Interim results 2004

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Outline

- Summary
- Group overview
- Business Unit review
- Outlook
- Wrap up

Summary

- 1H 04 focus on operational excellence to deliver shareholder value:
  - Running AMP better than it's ever been run before

- Four key areas:
  - Reducing unit costs
  - Growing cashflows
  - Outperforming on investments
  - Lowering balance sheet gearing

- Good progress in first half:
  - Controllable costs down 1% and cost to income ratio down five percentage points to 42%
  - 21% growth in cash inflows and A$540m in net cashflows in AMP Financial Services; A$1.6b net external cashflows in AMP Capital Investors
  - 81% of Australian assets under management outperforming benchmarks
  - Group debt reduced by A$2.8b and gearing at target levels six months ahead of schedule

Overview – 1H 04 financial results highlights

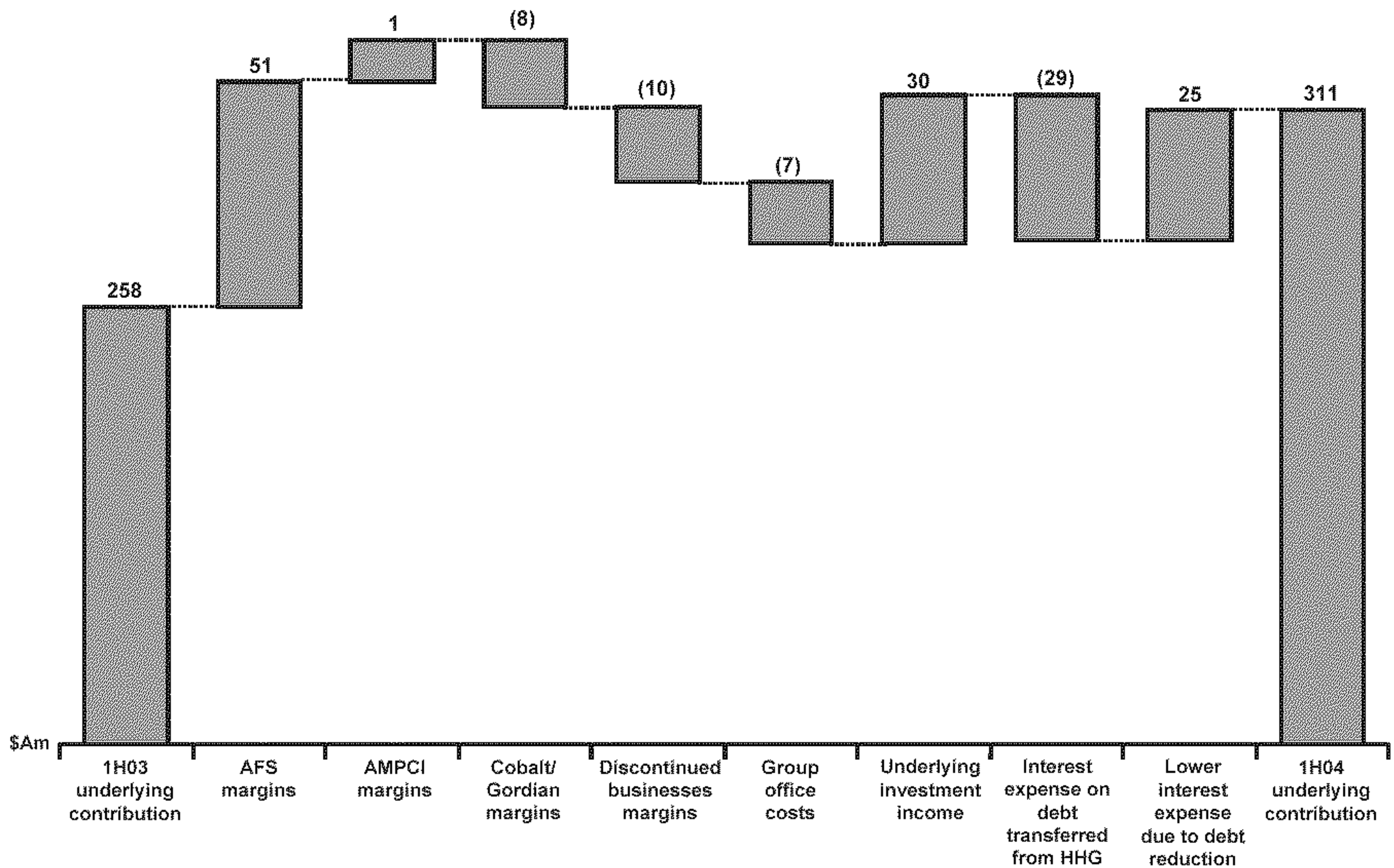
- Underlying contribution up 21% to A$311m driven by higher business unit margins
- Net profit before other items up 72% to A$412m driven by sharp improvement in investment income
- Value of New Business up 25% on 1H 03 to A$125m and Embedded Value up 9% in half-year to A$6,239m, before transfers
  - Planned fee reductions for key superannuation and pension products reduced both VNB and EV in 1H 04 but will enhance competitive position
- Underlying Return on Equity (RoE) at 17%; actual RoE 22%, reflecting strong investment markets and A$63m gain on HHG stake
- Gearing ratio reduced from 55% at end 2003 to 29% at mid year
- Dividend up from 7c in 1H 03 to 13c

Overview – 1H 04 profit and loss

A$m	1H 04	1H 03
AMP Financial Services[1]	225	174
AMP Capital Investors	35	34
Cobalt/Gordian	19	27
Total BU operating margins	**279**	**235**
Discontinued businesses [1,2]	(1)	9
Group office costs	(17)	(10)
Total operating margins	**261**	**234**
Underlying investment income	124	94
Interest expense on Group debt[3,4]	(74)	(70)
Underlying contribution	**311**	**258**
Investment income market adjustment	101	(19)
Profit after income tax before other items	**412**	**239**
Other items	(30)	(31)
Asset sales	14	(67)
Valuation adjustments	-	250
Goodwill amortisation	(18)	(20)
Net profit after income tax	**378**	**371**
HHG results and demerger costs	-	(2,530)
Consolidated profit (loss) after income tax	**378**	**(2,159)**

1. AFS now includes AMP Ergo Mortgage and Savings (AEMS), previously classified as discontinued business. 2003 numbers reflect this.
2. Relates to AMP Banking discontinued businesses.
3. An interest expense from 1 January to 12 December 2003 of A$51m was incurred by HHG and is recorded in demerged entities – HHG. For 1H 04, the interest expense from this debt is included in interest expense on Group debt for AMP (A$29m).
4. Includes distribution on Reset Preferred Securities of A$3m for 1H 04 (1H 03 A$nil)

