



Annual Report 07



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## Annual Report 2007

All amounts are in Australian dollars, unless otherwise specified. The information in this report is current as at 14 March 2008, unless otherwise specified.

## AMP Limited

ABN 49 079 354 519

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## Chairman's foreword



**Welcome to AMP's 2007 Annual Report.** This report provides you with AMP's full statutory accounts, along with the directors' remuneration and corporate governance reports.

Accompanying this report is the Shareholder Review, which provides a summary of AMP's 2007 financial performance and management commentary.

The Shareholder Review includes messages from me and from Chief Executive Officer, Craig Dunn, overviews of AMP's business units and information about the company's strategy and outlook.

### **2007 financial performance**

AMP reported robust financial results in 2007. The company increased its underlying profit by 10 per cent to \$960 million and made good progress against its five key performance measures.

The board declared a final dividend of 24 cents per share. This includes two cents a share from proceeds of the sale of the Cobalt/Gordian business that was announced on 11 December 2007.

Added to the interim dividend of 22 cents per share, the final dividend brings the total dividend for 2007 to 46 cents per share, which is up six cents on the 2006 dividend.

Our dividend policy is to pay out 85 per cent of underlying profit, with a target of 85 per cent franking.

### **Outlook**

AMP is a financially strong company with low debt, a strong balance sheet and a resilient business model.

Our strategic focus is on continuing to invest for growth, while prudently managing the business through volatile market conditions.

Our goal remains to double the value of an investment in AMP every five years, which will mean faster growth in some years than others.

While the outlook for 2008 is challenging and AMP is not immune to the impact of volatile financial markets, your board is confident of AMP's ability to prosper.

**Peter Mason**  
Chairman

**“The company increased its underlying profit by 10 per cent to \$960 million and made good progress against its five key performance measures.”**

**Peter Mason**  
Chairman

# Five-year financial summary

Amounts in 2007, 2006, 2005 and 2004 have been measured under Australian equivalents to International Financial Reporting Standards (AIFRS). Amounts in 2003 were measured under previous Australian Accounting Standards.

Year ended 31 December	2007 \$m	2006 \$m	2005 \$m	2004 \$m	2003 \$m	
<b>Consolidated income statement<sup>1,2</sup></b>						
Net premium, fee and other revenue	<b>2,869</b>	2,437	2,178	2,505	3,938	
Investment gains (losses)	<b>8,128</b>	11,791	9,814	9,300	6,989	
Profit (loss) before income tax from continuing operations <sup>3</sup>	<b>1,237</b>	1,608	1,551	1,453	(7,199)	
Income tax (expense) credit	<b>(445)</b>	(781)	(761)	(545)	25	
Profit from discontinued operations held for sale after income tax <sup>2</sup>	<b>193</b>	88	—	—	—	
Outside equity interests (including unattributed life funds)	<b>—</b>	—	—	(35)	1,632	
<b>Net profit after tax attributable to shareholders</b>	<b>985</b>	915	790	873	(5,542)	
<b>Consolidated balance sheet</b>						
Cash and cash equivalents	<b>2,141</b>	1,108	978	1,072	3,251	
Investment assets	<b>102,258</b>	93,484	81,762	71,296	60,545	
Intangibles	<b>1,005</b>	862	632	627	795	
Assets of discontinued operations held for sale <sup>2</sup>	<b>747</b>	—	—	—	—	
Other assets	<b>2,266</b>	2,520	2,116	2,270	5,630	
<b>Total assets</b>	<b>108,417</b>	97,974	85,488	75,265	70,221	
Borrowings and subordinated debt	<b>11,653</b>	10,423	9,518	9,381	10,061	
Life insurance contract liabilities	<b>20,635</b>	20,974	20,942	20,639	} 47,512	
Investment contract liabilities	<b>52,357</b>	46,668	38,712	32,737		
Outstanding claims	<b>—</b>	805	1,037	1,243	1,644	
Liabilities of discontinued operations held for sale <sup>2</sup>	<b>672</b>	—	—	—	—	
Other liabilities <sup>4</sup>	<b>21,086</b>	16,650	12,456	8,120	3,114	
<b>Total liabilities</b>	<b>106,403</b>	95,520	82,665	72,120	62,331	
<b>Net assets</b>	<b>2,014</b>	2,454	2,823	3,145	7,890	
Contributed equity	<b>3,827</b>	4,067	4,749	5,416	5,533	
Reserves	<b>(2,446)</b>	(1,983)	(2,002)	(2,035)	(2,065)	
Retained earnings	<b>546</b>	328	63	(240)	61	
<b>Total equity attributable to shareholders</b>	<b>1,927</b>	2,412	2,810	3,141	3,529	
Unattributed life funds	<b>—</b>	—	—	—	—	
Minority interests <sup>4</sup>	<b>87</b>	42	13	4	4,361	
<b>Total equity</b>	<b>2,014</b>	2,454	2,823	3,145	7,890	
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	
<b>Other financial data</b>						
Basic earnings per ordinary share	(\$ps)	<b>\$0.53</b>	\$0.50	\$0.43	\$0.48	(\$4.00)
Diluted earnings per ordinary share	(\$ps)	<b>\$0.53</b>	\$0.49	\$0.43	\$0.48	(\$4.00)
Dividends per ordinary share	(\$ps)	<b>\$0.46</b>	\$0.40	\$0.32	\$0.27	\$0.16
Number of ordinary shares	(m)	<b>1,875</b>	1,875	1,870	1,860	1,845
Funds under management	(\$bn)	<b>129</b>	122	104	90	76

