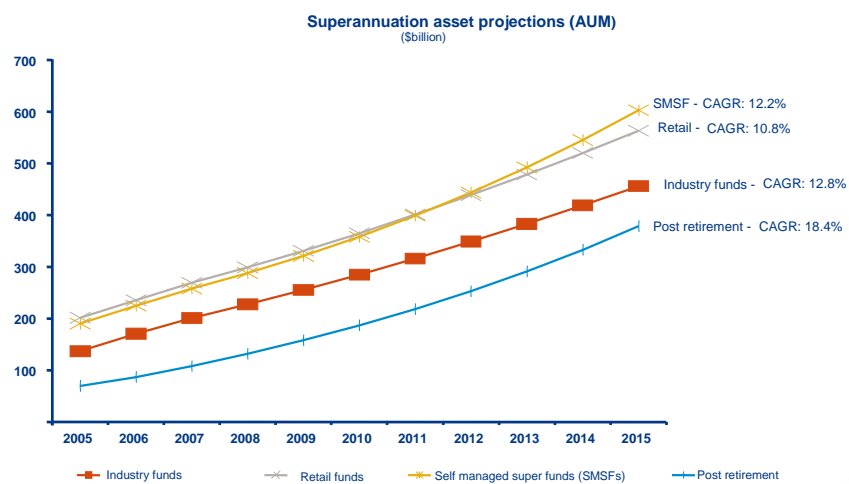
\*FY 02 and FY 03 have not been restated for AIFRS

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# Volumes



## Robust outlook in all key superannuation segments underpins 10% pa growth assumptions



Source: Trowbridge Deloitte July 2006 report, commissioned by AMP

## Legislative changes highly supportive of superannuation as preferred structure

- Successive governments over two decades have shaped superannuation as the preferred structure for retirement savings
- Major reforms during the past two years have cemented this positioning:
  - **2005** - removal of surcharge levy (incentive for higher income earners to increase voluntary contributions)
    - co-contributions
    - spouse contribution splitting
  - **2006** - post-retirement withdrawals tax free at age 60 from 1 July 2007
  - abolition of Reasonable Benefit Limits (RBLs)
  - post-retirement rules abolished (retirees no longer forced to exit super once they stop working)
  - age based contributions limits replaced with flat \$50k pa of concessional contributions (encourages earlier, larger contributions to super)
  - transitional period to 2011-12 for concessional contributions up to \$100k pa for persons aged 50 and over
  - non-concessional contributions up to \$150k pa or \$450k over 3 years from July 2007 (previously constrained by RBLs)
  - non-concessional contributions up to \$1m as one off opportunity to 30 June 2007
- 2006 changes set up super as key medium to long-term investment structure for middle market Australians – average AMP customer

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## Strong cashflows in Q1 07 driven by corporate superannuation

- **Cash inflows** up 28% to \$3.4b
  - AMP Financial Planning up 13% to \$1.7b
  - Corporate super direct sales up 223% to \$767m
- **Cash outflows** up 16% to \$2.6b
  - Persistency at 86.0% compared with 85.9% in Q1 06
- **Net cashflows** up from \$358m to \$753m
- **Australian individual risk annual premium income** up 8% to \$432m

Q1 06 cashflows have been restated following system changes to ensure like-for-like comparisons.

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## Q1 07 cashflow growth by channel