Overview – underlying contribution



Overview – earnings and dividend

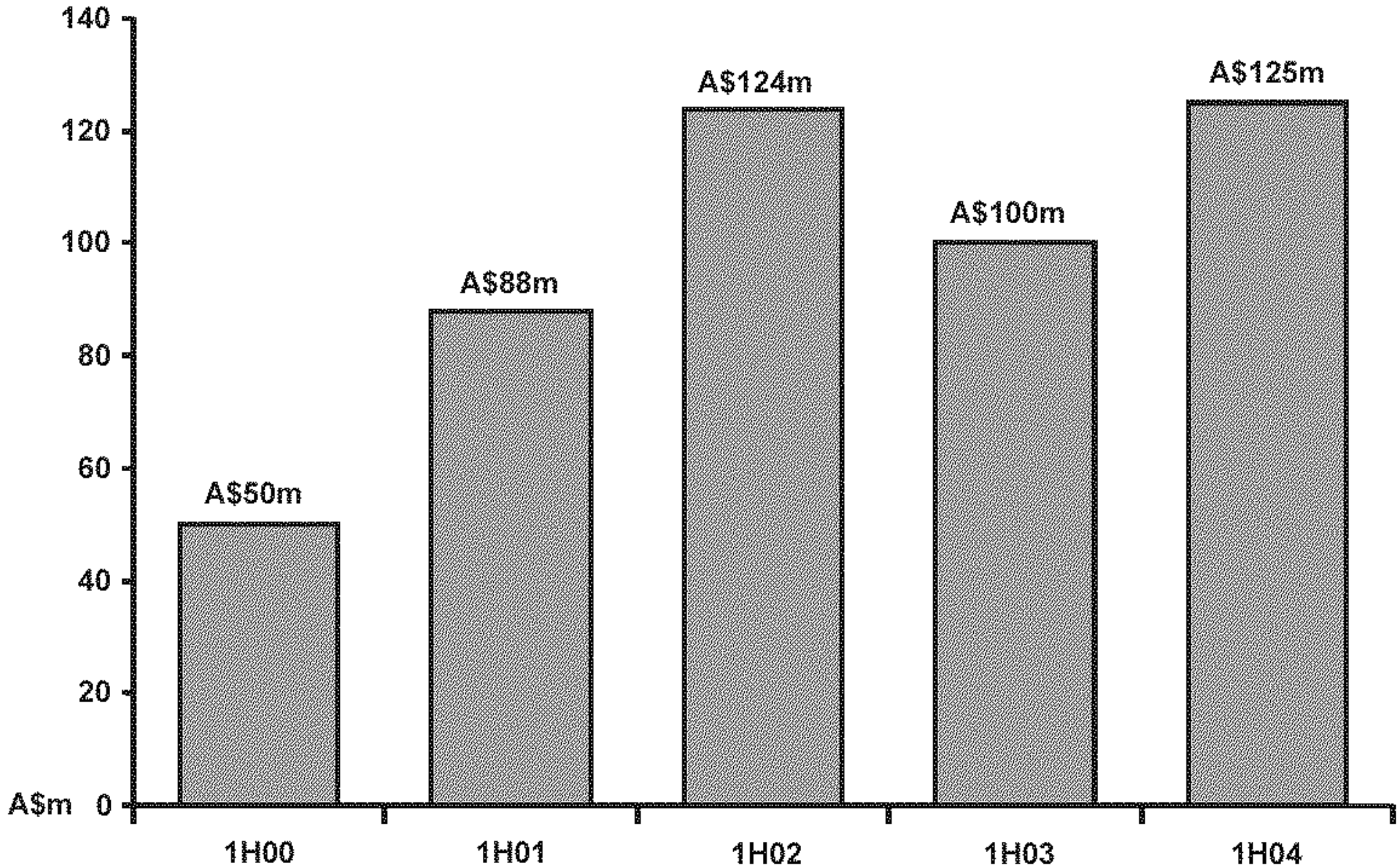
	1H 04	1H 03
Average shares on issue	1,849m	1,233m
Earnings per share (actual)	A$0.20	A$0.30
Earnings per share (underlying)	A$0.17	A$0.21
Dividend per share	A$0.13	A$0.07
Franking	75%	15%

Overview - cashflows

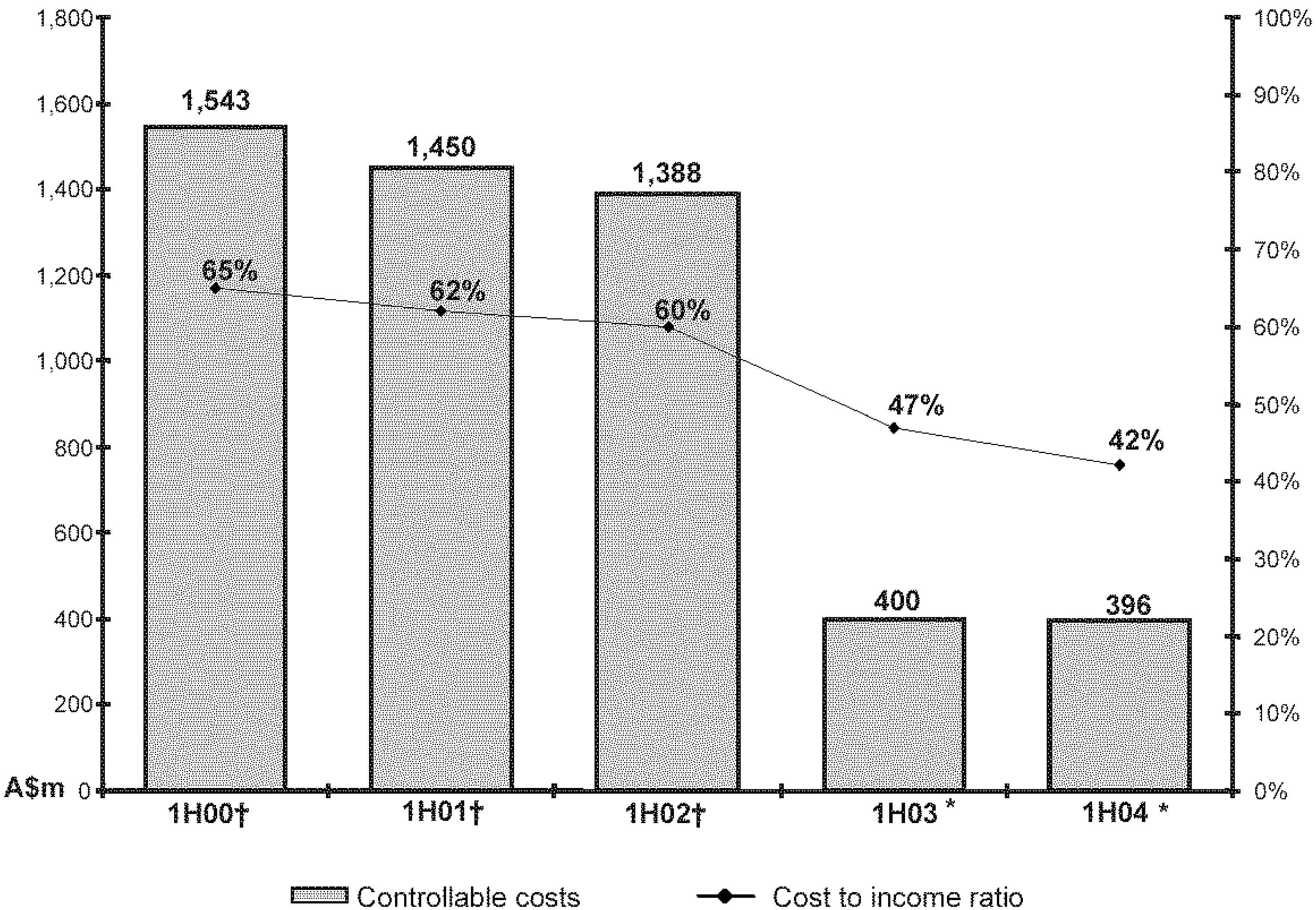
- 21% increase in AFS cash inflows over 1H 03 driven by post demerger planner and customer confidence, higher markets and improved investor sentiment
- 8% reduction in AFS cash outflows, reflecting improved persistency
- A$1.1b turnaround in net cashflows in AFS to A$540m
  - Net cashflows in 2Q 04 of A$452m best quarter since 2Q 02
- A$2.3b turnaround in AMP Capital net external cashflows to A$1.6b, reflecting strong sales in the Japanese distribution channel and Future Directions funds

