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AMP delivers strong 2004 result for shareholders

Stronger underlying business performance and the benefits of improved investment markets have contributed to a consolidated bottom line profit of A$934 million for AMP Limited in the year to 31 December 2004.

This compares with a bottom line loss of A$5.54 billion in the previous corresponding period, a figure that included writedowns on UK assets and an accounting loss on AMP's demerger.

Business unit operating margins rose 11 per cent to A$599 million for the year. The underlying contribution, which smooths out investment market volatility, rose 10 per cent to A$671 million, and by 20 per cent after allowing for the additional interest expense in 2004 on debt transferred from HHG at demerger in December 2003.

The Board of Directors has declared a final dividend of 14 cents per share (75 per cent franked), payable on 26 April 2005. This takes the total dividend for the year to 27 cents, compared with 16 cents in the previous corresponding period. The final dividend has been approved by APRA.

AMP has also announced today a A$750 million capital return to shareholders (40 cents per share) and redemption of A$265 million in debt (see separate ASX release).

Chief Executive Officer Andrew Mohl said that 2004 was a year of consolidation with a focus on four key areas and good progress made in each:

- **reducing unit costs**: cost to income ratio down three percentage points to 42 per cent and total controllable costs down by 3 per cent to A$813 million;
- **growing cashflows**: a turnaround of A$1.7 billion in net cashflows in AMP Financial Services to A$1.2 billion, and a turnaround of A$4.9 billion (excluding LPT outflows of A$4.1 billion) in net external cashflows in AMP Capital Investors to A$2.2 billion;
- **outperforming on investments**: 86 per cent of Australian funds under management met or exceeded their benchmarks in 2004; and
- **lowering gearing**: group debt reduced by A$2.8 billion to A$1.5 billion at least six months earlier than expected with gearing (defined as debt to debt plus equity) halved to 27 per cent. AMP's goal of restoring its 'A'-grade credit rating was achieved in August 2004.

"Following the demerger of our UK operations in 2003, we were clear about the task at hand: to run the company better than it's ever been run before," Mr Mohl said.

"Our focus on improving the operational efficiency of the business positioned us well in the favourable investment market conditions of the past year.

"Overall, the first year of post-demerger results for AMP are encouraging and underline our continuing transformation from a traditional life insurance company to a modern wealth management company."

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Review of business unit performance

In **AMP Financial Services** (AFS), operating margins rose by 15 per cent to A$475 million for the year, reflecting higher new business volumes, improved investment markets and lower costs. The contemporary business continued to grow rapidly, with operating margins rising by 55 per cent and accounting for 52 per cent of total AFS operating margins (39 per cent in 2003).

Return on Invested Capital (RoIC) rose 2.2 percentage points to 17 per cent.

Unit cost reductions remain a key driver for AFS. The cost to income ratio fell from 41 per cent to 39 per cent while total controllable costs were down A$22 million to A$553 million.

Gross inflows grew 19 per cent for the year to A$9.35 billion and outflows were 3 per cent lower at A$8.17 billion.

Persistency rose from 82.6 per cent to 83.5 per cent, reflecting improved retention strategies and market sentiment.

In terms of value measures, traditional embedded value rose by 25.4 per cent to A$7,159 million (before transfers). Higher investment markets, new business and cost savings drove growth with a partial offset from the impact of fee reductions for superannuation and pension products (effective 1 November 2004).

The Value of New Business (VNB) rose 19 per cent to A$284 million. This comprised an increase in Australian Contemporary and New Zealand VNB of 25 per cent, while Australian Mature VNB fell by 18 per cent.

AMP Life remains strong with shareholder capital A$904 million above shareholder minimum regulatory capital requirements at 31 December 2004. For the year, a total of A$1.7 billion was transferred to AMP Group comprising profits, franking credits and capital excess to target surplus requirements. This transfer was again supported by earnings growth, the strength of investment markets and the value added by AMP Capital Investors relative to benchmarks.

In New Zealand, underlying profit rose to A$54 million in 2004 from A$50 million in the previous corresponding period. Operating margins grew by 9 per cent to A$47 million. Net cashflows were a negative A$55 million for the year, although this was an improvement on the previous year's outflow of A$152 million. Strong growth in risk business and risk market share was a highlight in the result.

