ASX Announcement

18 August 2004

Manager
Company Announcements Office
Australian Stock Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Manager
Market Information Services Section
New Zealand Stock Exchange
Level 9, ASB Tower, 2 Hunter Street
Wellington New Zealand

Announcement No: 44/04

Part One:	**AMP reports 72% increase in half year net profit before other items**
Part Two:	**Investor presentation**
Part Three:	**Investor Report**
Part Four:	**Appendix 4D for the half year ended 30 June 2004**
Part Five:	**Director's Report & Financial Report for the half year ended 30 June 2004**

18 August 2004

AMP reports 72% increase in half year net profit before other items

Improved cashflows and investment income and a continued reduction in costs have contributed to a 72 per cent increase in AMP Limited's net profit before other items to A$412 million for the six months to 30 June 2004, compared with the previous corresponding period.

Business unit operating margins rose by 19 per cent to A$279 million in the first half while the underlying contribution, which smoothes out investment market volatility, rose 21 per cent to A$311 million. Return on Equity (RoE) on an underlying basis rose to 17 per cent and on an actual basis to 22 per cent.

Net profit after other items was A$378 million compared with a loss of A$2.2 billion in the previous corresponding period.

Directors have declared a dividend for the first half of 13 cents per share (75 per cent franked), compared with 7 cents per share in the previous corresponding period (15 per cent franked). The increased dividend - which represents the first step in returning capital to shareholders - reflects a lift in the dividend payout policy from 60 per cent to 75 per cent. This is expected to be maintained in the medium term.

AMP Chief Executive Officer Andrew Mohl said that post the December 2003 demerger, AMP's focus had been on operational excellence in four key areas: reducing unit costs, growing cashflows, outperforming on investments and lowering the Group's gearing.

In terms of the focus on reducing unit costs, controllable costs fell by 1 per cent on the previous corresponding half to A$396 million, while the cost to income ratio across the group was 5 percentage points lower at 42 per cent.

Cashflows improved with growth in AMP Financial Services inflows of 21 per cent while cash outflows were down 8 per cent. This resulted in a turnaround in net cashflows of almost A$1.1 billion from the previous corresponding half to A$540 million. In AMP Capital Investors, external net cashflows for the first half were $1.6 billion, a turnaround of $2.3 billion on the previous corresponding period.

Investment performance was again strong, with 81 per cent of Australian Assets Under Management (AUM) outperforming benchmarks for the year to 30 June 2004. The flagship Balanced Fund was in the top quartile while significant value was added relative to benchmark in the AMP Life No. 1 fund.

Finally, three major debt reduction initiatives in the first half lowered Group debt levels by almost two-thirds with the gearing ratio (defined as debt to debt plus equity) falling from 55 per cent to 29 per cent over the half. AMP has achieved its target debt levels more than six months ahead of schedule.

“Post demerger, AMP is a more focused and agile company with a passion to succeed. Our strategic intent is clear - to run the company better than it’s ever been run before,” Mr Mohl said.

“Improvements have been made across the business. In AMP Financial Services, we have a clear strategy focused around high quality advice-based distribution and low cost product manufacturing.

“In AMP Capital Investors, we are now firmly based as a regional asset management business. Our strategy to establish partnerships with other specialist fund managers, to continue to develop asset management distribution capability in Asia and to develop specialist retail funds is progressing well.

“Finally, in Cobalt/Gordian, the run-off insurance businesses are being tightly managed with a focus on maximising profit and increasing surplus capital.”

Review of business unit performance

In **AMP Financial Services (AFS),** operating margins rose by 29 per cent in the first half to A$225 million compared with the previous corresponding period, driven by improved cashflows and persistency and further cost reductions. Within this result, there was a 92 per cent increase in contemporary margins to A$119 million, while mature margins were flat at A$89 million.

Return on Invested Capital (RoIC) rose from 13.8 per cent to 16.1 per cent.

In terms of cash inflows, AMP Financial Planning experienced a 22 per cent increase to A$2.512 billion compared with the previous corresponding period. Hillross/Arrive had a particularly strong half, up 59 per cent to A$793 million.

Persistency remains a key focus, increasing 1.8 percentage points to 84.3 per cent. Persistency in the mature book was particularly strong, rising from 84.2 per cent in the first half of 2003 to 87.8 per cent.

Controllable costs fell by A$12 million to A$272 million, while the cost to income ratio fell 3 percentage points to 39 per cent.

Conditions were challenging in New Zealand, with operating margins down A$6 million on the previous half to A$17 million. Net cashflows were negative but slightly improved in the period. The Value of New Business (VNB) was up 11 per cent on the previous corresponding half while AUM for the year to 30 June 2004 grew by 11 per cent. The cost to income ratio rose to 46 per cent while Return on Business Unit Equity fell to 19.3 per cent. A number of strategic initiatives are underway to improve the advice-based distribution focus of the business, including changes in remuneration and incentive structures for advisers.

In terms of capital management, AMP Life remains extremely strong with shareholder capital A$1.7 billion above minimum regulatory capital requirements at 30 June 2004 - A$250 million higher than December 2003, and A$484 million above the top of the target surplus range of A$1.250 billion. This further improvement reflected a range of factors including strong market returns, gains from private capital investments and risk reduction initiatives.

AFS has today also announced fee reductions for key superannuation and pension products (see separate ASX release issued today). This initiative is aimed at passing on to consumers the benefits of recent cost savings, as well as reductions achieved in fee negotiations with fund managers.