Overview – value of new business

@ 3% discount margin

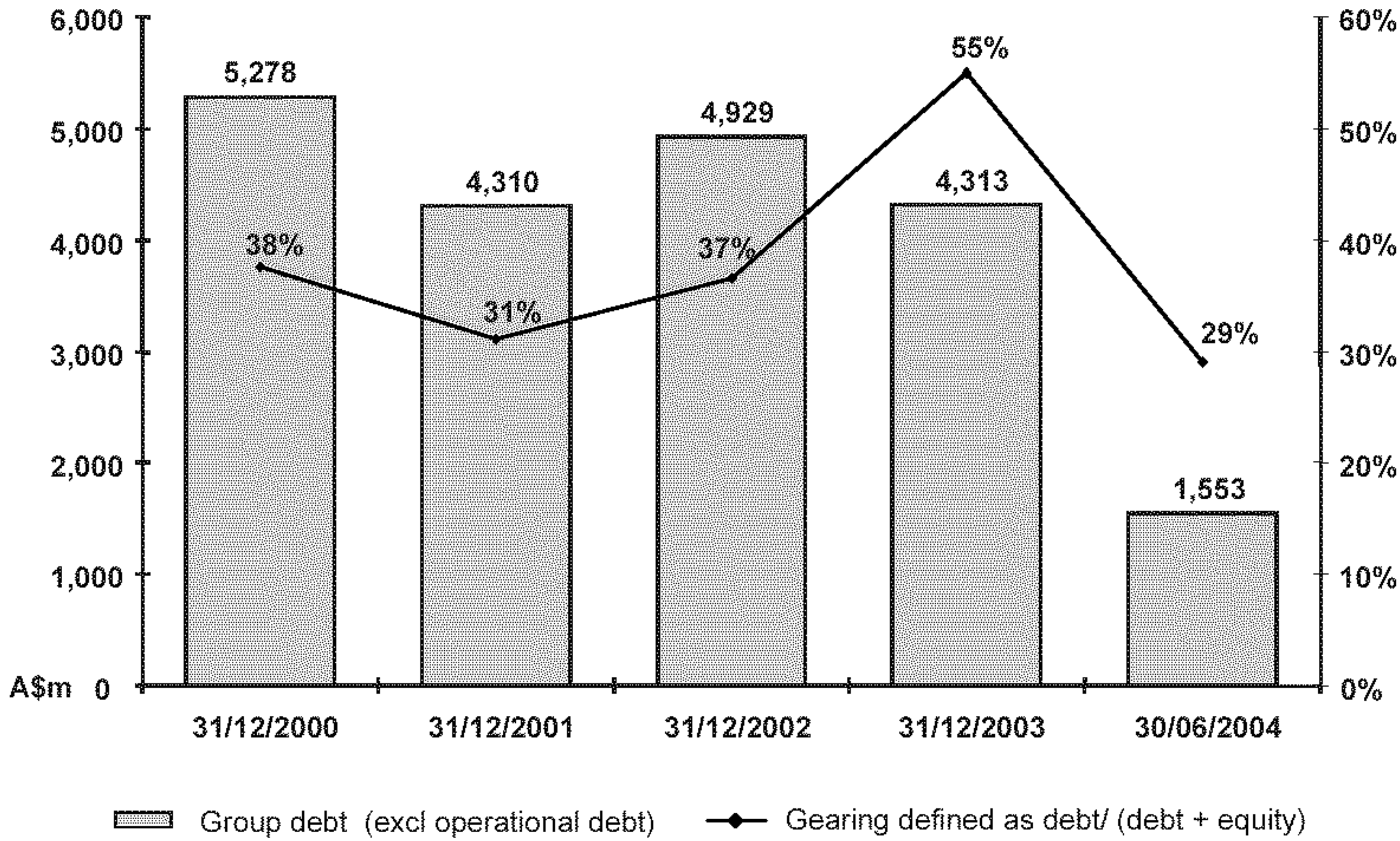


Overview – group costs and cost ratio



† AMP group including previously owned HHG entities * Demerged AMP

Overview – debt and gearing



Overview - shareholder capital invested

Notional allocation at	30 June 2004	31 December 2003
AMP Financial Services	3,632	3,652
AMP Capital Investors	256	246
Cobalt/Gordian[1]	592	590
Group office[2] (includes HHG holding)	880	3,354
Total AMP shareholder capital resources	**5,360**	**7,842**
External Group debt and hybrid equity (reset preferred securities)	(1,553)	(4,313)
Total equity attributable to ordinary shareholders	**3,807**	**3,529**
Memo item: AMP dividend franking credits at face value[3]	198	259

1. So as to reflect its fair value, 1H 04 total capital of A$804m has been adjusted for provisions of A$212m (FY03 $212m). Cobalt/Gordian capital includes loans of A$215m to Group office (FY03 A$125m).
2. Group office required holdings of capital are around A$500m, which cover the interim dividend payment and short term liquidity requirements.
3. Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements. After franking the interim dividend, the balance of the franking credits will be A$120m.

Overview – capital management

Actions:

- Higher underlying dividend payout policy of 75% with franking of 75% sustainable in medium term
- Future dividend growth linked to EPS growth
- Limiting participation in DRP to the first 10,000 shares held by each shareholder – this will reduce likely reinvestment rate from 30% to 13%
- Pricing period for shares issued under DRP reduced from 10 to 5 days

Priorities:

- Continuing to target 'A' credit rating for AMP Group Holdings
- Continuing to reinvest for profitable growth in core businesses
- Returning excess capital to shareholders

Overview – capital management

Potential excess capital:

- Group Office capital currently A$880m v required holdings of A$500m
- Current excess largely reflects HHG stake, valued at A$324m at 30 June 2004 – AMP intends to retain its stake until it sees appropriate value for its shareholders
- AMP Life held A$484m of capital at 30 June 2004 in excess of target buffers above minimum regulatory requirements – likely to be transferred to Group Office, subject to Life Board approval
- Cobalt-Gordian – post 2005, likely to begin to release capital

Implications:

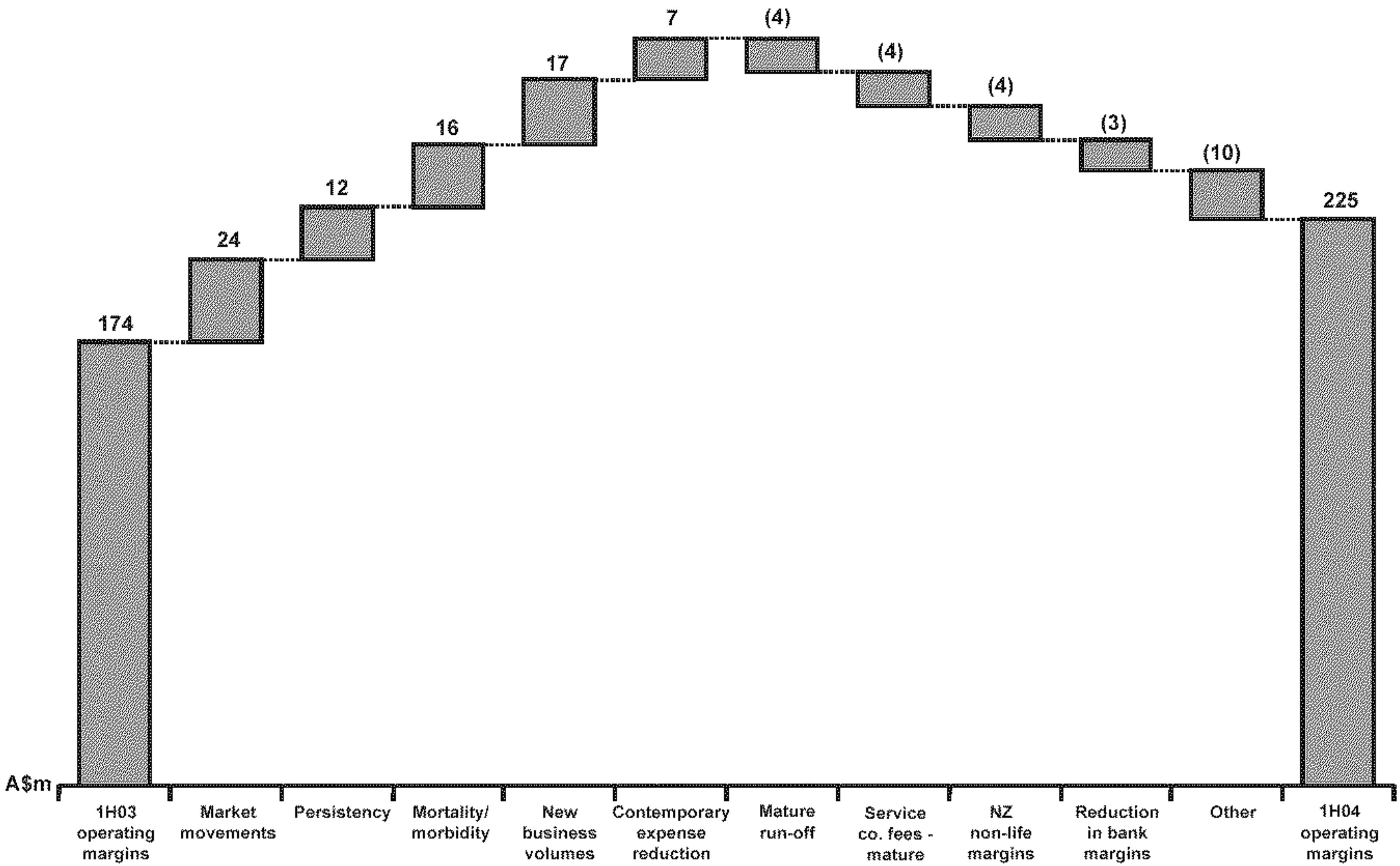
- While AMP is well placed to invest in future growth in its core business and maintain financial strength consistent with an 'A' credit rating, it is likely to have excess capital on its balance sheet
- While the timing and quantum are yet to be determined, AMP is likely to return capital to shareholders in one form or another over the next year. It is currently reviewing the best way to achieve this in the interests of all shareholders.

