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Part One: AMP bottom line loss following exit from UK operations

Part Two: Appendix 4E – Preliminary Final Report

AMP Limited
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AMP bottom line loss following exit from UK operations

Net profit after tax & before other items for demerged AMP of A$619 million

AMP Limited today announced a consolidated bottom line loss of A$5,542 million for the year to 31 December 2003, primarily reflecting writedowns and the loss on the demerger from its UK operations.

For the demerged AMP, profit after tax before other items rose to A$619 million, compared with A$257 million in the previous corresponding period. This was 16 per cent higher than the forecast of up to A$535 million provided in the Explanatory Memorandum (EM) for the demerger.

Total operating margins rose by 28 per cent to A$508 million[1] with underlying return on equity up to 18 per cent. Controllable costs fell by 13 per cent to A$803 million, resulting in a fall in the Group cost to income ratio to 46 per cent.

Business results were higher than anticipated in the EM due to improved business performance and one-off items. AMP Financial Services and AMP Capital Investors had strong finishes to the year, while borrowing costs and Corporate office costs were both lower. One-off benefits included the impact of a favourable tax ruling in AMP Financial Services.

The Board has declared a final dividend of 9 cents (85 per cent franked), payable on 27 April 2004. This compares with a dividend in the first half of 2003 of 7 cents (15 per cent franked). This takes the total dividend for 2003 to 16 cents, down from 46 cents previously.

AMP Chief Executive Officer Andrew Mohl said that the bottom line loss had been well flagged and represented a close to the company's ill-fated UK expansion.

He said underlying business performance was strong for the year, particularly given weak markets in the first half of 2003 and the impact of corporate issues.

"Our strategic focus in 2003 was to address the problems the business faced in the UK. This resulted in overwhelming shareholder support for our demerger proposal late last year," Mr Mohl said.

"Our operational focus was to drive the businesses much harder. This included permanent reductions in our cost base; restructuring our operations, particularly in AMP Financial Services; improving investment processes and performance; and managing balance sheet risk more effectively.

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[1] This figure is for the demerged AMP, as are all subsequent figures, unless otherwise stated.

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"2004 is a year for consolidation with an absolute focus on execution of strategy. Our goal is to run AMP better than it's ever been run before by driving down unit costs, growing cashflows, outperforming on investments and lowering gearing.

"The demerger has paved the way for AMP to become a high performing company. It is now up to the Board and management to deliver on that potential."

Summary of results

AMP Financial Services (AFS)

Operating margins rose by 27 per cent to a record A$411 million (including a one-off benefit of A$23 million). The improvement reflected both the strength and resilience of the business franchise and cost management initiatives.

Return on Invested Capital (excluding AMP Banking) rose from 13.3 per cent in 2002 to a record 15.5 per cent.

Embedded value, before transfers, rose by 13.2 per cent to A$6.8 billion and the value of new business rose by 2 per cent to A$239 million.

Net cashflows improved in the second half of 2003, with a A$541 million turnaround from the first half. This reflected both improved market conditions as well as the launch of a number of new products. For the year, net cashflows fell from A$1,168 million to A$(537 million).

As foreshadowed in the EM, the difficult market sentiment impacted persistency, down from 83.8 per cent to 82.6 per cent.

Management of costs delivered a 15 per cent reduction in controllable costs (excluding AMP Banking) to A$517 million and a cost to income ratio of 39 per cent, compared with 44 per cent in the previous corresponding period. Savings were achieved in staffing, occupancy, IT and other support costs.

In New Zealand, the financial services business delivered an underlying net profit of A$47 million (NZ$51.9 million), slightly ahead of the previous corresponding period. AMP continues to lead retail superannuation net assets under management in this market, while it was also another strong year for risk products.

Total capital releases from AFS for the year were A$1,357 million, including A$925 million from AMP Life statutory funds. Even after this transfer, AMP Life's margin over regulatory capital requirements was higher than the previous year. AMP Life had A$1,481 million in excess of regulatory capital requirements, or 2.4 times the required level, at the end of 2003.

In the year ahead, AFS will target increased market share in key areas including corporate superannuation, allocated pensions, non-superannuation and risk products. Reduction in unit costs and customer retention also remain key priorities.