In **AMP Capital Investors**, investment performance improved further with 86 per cent of all Australian assets under management meeting or exceeding their benchmarks in 2004. The Balanced Growth Fund, with A$3.5 billion in assets, achieved top quartile investment performance.

This improved investment performance, coupled with stronger investment markets, resulted in a net A$2.2 billion in external cash flows. Sales were particularly strong in the Japanese distribution channel with the Nikko AMP Global REIT Fund – a global listed property securities fund – attracting A$1.5 billion in funds under management at 31 December.

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Operating margins grew by 7 per cent to A$73 million despite the loss of A$8 million in LPT margins. Total fee income rose by A$19 million to A$301 million due to an increase in performance and transaction fees. This reflected stronger investment performance as well as the execution of a number of structured debt and private capital transactions including a joint venture for the management of DUET, a listed energy infrastructure fund.

Return on Invested Capital rose from 27.1 per cent to 30.7 per cent, driven by the growth in operating margins.

Assets under management grew by 17 per cent to A$78.9 billion, reflecting net cashflows and strong investment markets.

Cobalt/Gordian continues to manage the run-off of its insurance and reinsurance operations with pleasing results. Operating margins were ahead of plan at A$51 million, reflecting positive net claims and commutations, while liabilities were reduced by 26 per cent.

This business remains tightly managed with a focus on profit maximisation and increasing surplus capital for release.

IFRS

AMP's 2005 interim results (to be released 18 August 2005) will comply with Australian International Financial Reporting Standards (AIFRS). The main impact will be a reduction in AMP's opening capital position for 1 January 2004, reflecting different treatment of assets and liabilities.

The IFRS changes are accounting changes only – they are non-cash and have no impact on value. AMP's key value measures, EV and VNB, will not be impacted, while dividends and ratings will also not be affected.

Outlook & conclusion

Mr Mohl said that AMP was well positioned in 2005 to build on the achievements of 2004.

"With fair markets in 2005 we expect moderate growth in AFS operating margins as the business grows, notwithstanding the loss of the transitional tax relief which ends on 1 July," Mr Mohl said.

"Our value measures – embedded value and value of new business – are expected to grow strongly and are more representative of underlying trends in the business.

"In AMP Capital Investors, we expect solid growth in operating margins.

"Cobalt/Gordian remains focused on running down its liabilities and releasing capital. Initially, this will involve the cancellation of existing loans to AMP of A$237 million (at December 2004).

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“AMP will continue its policy of paying out 75 per cent of underlying contribution as dividends with 75 per cent franking in 2005. In addition to the proposed 40 cents per share capital return (A$750 million) this year, shareholders can expect a further capital initiative in 2006, subject to fair markets, and consistent with our intention to return excess capital to shareholders while maintaining the Group’s ‘A’-grade credit rating.

“At a Group level, underlying return on equity is expected to rise strongly in 2005 and beyond given higher operating margins, the effects of IFRS and improved capital efficiency.”

The five key measures that AMP will use to measure its success are underlying return on equity, value of new business, total operating margins, investment performance and controllable costs.

Looking at the longer-term perspective, Mr Mohl said that AMP was well positioned with the wealth management industry expected to grow at rates well above the economy as a whole. AMP has the pre-eminent brand in the sector, the largest adviser network, market-leading cost efficiency, a broadly-based investment capability and an increasingly performance driven culture.

AMP has also taken significant steps to improve the governance and control framework of its business in recent years. At a Group level, priorities have included an improvement in risk management processes and oversight and stronger representation of non-executive directors on major subsidiary boards. Risk capital requirements have also been substantially reduced as the business is increasingly driven by fee-for-service products and less by providing guarantees on capital invested.

In AFS, AMP Financial Planning has driven significant change in the business that will continue in 2005, including the introduction of simple advice packages for consumers and the most comprehensive planner development program in Australia.

AMP Capital continues to develop its strategy to introduce specialist funds, build asset management distribution capabilities in Asia and establish partnerships with other specialist fund managers.

“In summary, the results in 2004 represent a first step in our goal to be acknowledged as a high performing company,” Mr Mohl said.

“Post demerger, AMP has gathered strong momentum and we are well positioned to build on these encouraging results in the year ahead.”

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