Business Unit review

AMP Financial Services

- Operating margins up 29% on 1H 03 to A$225m, driven by strong cashflows, improved persistency and claims experience, and reduced cost base
- Return on Invested Capital (RoIC) up to 16.1% from 13.8%
- Return on Business Unit Equity (RoBUE) up to 19.9% from 15.7%
- Controllable costs down A$11m to A$244m and cost to income ratio down to 37% from 40% (excluding AMP Banking)
- 1H 04 net cashflows strongest in two years, at A$540m
- 21% growth in cash inflows and persistency up 1.8 percentage points to 84.3%
- Value of New Business up 25% on 1H 03 to A$125m and Embedded Value up 9% in half-year to A$6,239m, before transfers

AMP Financial Services – operating margins



AMP Financial Services – fee reductions for key products

- Reducing fees on key Australian superannuation (FLS and CustomSuper) and pension (FLAP) products
  - Average 10% fee reduction on FLS, 6% on CustomSuper and 5% on FLAP from 1 November
  - About 90% of existing customers will benefit – more than 780,000 people with A$16.8b of AUM
  - A$40m benefit (pre-tax) to customers
- Strategic benefit to AMP's market positioning

AMP Financial Services – strategic rationale for fee reductions

- Using scale and low-cost manufacturing platform to improve competitive position in response to changing market dynamics
  - Consistent with product manufacturing strategy of delivering market competitive products at the lowest unit cost
  - Positions AMP well ahead of regulatory change such as Choice of Fund and more transparent fee disclosure – both strongly supported by AMP
  - Substantially improves AMP's competitive position
- Sharing benefits of scale and cost efficiencies between shareholders and customers
  - Cost efficiencies in AFS since 2000 have largely flowed through to shareholders
  - Customer benefit of A$40m (pre-tax) in new pricing funded through further unit cost reductions in contemporary business and reduction in fund managers' fees to institutional levels

AMP Financial Services – shareholder impact of fee reductions

- 2004 impact on value partly mitigated by other premium increases
  - A$14m gross impact on Value of New Business partly offset by higher premiums for disability income products (A$1m) and higher margins on annuities (A$6m)
  - A$109m gross impact on Embedded Value partly offset by higher premiums for disability income products (A$18m)
  - These impacts already reflected in both VNB and EV in 1H 04, and both still showing significant growth
- Impact on operating margins
  - Around (A$5m) impact on 2H 04 margins
  - Around (A$15m) full year impact on 2005 margins

AMP Financial Services – Australian contemporary business

	Contemporary[1]		Change
	1H 04	**1H 03**	
AUM	A$32.0b	A$27.0b	+19%
Total profit margins	A$114m	A$71m	+61%
Controllable costs	A$210m	A$220m	-5%
Cost to income ratio	48.7%	60.9%	-12.2 percentage pts
Net cashflow	A$1,199m	A$522m	+130%
VNB@ 3% discount margin	A$96m	A$74m	+30%
Persistency	81.4%	81.0%	+0.4 percentage pts
Embedded Value @ 3% discount margin	A$2,884m	A$2,820m (FY03)	
Return on EV	9.3%	n/a	
RoBUE [2]	20.1%	13.4%	+6.7 percentage pts

1 Including AMP Banking 2. Excluding goodwill. Based on monthly average capital numbers excluding intangibles

AMP Financial Services – Australian mature business

	Mature		Change
	1H 04	1H 03	
AUM	A$19.0b	A$19.6b	-3%
Total profit margins	A$85m	A$87m	-2%
Controllable costs	A$35m	A$38m	-8%
Cost to income ratio	17.0%	15.5%	+1.5 percentage pts
Net cashflow	(A$646m)	(A$991m)	+35%
VNB@ 3% discount margin	A$19m	A$17m	+12%
Persistency	87.8%	84.2%	+3.6 percentage pts
Embedded Value @ 3% discount margin	A$2,282m	A$2,409m(FY03)	
Return on EV	8.9%	n/a	
RoBUE[1]	18.7%	16.4%	+2.3 percentage pts

1 Excluding goodwill. Based on monthly average capital numbers excluding intangibles

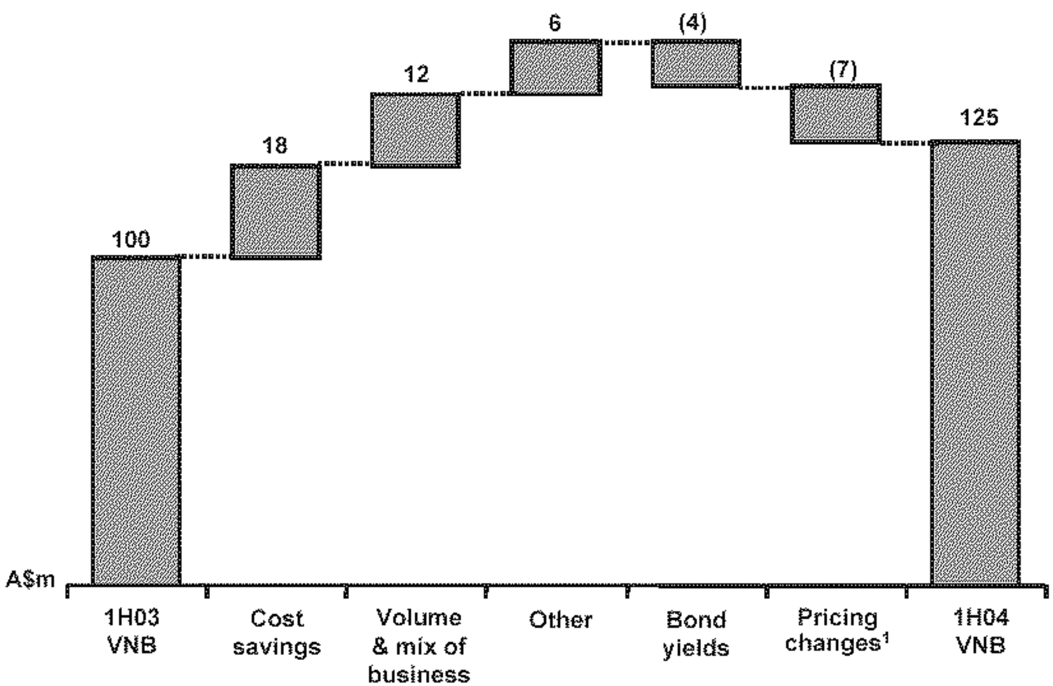
AMP Financial Services – New Zealand business

