



ASX Announcement

23 August 2007

AMP underlying profit up 27 per cent in first half of 2007

AMP Limited has reported a 27 per cent increase in underlying profit to \$534 million for the six months to 30 June 2007 as the company continued to drive strong growth in favourable market conditions.

The half featured record retail net cashflows, strong growth in assets under management, further improvements in capital and cost efficiency and market leading investment performance. Results were also boosted by an abnormally large contribution from Cobalt/Gordian.

The 2007 interim dividend has been lifted to 22 cents a share (85 per cent franked), up from 19 cents a share previously.

Profit attributable to shareholders before accounting mismatches rose 32 per cent to \$561 million. This was despite a 9 per cent fall in underlying investment income to \$90 million due to the impact of capital returns to shareholders in the past two years that have reduced invested capital.

AMP Chief Executive Officer Andrew Mohl said AMP had recorded impressive results in its five key performance measures in the first half of 2007:

- **Underlying return on equity:** rose 12.1 percentage points to a new high of 38.7 per cent.
- **Operating earnings:** rose 35 per cent to \$460 million.
- **Cost to income ratio:** fell 3.6 percentage points to a new low of 36.5 per cent.
- **Value measures:** in the AMP Financial Services business, embedded value rose 12.4 per cent in the half-year to \$8.2 billion before transfers while the value of new business rose 30 per cent over the year to \$215 million¹.
- **Investment performance:** 76 per cent of assets under management (AUM) either met or exceeded benchmarks in the year to June.

“AMP’s simple, focused strategy to run the business better than it’s ever been run before is continuing to deliver for shareholders,” Mr Mohl said.

“Operating earnings are now more than five times investment earnings, up from just two times three years ago. This means AMP has significantly reduced its risk profile and exposure to share market volatility.

¹ Both value measures are on the traditional basis at a 3 per cent discount margin against restated prior year numbers.

“The increase in return on equity from 7 per cent pre demerger to almost 40 per cent today, driven by growth in operating earnings and shareholder capital releases, underlines the transformation in AMP from a traditional life insurance to a modern wealth management group.”

Medium term goal

AMP’s medium term goal, announced in 2005, was to double the value of an investment in AMP between mid 2005 and mid 2010 - measured by calculating the value of dividends and capital returns paid to shareholders, and increases in enterprise value².

AMP’s value at 30 June 2007 as measured by the goal was \$21.4 billion. This represents an increase of 85 per cent in the two years since the goal was set, or an annual rate of growth of 36 per cent.

In August 2006, AMP announced the goal was upgraded to be achieved by mid-2009. On current performance, the goal will be achieved well in advance of this upgraded assumption. For this reason, AMP has moved to an evergreen medium term goal – to double the value of an investment every five years, consistent with average growth of 15 per cent per annum across the cycle.

Review of business unit performance

Overall, operating earnings grew by 35 per cent to \$460 million. In AMP’s open businesses, operating earnings grew 21 per cent, including a 25 per cent increase in AMP Financial Services (AFS) Contemporary Wealth Management, a 42 per cent increase in AMP Capital Investors, a 4 per cent increase in AFS New Zealand and a flat result in AFS Contemporary Wealth Protection. In AMP’s closed businesses, AFS Mature grew 3 per cent while Cobalt/Gordian earnings more than quintupled to \$78 million due to very favourable claims experience.

AMP Financial Services

In **Contemporary Wealth Management** (CWM), which includes the financial planning, superannuation, pensions and banking businesses, earnings rose from \$116 million to \$145 million. Operating earnings to AUM rose 1 basis point to 53 bps as unit costs continued to decline faster than revenue margins.

The cost to income ratio fell 4.7 percentage points from the first half of 2006 to 43.8 per cent. Increases in controllable costs were held to less than 2 per cent. Return on equity rose 11.4 percentage points to 49.0 per cent.

Total Australian CWM net cashflows for the half rose 59 per cent to \$2.55 billion, excluding SignatureSuper mandate wins in both periods³. Retail super and pensions were particularly strong due to the Simpler Super changes with large internal flows a feature, particularly from super to pensions. Around half of all retail superannuation outflows were retained within AMP while in corporate superannuation, around two-thirds of outflows were retained.

² Enterprise value is calculated as the median of the major stockbroking analyst valuations of AMP each year, with a base value at June 2005 of \$11.6 billion.

³ Cashflows for the second quarter of 2007 have been disclosed in a separate ASX announcement.

Overall, persistency for CWM excluding internal flows was 88.3 per cent for the half, compared with 89.4 per cent previously, or 80.9 per cent compared with 83.1 per cent including internal flows.

The customer rectification program that forms part of an Enforceable Undertaking agreed between AMPFP and the Australian Securities & Investments Commission last year drew close to completion in the half. Out of 35,000 customers identified to be contacted and offered a review of their superannuation advice, around 1,500 were offered the opportunity to move back to their original super fund or funds. To date, 90 of these customers have responded to this offer.

The financial planning arm of CWM remains focused on driving planner productivity and the quality of the advice experience, as well as growing planner numbers over the medium term. A number of initiatives are underway to grow planner numbers, including piloting a program targeting AMP staff that would like to become planners and a new planner academy. Planner numbers in AMP Financial Planning and Hillross at June were 1,501, down from 1,523 at 31 December 2006.

In **Contemporary Wealth Protection** (CWP), operating earnings were steady at \$59 million. Profit margins were up 16 per cent while experience profits were lower due to less favourable claims experience. Return on equity rose 1.1 percentage points to 29.3 per cent.

Individual risk annual premium income rose 7 per cent to \$433 million at June including 18 per cent growth in new business, largely as a result of strong growth in transfers from corporate superannuation. This helped push the value of new business 67 per cent higher to \$40 million.