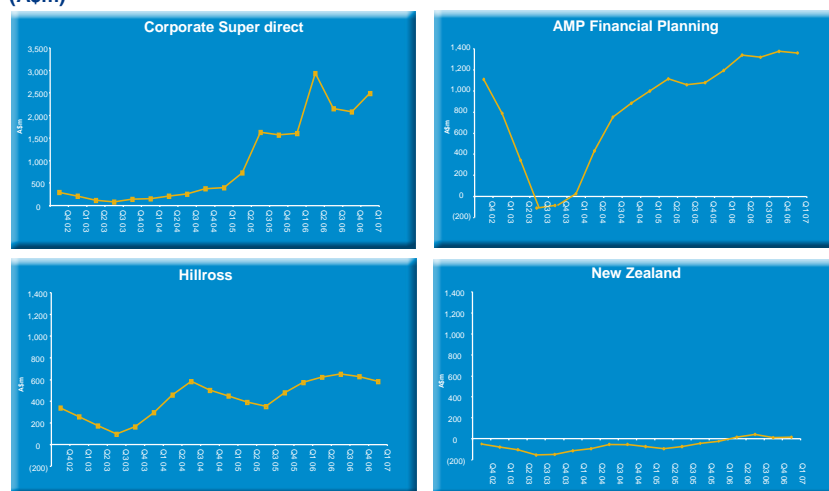
A\$m	Q1 07 inflows	Q1 06 inflows*	% change	Q1 07 net cashflows	Q1 06 net cashflows*	% change
AMP Financial Planning	1,690	1,498	+13%	265	277	-4%
Hillross	459	448	+2%	126	168	-25%
Corporate super – direct sales force	767	238	+222%	504	93	+442%
Customer care centre & other	163	188	-13%	(94)	(112)	+16%
Third party distributors	157	137	+15%	(55)	(69)	+20%
New Zealand	162	139	+17%	7	1	+600%
<b>TOTAL</b>	<b>3,398</b>	<b>2,648</b>	<b>+28%</b>	<b>753</b>	<b>358</b>	<b>+110%</b>

\*Q1 06 cashflows have been restated following system changes to ensure like-for-like comparisons.

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## AFS net cashflows by major channel on rolling 12 month basis

(A\$m)



Excludes cashflows from CCC, 3PD, GID and other

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## Q1 07 cashflow growth by product

A\$m	Q1 07 inflows	Q1 06 inflows*	% change	Q1 07 net cashflows	Q1 06 net cashflows*	% change
Corporate super	1,113	539	+106%	530	105	+405%
Retail super	972	875	+11%	232	210	+10%
Allocated annuities / pensions	284	243	+17%	132	127	+4%
Retail investment	85	83	+2%	(16)	8	n/a
Fixed term annuities	40	39	+3%	(22)	(31)	+29%
External platforms	420	399	+5%	143	189	-24%
Contemporary wealth protection	136	123	+11%	39	42	-7%
Australian mature	186	208	-11%	(292)	(293)	n/a
New Zealand	162	139	+17%	7	1	+600%
<b>TOTAL</b>	<b>3,398</b>	<b>2,648</b>	<b>+28%</b>	<b>753</b>	<b>358</b>	<b>+110%</b>

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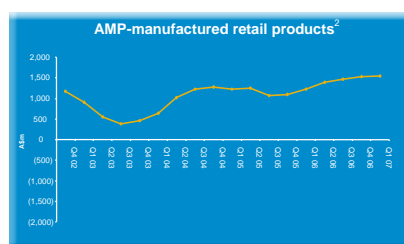
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## AFS net cashflows by wealth management product line on rolling 12 month basis

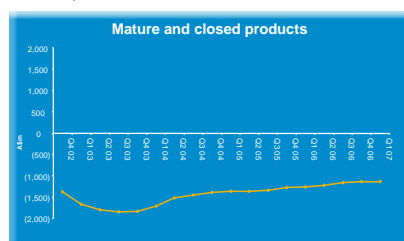
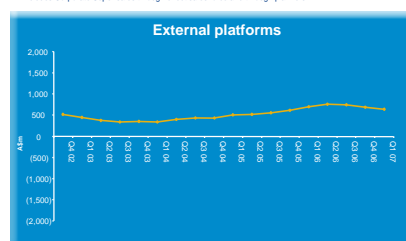
(A\$m)



<sup>1</sup> Includes Corporate Super sales through direct sales force and through planners



<sup>2</sup> Australia only, excludes New Zealand.