	Total		Change
	1H 04	**1H 03**	
AUM	A$4.2b	A$3.8b	+11%
Total profit margins	A$17m	A$21m	-19%
Controllable costs	A$27m	A$26m	+4%
Cost to income ratio	46%	39%	+7 percentage pts
Net cashflow	(A$13m)	(A$70m)	+81%
VNB@ 3% discount	A$10m	A$9m	+11%
Persistency	88.9%	87.1%	+1.8 percentage pts
Embedded Value @ 3% discount	A$581m	A$481m(FY03)	
Return on EV	10.6%	n/a	
RoBUE[1]	19.3%	24.4%	-5.1 percentage pts

1 Excluding goodwill. Based on monthly average capital numbers excluding intangibles

AMP Financial Services – value of new business

Traditional VNB@ 3% discount margin

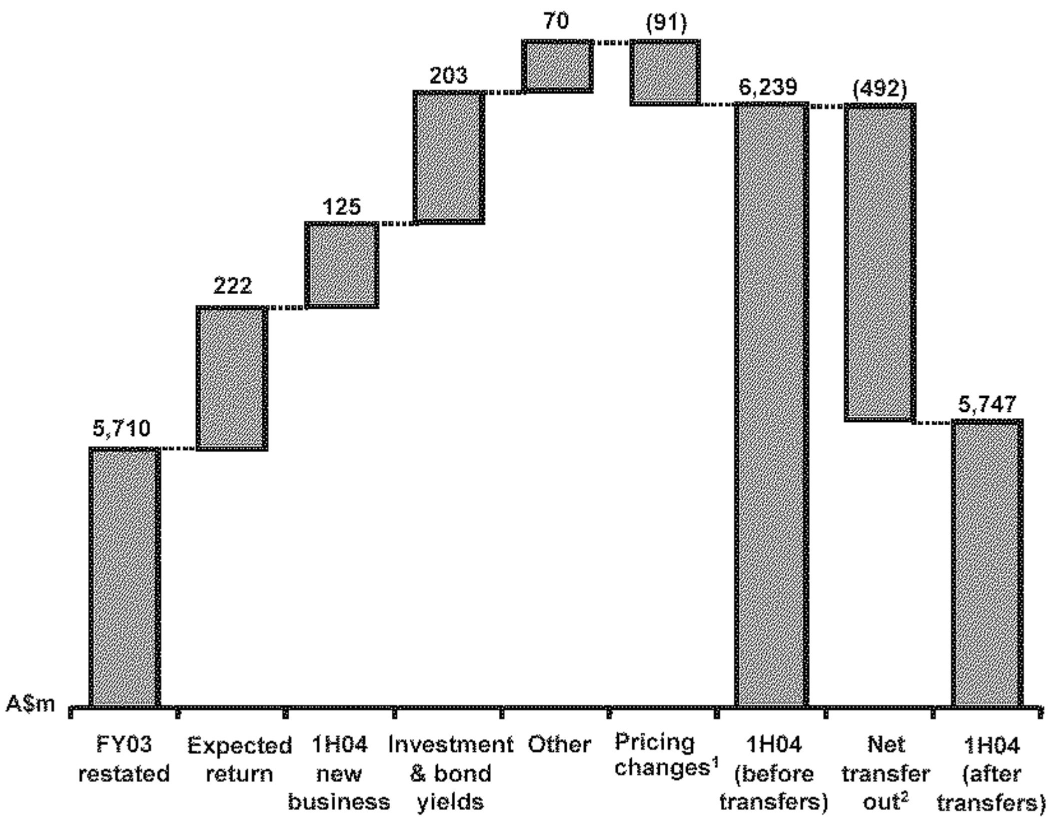


Market consistent VNB	1H 04
With agency costs of 0%	A$141m
With agency costs of 5%	A$120m

1. ($14m) gross impact of new pricing partly offset by additional product margins of A$7m

AMP Financial Services – embedded value

Traditional EV@ 3% discount margin



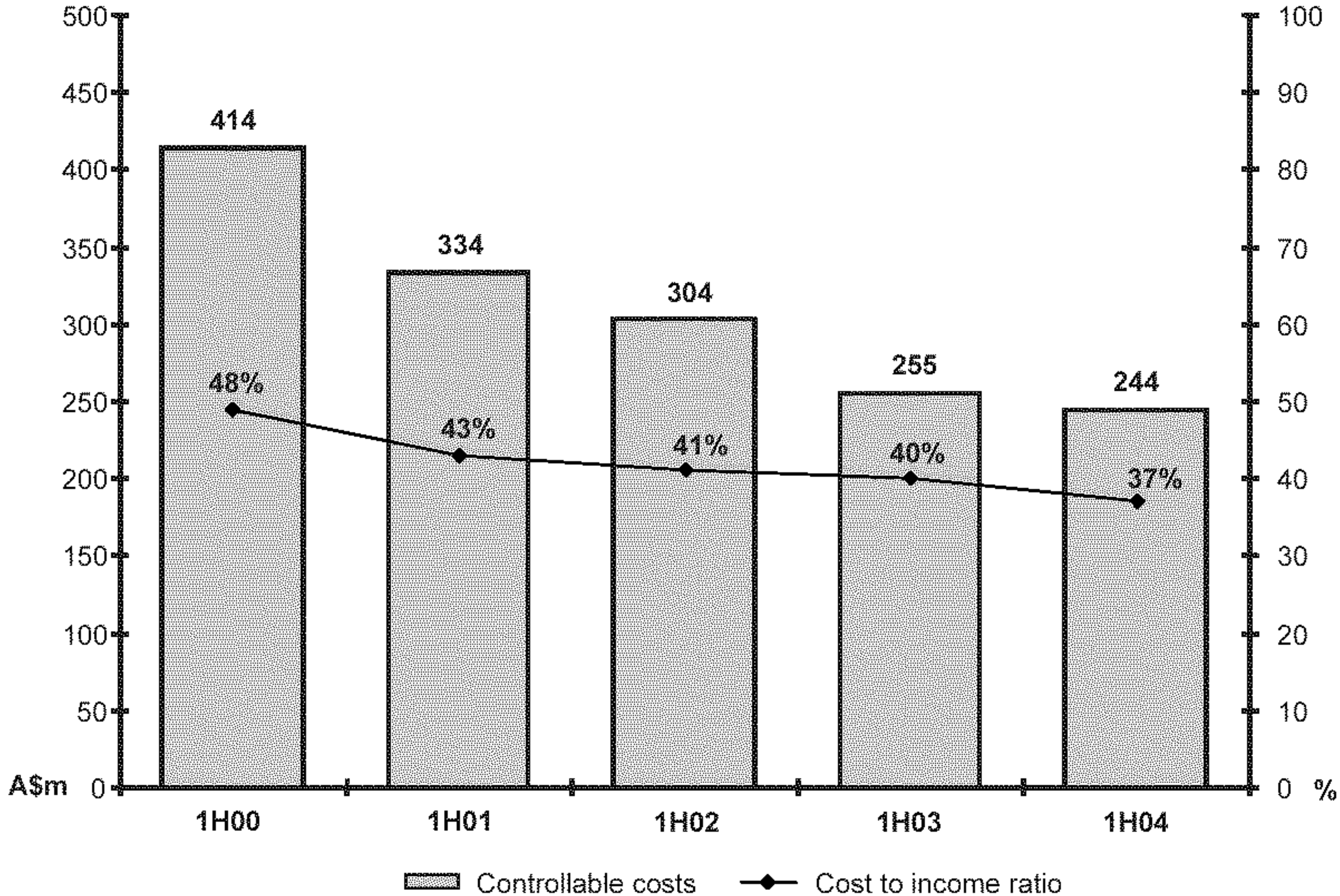
Market consistent EV	1H 04
After transfers, with agency costs of 0%	A$5,917m
After transfers, with agency costs of 5%	A$5,621m

1. (A$109m) gross impact of new pricing partly offset by additional product margins of A$18m
2. Net transfers include capital of A$270m and A$222m of franking credits which is 70% of their face value. Under tax consolidation, franking credits attributed to the AMP Life franking account have been transferred to the AMP Ltd franking account