A number of business initiatives are underway in CWP, aimed at making it easier for planners to write business with AMP, while ensuring the quality of the business underwritten remains high. These initiatives will help lower the cost to serve and include automated underwriting and online lodgement of new business.

The **Mature** business is the largest closed life business in Australia with AUM of \$18.9 billion. The focus in this business is on cost and capital efficiency and persistency.

Operating earnings rose 3 per cent to \$95 million. The cost to income ratio rose slightly, up from 17.4 per cent to 19.0 per cent due to internal cost reallocations in the half. Return on equity rose to 201.1 per cent, pushed significantly higher by releases of shareholder capital in recent years and investment markets. Persistency was marginally lower at 87.6 per cent.

In the **New Zealand** business, operating earnings rose 4 per cent to \$24 million, driven by growth in the risk life insurance book and lower operational costs. The cost to income ratio fell 1.9 percentage points to 42.5 per cent. Return on equity rose 6.8 percentage points to 29.8 per cent.

Net cashflows decreased by \$41 million to a net outflow of \$31 million for the half, due primarily to planned retail fund closures and a slowdown in workplace savings mandates ahead of the introduction of Kiwisaver in the current half.

Annual premium income rose 28 per cent to \$101 million (or 15 per cent in New Zealand dollar terms), due partially to strong retention with a lapse rate of just 7.1 per cent.

The New Zealand business is well placed for the second half to take advantage of the introduction of Kiwisaver and other managed fund tax changes, which significantly enhance the attractiveness of the New Zealand savings and investment market. AMP leads the market in both workplace savings market share and the number of advisers.

AMP Capital Investors

Operating earnings rose 42 per cent to \$78 million for the half, with fee income growing faster than both costs and AUM. Operating earnings as a percentage of AUM are now 13.9 basis points, up from 11.6 basis points a year ago. Return on equity rose almost 12 percentage points to 71.6 per cent.

Total AUM increased 16 per cent over the year to \$111.6 billion, reflecting investment markets and increasing external cashflows.

Total fee income rose 28 per cent to \$232 million, including a 39 per cent increase in externally derived management fees to \$93 million. External fees are growing significantly faster than internal fees, now comprising 51 per cent of total management fees compared with 40 per cent in the first half of 2004.

Transaction and performance fees also rose significantly, including a large performance fee from the DUET joint venture and fees in property, infrastructure and fixed income.

The cost to income ratio fell 3.8 percentage points to a new low of 51.4 per cent, with controllable costs up 19 per cent to \$124 million due largely to business expansion.

External net cashflows rose 10 per cent to \$1.26 billion, with Asian distribution channels performing well. Achievements in the Asian business in the half included the further expansion of the distribution network to South Korea, and the establishment of a partnership with China Life Asset Management Company to source Chinese infrastructure investment opportunities.

Investment performance was strong with 76 per cent of all AUM either meeting or exceeding benchmark, slightly above the target of 75 per cent. In the flagship Australian diversified funds, the Conservative and Balanced Growth Funds now rank first, over all time periods up to five years, in their respective Mercer surveys.

Cobalt/Gordian

The successful settlement of a number of claims in the first half contributed to an abnormally high 420 per cent increase in operating earnings to \$78 million. As previously flagged, earnings in this business are likely to become more volatile as the business becomes smaller through its runoff.

Capital in the first half was reduced by \$205 million following achievement of required risk thresholds set by APRA, including \$92 million based on 30 June 2006 balances and a further \$113 million based on 31 December 2006 balances. Further capital reductions based on 30 June 2007 balances are expected in the second half, and will continue to be used to pay down inter-company loans which now stand at \$423 million.

Capital management

AMP's capital management strategy since 2004 has delivered significant increases in dividends per share, a total of \$2.25 billion in capital returns to shareholders, and a \$500 million reduction in Group debt.

Notwithstanding the capital returns, AMP's balance sheet has continued to strengthen in the half with underlying interest cover rising from 15.2 times to 18.4 times and gearing on a Standard & Poor's basis of only 8 per cent.

AMP's capital management strategy is now moving to focus on optimising the capital mix. Previous guidance on potential capital management initiatives remains unchanged – that is, future initiatives will be framed against the objective to maintain the Group's 'A' credit rating and are likely to be less frequent, and/or significantly smaller, in scale.

In terms of dividend payments, the 2007 interim dividend of 22 cents per share represents a dividend payout ratio of 77 per cent, lower than the 85 per cent policy guideline, due to the Board's recognition of an abnormally large earnings contribution from Cobalt/Gordian.

With almost 850,000 AMP shareholders owning less than 10,000 shares, a shareholder with 1000 shares will receive total cash payments of \$830 in the 2007 calendar year. This includes the final 2006 dividend of 21 cents per share paid in April, the capital return of 40 cents per share paid in June, and the 22 cents per share interim dividend to be paid in October.

Outlook and summary

AMP remains well placed in the fast growing segments of the financial services industry, particularly financial planning, superannuation and increasingly in the post retirement savings market.

"AMP is using its strengths in brand, distribution, products and platforms, cost efficiency, asset management and product packaging to power its strategy of running the business better than it's ever been run before," Mr Mohl said.

"Our SignatureSuper product helped us capitalise on the APRA licensing changes last year, and our planners have also been well positioned to help customers take advantage of the Government's Simpler Super changes, particularly in the middle market category.

"AMP Capital is increasingly broadening its distribution capability to external sources, expanding into Asia and the Australian retail market and offering higher margin investment opportunities, particularly in infrastructure and property.

"AMP today is a low capital intensity, high return, high growth wealth management group. As we continue to leverage scale benefits to grow volumes, drive unit cost reductions and manage expected reductions in revenue margin, we expect to achieve well above average growth in shareholder value over the cycle."

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