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# Margins



## Margin trends

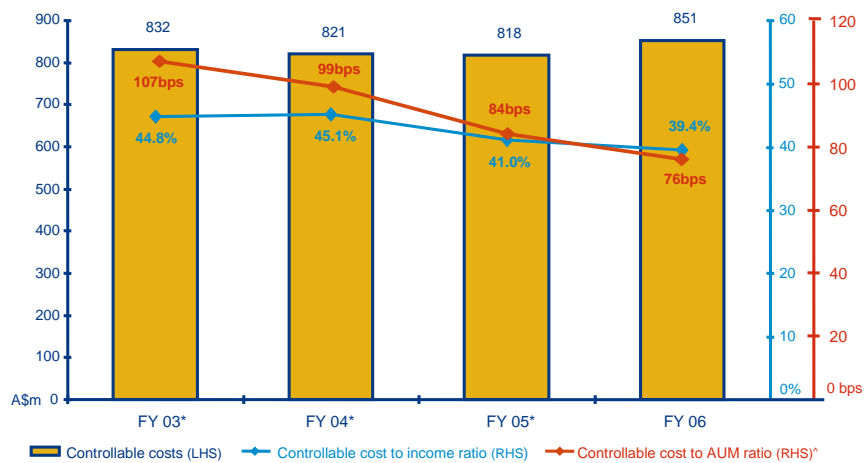
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- Strategic plan assumes gross revenue margin contraction of around 2-3% pa in AMP Financial Services contemporary wealth management business over 5-year cycle from aggregate of:
  - Changes to business mix
  - Increases in average AUM balances
  - Infrequent, strategic repricing initiatives

# Costs

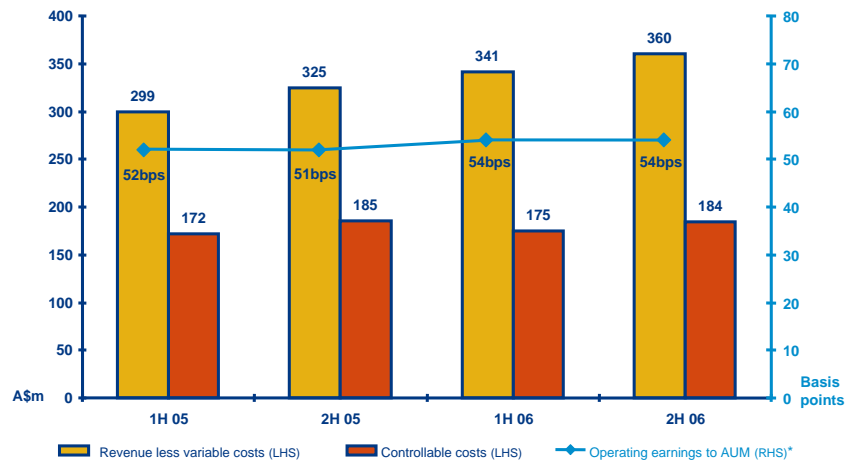


## Group cost ratio trends



\*Some minor restatements to reflect a change in the definition of controllable costs  
 ^Based on average AUM

## AMP's growth engine – AFS contemporary wealth management – has significant operating leverage



\*Based on monthly average AUM

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## Capital management



## Capital initiatives

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### Capital management strategy since 2004 has driven:

- A\$600m reduction in Group debt
- Dividends per share up from 27c to 40c and increase in payout ratio to 85%
- A\$2.25b in capital returns to shareholders, including proposed third capital return of A\$750m in June 2007
  - ATO has ruled that capital return is a reduction in shareholder cost base and not a taxable dividend
  - Return is subject to shareholder approval at the May AGM