AMP Financial Services – channels and products

- Cash inflows rose A$764m or 21% in 1H 04 on a year ago
- By channel:
  - AMP Financial Planning – up A$459m or 22%
  - Hillross/Arrive - up A$294m or 59%
  - Corporate Super Direct Sales force – up A$53m or 29%
  - 3rd Party Distributors – up A$13m or 4%
- By product:
  - Savings and Retirement – up A$325m or 19%
  - PortfolioCare and eWrap – up A$373m or 124%
  - Corporate Super – up A$86m or 10%
  - Mature/closed – down A$54m or (12%)

AMP Financial Services – costs and cost ratios*



*Excluding AMP Banking

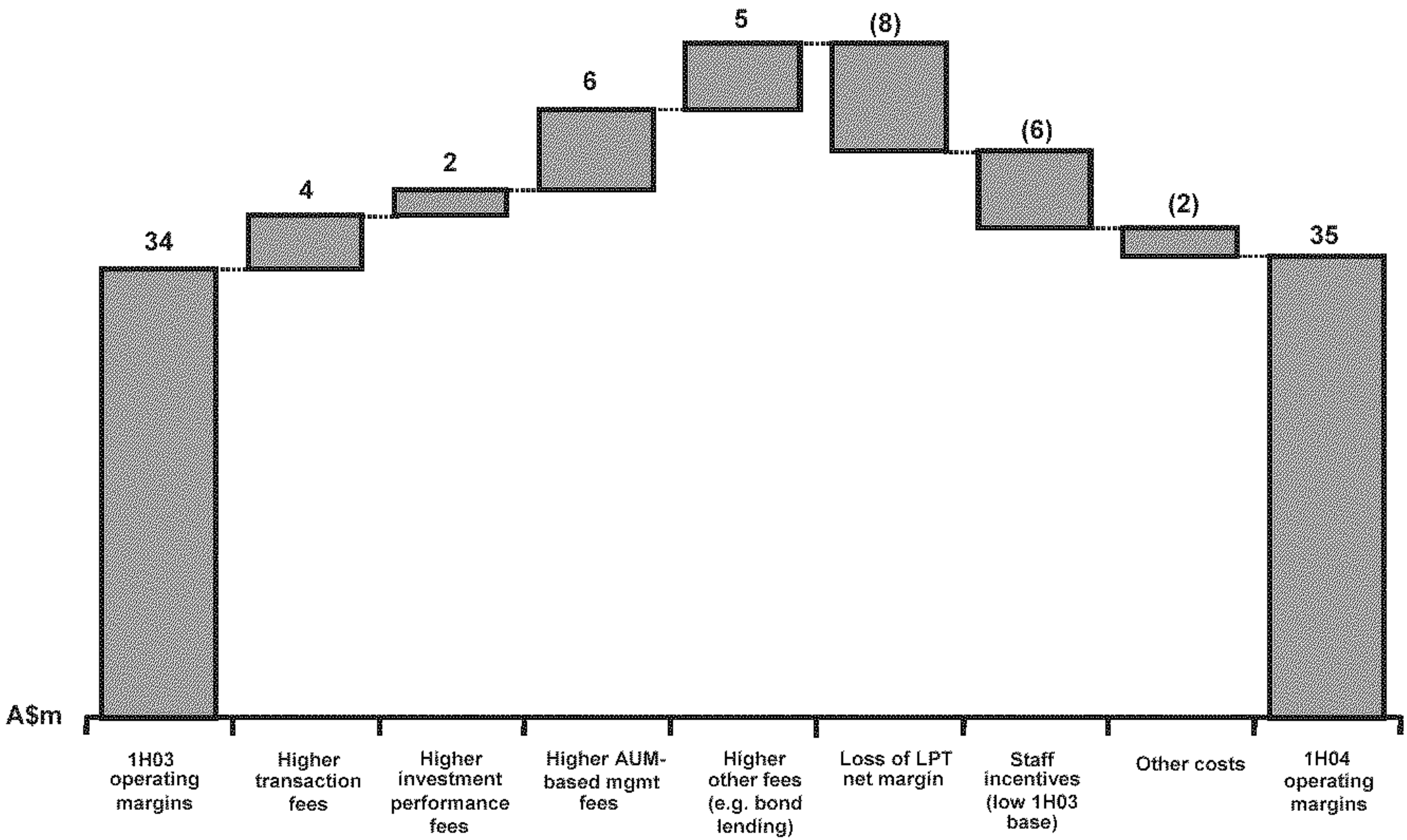
AMP Life – financial strength

- AMP Life shareholder capital A$1.7b above minimum regulatory capital at June 2004 (A$250m higher than December 2003)
- AMP Life shareholder capital A$484m above top of target surplus range at 30 June 2004 (139% of target surplus compared to 110% in December 2003 and 91% in December 2002)
- 1H 04 improvement driven by:
    - Statutory fund profits
    - Strong investment returns
    - Gains from private capital investments
    - Risk reduction initiatives
- Excess of A$484m likely to be transferred to Group Office, subject to Life Board approval

AMP Capital Investors

- Operating margins up A$1m to A$35m, despite loss of LPT margins (A$8m) due to higher AUM, improved cashflows and growth in performance and transaction fees
- Improved investment performance across all asset classes, with 81% of Australian assets under management outperforming benchmarks, flagship Balanced Fund in top quartile and substantial value added to AMP Life No 1 Fund
- Cost ratio increased slightly to 61% from 59% in 1H 03 but down from 63% in FY 03
- AUM up 8% from A$67bn at end 2003 to A$73b at mid year
- RoIC up to 30% from 26% in 1H 03, with release of invested capital after LPT sales

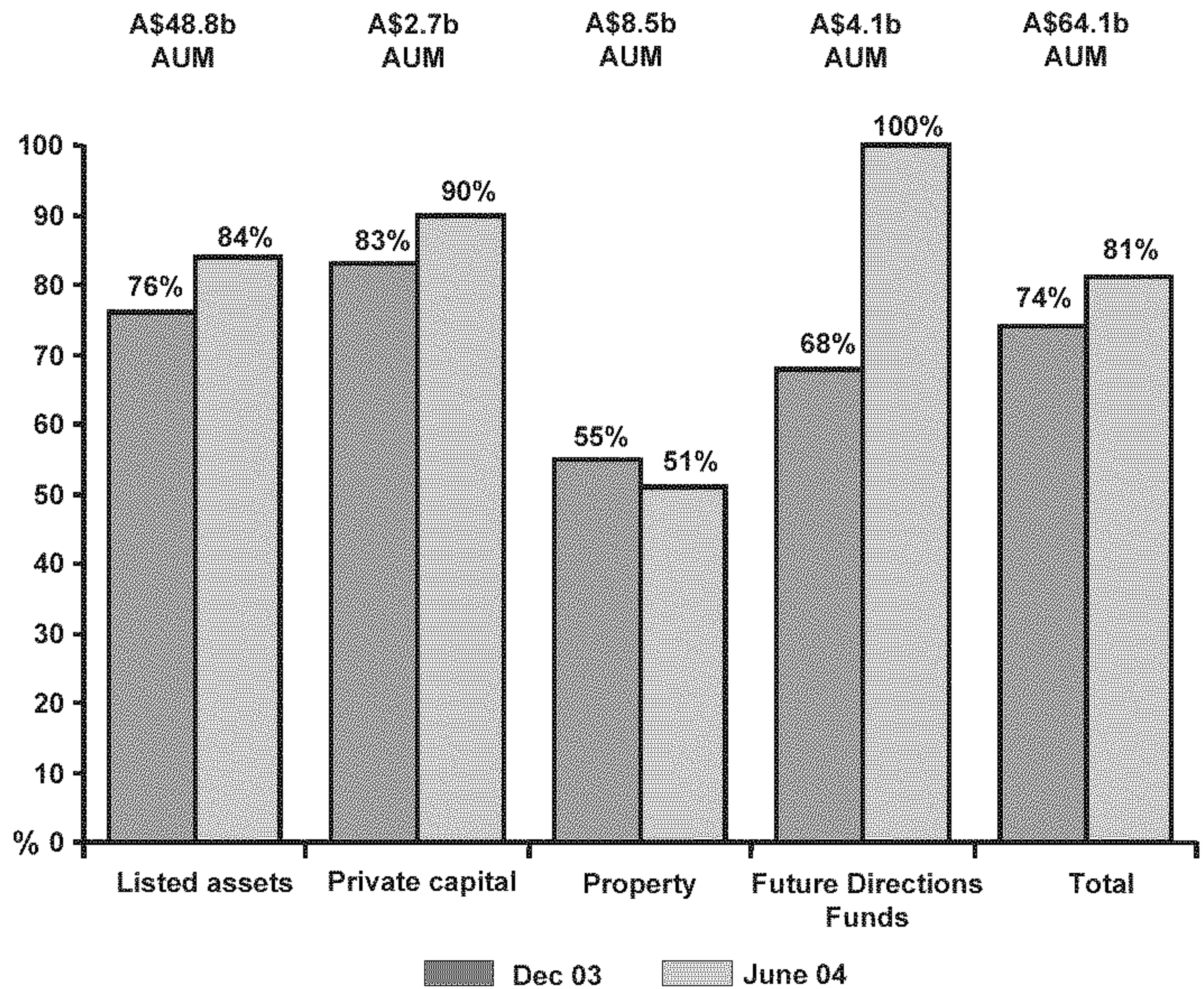
AMP Capital Investors – operating margins