The full impact of the fee reductions on VNB and Embedded Value (EV) has been taken into first half figures. Even with the impact of fee reductions, VNB rose by 25 per cent on a year ago to A$125 million while EV grew by 9.3 per cent in the half-year (or almost 20 per cent per annum) to A$6.239 billion (before transfers). The full impact of the fee reductions was partially offset by other premium increases.

In **AMP Capital Investors (AMPCI)**, operating margins rose A$1 million to A$35 million for the half, despite the loss of the Listed Property Trust business margins (A$8 million) that were part of the previous first half result.

The improved result reflected improved cashflows and growth in performance and transaction fees. Investment performance was particularly strong for the half, with 81 per cent of Australian AUM outperforming benchmarks.

The cost to income ratio was up slightly by 2 percentage points to 61 per cent.

RoIC rose from 26 per cent to 30 per cent.

AUM increased by 8 per cent to A$72.8 billion at 30 June 2004, from A$67.2 billion at 31 December 2003.

Business development in the period included a Japanese distribution agreement for a market-leading Global REIT fund, which has now raised A$1.2 billion from Japanese investors; AMPCI's first retail distribution initiative with its China Fund; and a joint venture with Macquarie Bank for the ongoing management of AMPCI's energy infrastructure fund, DUET, that listed on the Australian Stock Exchange last week. The Future Directions range of funds was also broadened and these funds now have over A$8 billion in AUM.

Cobalt/Gordian recorded operating margins of A$19 million for the half, down from A$27 million previously.

The runoff is progressing well with earnings in line with expectations.

Capital management

AMP's capital position has improved significantly with Group debt reduced from A$4.3 billion at 31 December 2003 to A$1.55 billion at 30 June 2004, as the Group focused its efforts on debt reduction in the period. At the same time, the equity base has increased by around A$300 million to A$3.8 billion.

Mr Mohl said that AMP had done a significant amount of work to improve its financial strength, which should enable the restoration of its credit rating from its current level of BBB+ to an A.

"In light of the Group's strong financial position, and as a first step in returning capital to shareholders, we have lifted the dividend payout policy from 60 per cent to 75 per cent. We are confident this payout ratio will be maintained in the medium term," he said.

"This has resulted in an increase in the dividend to 13 cents per share for the first half, 75 per cent franked, compared with 7 cents per share (15 per cent franked) a year ago and 9 cents per share (85 per cent franked) six months ago. AMP is also confident the franking level of 75 per cent can be sustained."

Future growth in dividends will depend on growth in earnings per share.

AMP has also decided to limit participation in the Dividend Reinvestment Program (DRP) to a maximum of 10,000 shares per shareholder to reduce dilution. This affects only 0.5 per cent of shareholders as 99.5 per cent by number hold less than 10,000 shares. This limit will reduce the likely reinvestment rate from around 30 per cent to 13 per cent. The DRP pricing period has also been reduced from ten days to five days.

While AMP is well placed to invest in future growth in its core businesses and to maintain financial strength consistent with an A credit rating, it also is likely to have excess capital on its balance sheet.

Group Office held $A880 million in capital at 30 June 2004 compared with required holdings of around A$500 million, which cover interim dividend payments and short term liquidity requirements.

The Group Office excess capital at 30 June 2004 largely reflected AMP's 10 per cent holding in HHG PLC, which was valued at A$324 million, A$63 million higher than at 31 December 2003. While AMP can start reducing its holding following the release of HHG's results for the six months to 30 June 2004, AMP intends to retain its stake until it sees appropriate value for shareholders.

With the financial strength of AMP Life, it is likely that a further A$484 million will be transferred from AMP Life to Group Office, subject to Life Board approval.

Post 2005, Cobalt/Gordian is also likely to begin to release capital to the Group Office.

“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,” Mr Mohl said.

Outlook & conclusion

Mr Mohl said that 2004 results were tracking well, with strong growth in EV and VNB to continue and operating margins in AMPCI now likely to be slightly higher than the 2003 result.

For 2005, AFS operating margins will be impacted by the loss of transitional tax relief (from 1 July). This will reduce operating margins by around A$20 million. Product fee reductions will also impact operating margins by around A$15 million.

AFS expects to more than offset these reductions by growth in cashflows and AUM, and continued tight cost management. EV and VNB already reflect the impacts of both fee reductions and the loss of transitional tax relief, and are expected to continue to grow strongly.

AMPCI is expected to deliver solid growth in operating margins in 2005.

The impact on profit and loss from the transition to International Financial Reporting Standards in 2005 is not expected to be material in terms of business unit operating margins. However, the changes may make AMP Limited's after tax profit more volatile. The balance sheet will be impacted through the loss of part of Deferred Acquisition Costs and Excess of Market Value over Net Assets. These accounting adjustments will have no effect on cash but with lower reported equity, RoE is likely to be higher. Overall, the precise impact of the accounting changes cannot yet be quantified.

“In summary, AMP has made encouraging progress in its first six months post demerger. We intend to stay absolutely focused on running the business better than ever before and delivering a stronger underlying performance in the next six months,” Mr Mohl said.

“AMP is now a much more straightforward business with growth opportunities which remain attractive in the medium term.

“We compete in the retirement savings industry, which has strong underlying growth. We have the pre-eminent brand in the industry, a brand that has proved extremely resilient. We hold claim to market-leading distribution capability and cost efficiency while our investment capability is broadly based and performing strongly. And finally, we have an increasingly performance driven culture.

“All these factors contribute to our sense of optimism in the future of AMP.”

Media inquiries
Karyn Munsie
Ph: +61 2 9257 9870
0421 050 430

Keely Gallagher
Ph: +61 2 9257 2700
0408 655 021

Investor inquiries
Mark O'Brien
Ph: +61 2 9257 7053