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## Capital initiatives

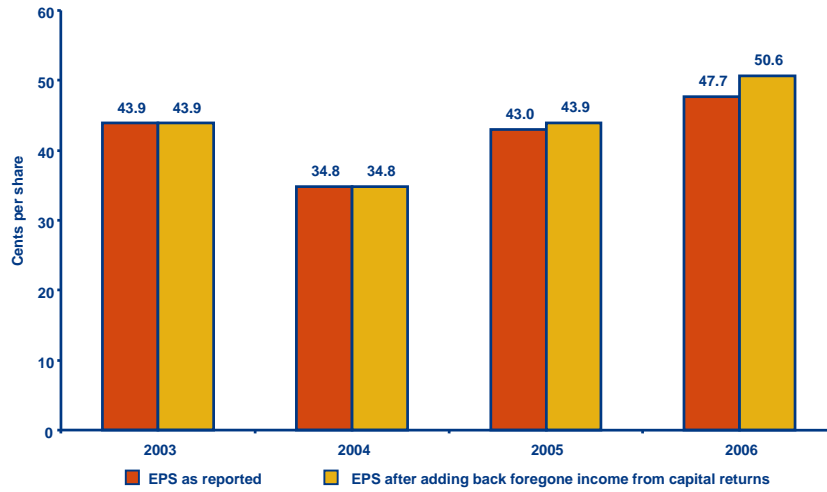
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### Capital management strategy going forward:

- AMP's surplus capital position expected to be within its target range post proposed FY 07 capital return
- With 85% payout ratio policy, future capital initiatives likely to be less frequent and/or significantly smaller in scale
- Initiatives will continue to be framed against the objective to maintain the Group's 'A' range credit rating
- Underlying return on equity now above 30%, and set to rise substantially in FY 07 and FY 08

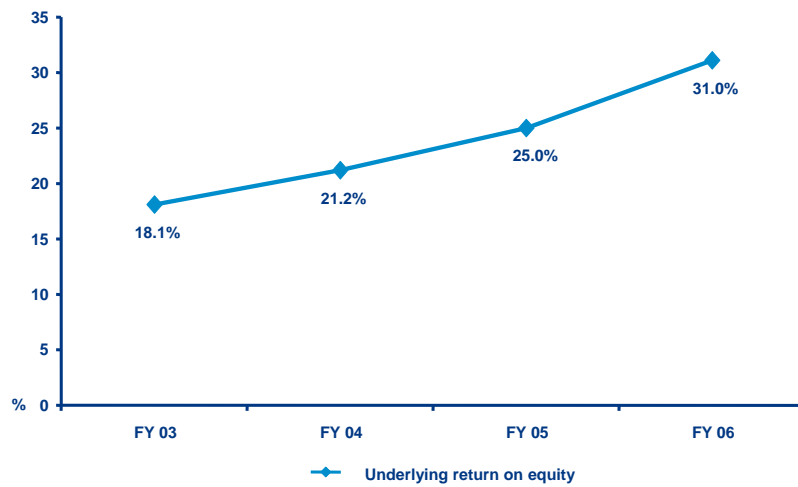
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## Underlying EPS – impact of capital returns



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## Underlying return on equity above 30% and set to rise substantially in FY 07 and FY 08



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## Wrap up



### Strategy remains operational excellence: “to run the business better than ever before”

- **Key strategic initiatives to enhance and strengthen the core of AMP’s business model:**
  - Increasing **planner productivity** by leveraging process excellence skills and enhancing technology platform
  - Growing **planner numbers** at above market rates
  - Developing **complementary advice channels** to serve a wider customer base
  - Developing **customer propositions for different lifestages** to retain ‘customers for life’
  - Strengthening and deepening capabilities to become a **high value-adding investment manager**
  - Sustaining a **low cost base** while investing in new growth opportunities
  - Building an **increasingly constructive culture**

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## **AMP is strongly positioned to deliver value**

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- **Powerful platform for growth**
  - Industry growth high, buoyed by Simpler Super reforms
  - Flexible, robust and scalable business model
- **Sharp focus on core business**
  - The better we get at running the business, the more opportunities we find to improve
- **Broad basis to grow**
  - Retail super, corporate super, retirement income products, risk insurance, retail and institutional funds
- **Strong balance sheet and cash flow**
  - High free cashflow of earnings and rising return on equity
- **Medium term goal to grow value at 15% pa over the cycle**