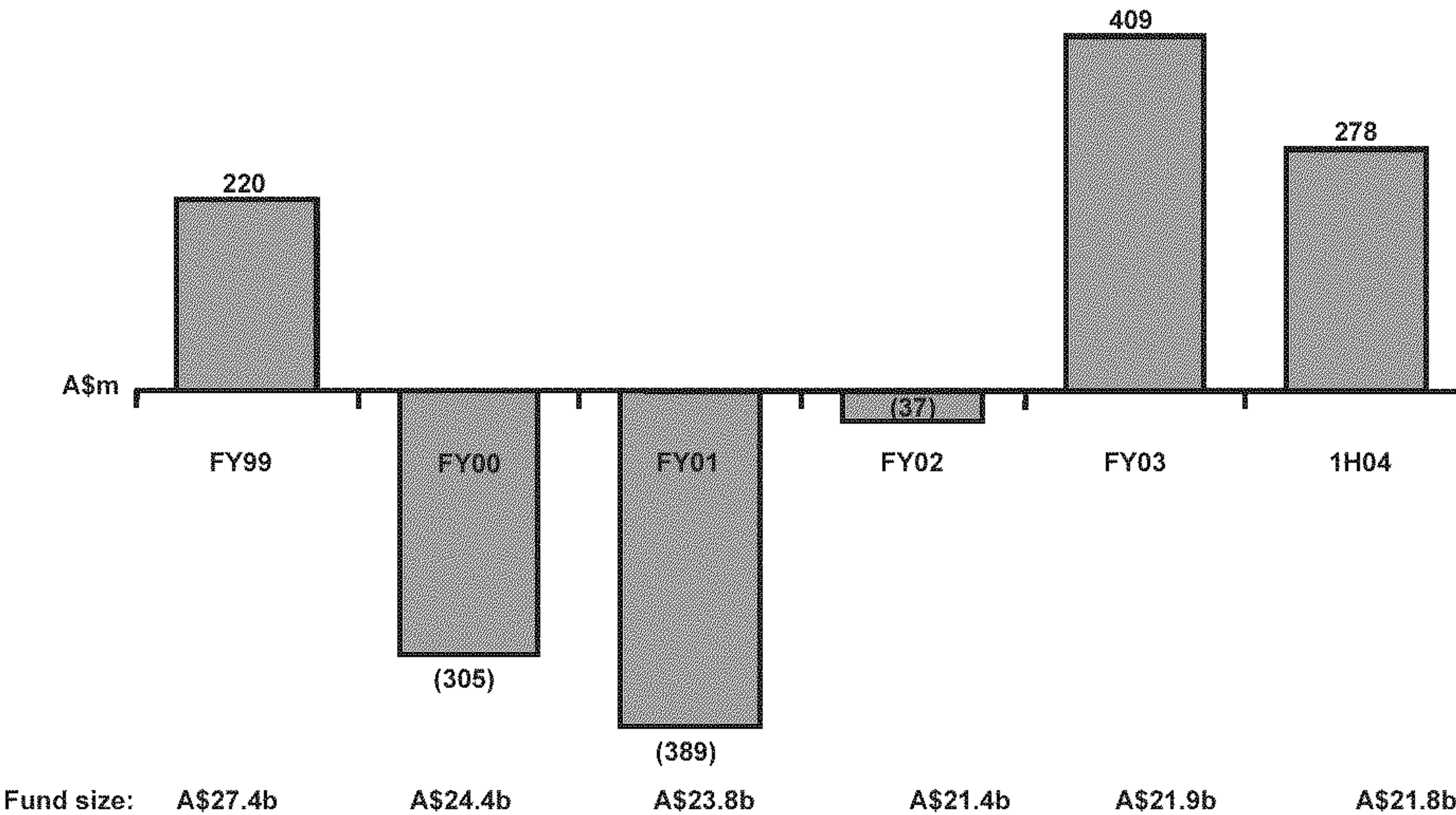
AMP Capital Investors – assets under management

Assets under management at 31 December 2003	**A$67.2b**
External listed assets net cashflows	1,452m
External private capital net cashflows	39m
External property net cashflows	131m
Internal net cashflows	(1,586m)
Market movements	5,496m
Assets under management at 30 June 2004	**A$72.8b**

AMP Capital Investors – Australian investment performance



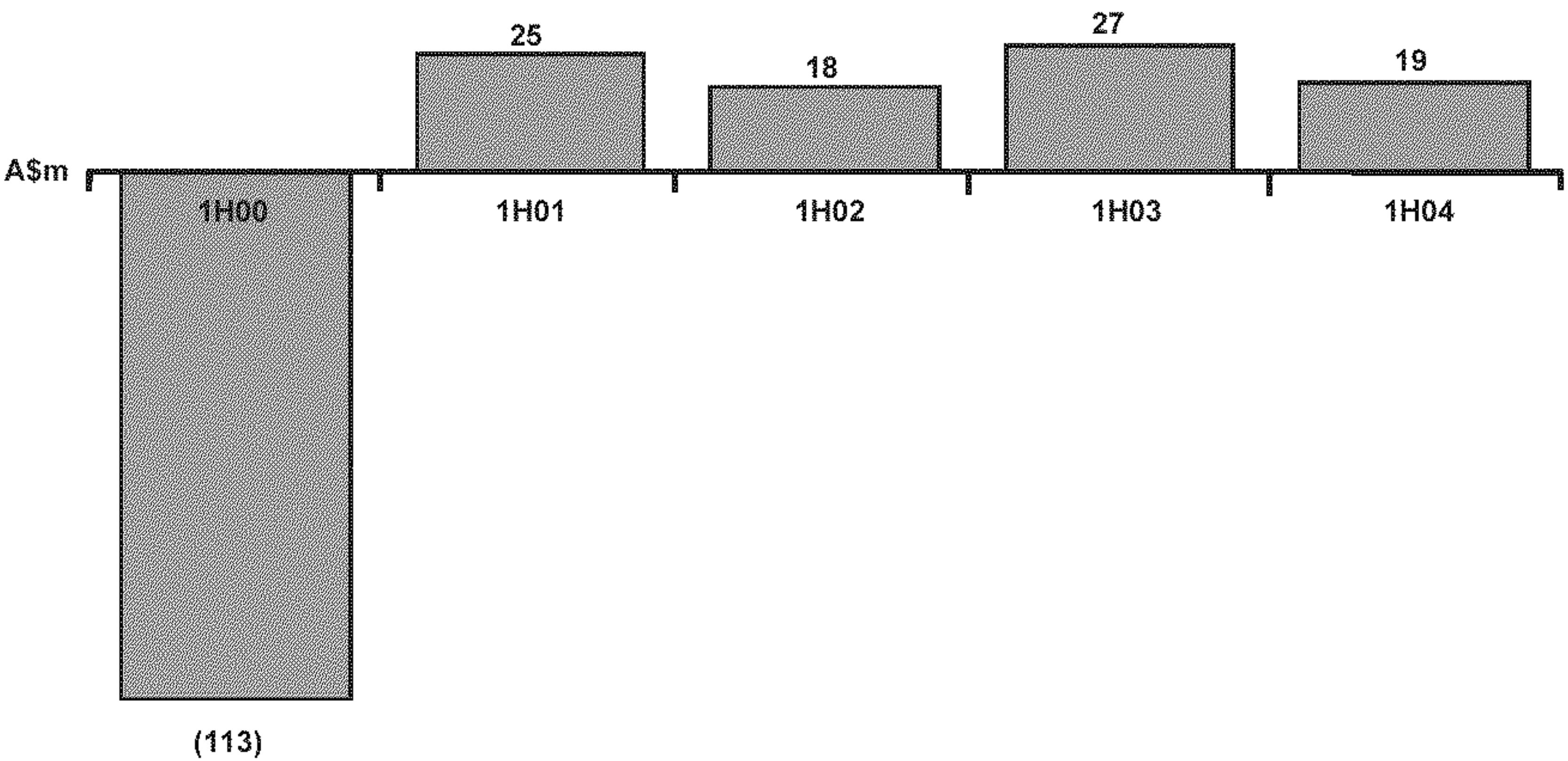
AMP Capital Investors – value added to Life No 1 Fund