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AMP Capital Investors
Operating margins were down 6 per cent to A$68 million for the year, with favourable investment performance fees and transaction fees largely offsetting the loss of income from Listed Property Trusts (LPTs) in the second half of the year.

Assets under management (AUM) fell 5 per cent to A$67.2 billion. The cost to income ratio was up slightly at 63 per cent (60 per cent previously).

Investment performance was much improved in 2003 and over 74 per cent of AUM either met or exceeded benchmarks. Performance was good in all asset classes with the flagship Balanced Growth Fund ranked in the top quartile over one year. The AMP Life No 1 Statutory Fund also performed well.

Product innovation was a feature for the year with a number of new funds launched. There have also been very strong inflows to the global listed property securities fund in early 2004.

In the year ahead, under the leadership of new Managing Director Stephen Dunne (announced separately today), revenue from new products is expected to replace the loss of the LPTs. Priorities for the year include repositioning AMP Capital Investors as a regional asset manager, partnering with outstanding managers as required to deliver top quality products to clients.

Cobalt/Gordian
Effective claims management and commutations drove an 18 per cent increase in operating margins to A$58 million for the year. The business is maturing quickly with gross claims reserves reduced by almost 60 per cent since 1999.

The focus in this business remains to achieve a profitable runoff of the outstanding books while maximising the returns to shareholders.

Writedowns and restructuring costs

Writedowns and restructuring losses were behind the large bottom line loss for the year. Major costs included:
- the loss on demerger of A$3,585 million;
- business restructuring costs of A$233 million;
- demerger costs of A$193 million; and
- losses reported for the demerged entities of A$2,193 million, which includes writedowns and provisions.

Capital management

As announced on 23 February 2004, AMP plans to accelerate its debt reduction program due to a stronger than expected post-demerger balance sheet. This is due largely to the fact that AMP Life was in a position at the end of December 2003 to transfer A$725 million to AMP Limited.

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AMP plans to pay down approximately A$1.2 billion of debt. As previously announced, AMP has determined that the first step to achieve this reduction is to buy back as much of its A$1.24 billion in outstanding Income Securities as possible.

AMP Group Finance Services Limited will make an offer to all Income Securities holders to buy back their holdings at A$98 plus the value of accrued interest. The offer for the securities, which are perpetual, will be made through an off-market buy back. The documentation is expected to be sent to Income Securities holders this month.

AMP has formally applied to the Trustee for the Income Securities, Perpetual Trustee Company Limited, to amend the terms of the Income Securities to make distributions cumulative. This will ensure that the interest on the securities remains tax deductible, following tax changes which become effective 1 July 2004.

In terms of dividend policy, AMP will pay dividends equivalent to around 60 per cent of sustainable earnings. AMP also expects to have sufficient capacity to frank dividends at 85 per cent for at least the next four years. AMP intends to enter the tax consolidation regime from 1 July 2003, which will free up previously trapped franking credits. As previously disclosed, AMP will also generate more franking credits when the transitional tax relief in relation to AMP Life fee income ceases on 30 June 2005.

The Dividend Reinvestment Plan will be maintained to meet retail shareholder preferences, but it will no longer be underwritten.

Conclusion & outlook

Mr Mohl said there has been an encouraging start to sales activity in 2004 to date.

In AFS, inflows are up about 25 per cent year to date compared with the same period in 2003. Strong growth is expected in AFS' embedded value and value of new business in 2004.

Broadly steady margins are likely in AMP Capital Investors.

Corporate costs are expected to be lower, reflecting further rationalisation of the Corporate Office and lower interest costs.

Mr Mohl said that for the first time in several years, AMP could look forward to the future with confidence that the worst was behind it.

"Dealing with the problems of the past has been an extremely painful process - but doing nothing in the hope that things would get better was simply not an option," he said.

"The demerger to separate the company along geographic lines was undoubtedly the right strategic direction for the company.

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"For all that, however, the demerger is just the beginning of the process to rebuild and revitalise AMP.

"While we are pleased with the underlying results of the business announced today, there is a lot more work to do. Management focus is firmly on driving operational excellence to better meet customer expectations and deliver increased shareholder value."

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