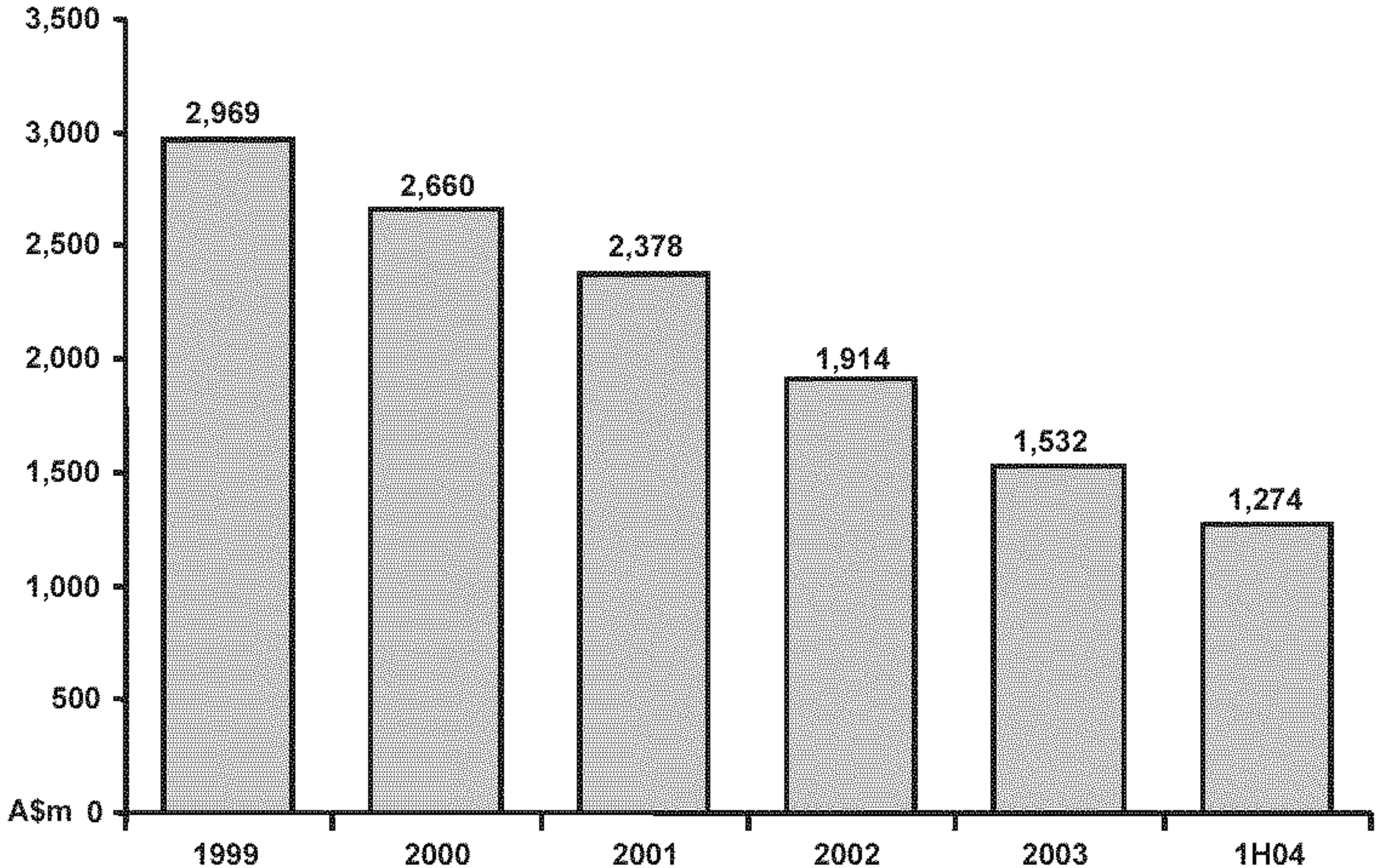
Cobalt/Gordian

- Operating margins of A$19m, down from A$27m in 1H 03
- Risk margins released to profit as claims managed down
- Tightly managed with a focus on maximising profit and increasing surplus capital

Cobalt/Gordian – operating margins



Cobalt/Gordian – gross reserves



Gross discounted claims including risk margins. Prior years adjusted to 30 June 04 exchange rates.

Outlook

Outlook in 2004

- Results tracking well
- Expecting strong growth in Embedded Value and Value of New Business in AFS. VNB in 2H 04 will benefit both from seasonally higher sales and resetting of maintenance costs for FY 04 based on expected lower unit costs in 2005
- Operating margins in AMP Capital Investors now likely to be slightly higher than FY 03
- Continued focus on costs across the group
- Group debt reduction and gearing targets achieved – targeting ‘A’ credit rating and working on next phase of capital management strategy

International Financial Reporting Standards (IFRS)

- P&L impact of IFRS on Business Unit operating margins not expected to be material
- AMP Ltd after tax profit may be more volatile under IFRS
- Under IFRS, equity will be adjusted for loss of part of Deferred Acquisition Costs (DAC) and Excess of Market Value over Net Assets (EMVONA)
- No effect on cash but with lower reported equity, Return on Equity is likely to be higher
- Precise impacts of IFRS cannot yet be quantified

Outlook in 2005

- AFS operating margins and underlying contribution will be impacted by loss of transitional tax relief (around A$20m from 1 July) and effect of fee reductions for key superannuation and pension products (around A$15m)
- AFS expects to more than offset these negative impacts with growth in cashflows and AUM and continued tight cost management
- VNB and EV already reflect impact of planned fee reductions and loss of transitional tax relief, and are expected to continue to grow strongly given fair markets
- Solid growth expected in operating margins in AMP Capital Investors
- Likely capital return to shareholders in one form or another, with quantum and timing to be determined, in addition to 75% dividend payout policy

Wrap up

Wrap up

- Focus remains on running AMP better than it's ever been run before – encouraging initial results
- Post demerger, AMP is a more focused and agile company with a passion to succeed
- Significant opportunities for growth in wealth management in Australia and New Zealand
  - Attractive retirement savings market
  - Pre-eminent and resilient brand
  - Market-leading distribution and cost efficiency
  - Broadly-based investment capability
  - Increasingly performance driven culture in AMP