## Footnote:

- 2003 amounts include UK operations up until the demerger, 12 December 2003.
- As previously announced to the market on 11 December 2007, the AMP group entered into a sale agreement for its closed reinsurance operations, Cobalt/Gordian. The sale, finalised on 5 March 2008, represents a complete exit from this business by the AMP group. For 2007 and 2006, the results of the discontinued operations held for sale are disclosed as a single item in the Consolidated income statement. For 2007, the assets and liabilities of the discontinued operations held for sale are disclosed as separate items in the Consolidated balance sheet.
- Net loss in 2003 includes loss on demerger of UK operations (\$3,585m), restructuring and demerger costs and writedowns.
- Under AIFRS, external unitholders' interests in controlled trusts are classified as liabilities. Under previous Australian Accounting Standards these amounts were classified as minority interests.

# 2007 results at a glance



10%

### Underlying profit

AMP delivered an underlying profit of \$960 million in 2007, compared with \$873 million in 2006. This is AMP's preferred measure of profit because it removes the potential volatility of investment markets. It is also the earnings base from which dividends are paid.



8%

### Profit attributable to shareholders

Profit attributable to shareholders before accounting mismatches in 2007 was \$1.06 billion, up 8 per cent on 2006's figure of \$976 million. This measure includes investment income and other items.



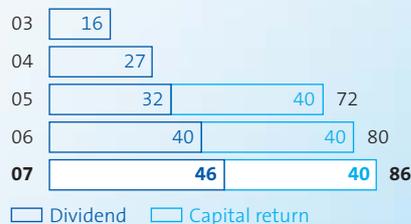
15%

### Dividend

The final dividend for 2007 is 24 cents per share, bringing the total dividend for 2007 to 46 cents per share. This includes two cents a share from proceeds from the sale of Cobalt/Gordian. The dividend is 85 per cent franked and paid on 4 April 2008. Our dividend policy is to pay out 85 per cent of underlying profit, with a target of 85 per cent franking.

### Dividends and payments to shareholders

cents per share



# Directors' report

Your directors present their report on the consolidated entity consisting of AMP Limited and the entities it controlled at the end of or during the year ended 31 December 2007.

## Directors' details

The AMP Limited Board consists of the non-executive chairman, six other non-executive directors and one executive director. The following changes in the composition of the board have occurred during the year and up to the date of this report:

- John Palmer joined the AMP Board on 24 July 2007.
- John Astbury retired from the AMP Board on 31 October 2007.
- Andrew Mohl retired from the AMP Board on 31 December 2007.
- Brian Clark joined the AMP Board on 1 January 2008.
- Craig Dunn joined the AMP Board on 1 January 2008.

Details of each director's qualifications, experience and special responsibilities are set out below.



### Peter Mason AM

#### Chairman

BCom (Hons), MBA  
Honorary Doctorate of Business (UNSW)  
Age 61

Peter was appointed to the AMP Limited Board in October 2003 and assumed the role of Chairman in September 2005. He is a member of the Audit Committee, Remuneration Committee and the Nomination Committee.

**Experience:** Peter has 40 years experience in investment banking and is currently a Senior Advisor to UBS Investment Bank. He was chairman of JP Morgan Chase Bank in Australia from 2000 to 2005, and chairman of their associate, Ord Minnett Group. Prior to this he was chairman and chief executive of Schroders Australia Limited and group managing director of Schroders' investment banking business in the Asia Pacific region. For 12 years he was a director of the Children's Hospital in Sydney and chairman of the Children's Hospital Fund for eight years. Peter was appointed a member of the Order of Australia for his contribution to the Children's Hospital.

**Directorships of companies held in the past three years:** Peter was a director of Mayne Group Limited from 1992 until February 2005.

**Other current directorships:** Peter is a director of David Jones Limited, the University of New South Wales Foundation and The Australian Research Alliance for Children and Youth. He also serves on the Advisory Board of The National Youth Mental Health Foundation.



### Craig Dunn

#### Managing Director & Chief Executive Officer

BCom, ACA  
Age 44

Craig was appointed Managing Director and Chief Executive Officer on 1 January 2008. He has been a director of AMP Life Limited since April 2002.

**Experience:** Prior to becoming CEO, Craig was managing director, AMP Financial Services, from 2002 to 2007. He joined AMP in January 2000, and has held a number of senior roles, including managing director of AMP Banking, and director, Office of the CEO. Before joining AMP, Craig was CEO of a Malaysia-based insurance company, a joint venture of Colonial Limited. He worked for KPMG throughout Europe and in Indonesia before joining Colonial. Craig is currently an Advisory Board Member with the Government's Financial Literacy Foundation and a former chairman of the Investment and Financial Services Association (IFSA).



### Brian Clark

#### Director

DSc  
Age 59

Brian was appointed to the AMP Limited Board on 1 January 2008.

**Experience:** Brian spent 10 years in a variety of senior executive roles at Vodafone internationally, most recently in a United Kingdom-based role as group human resources director. He was also chief executive officer of Vodafone's Australian business as well as CEO of the Asia Pacific region, based in Tokyo. He was a member of the company's global executive committee throughout his tenure with the company. Before joining Vodafone, Brian spent three years as CEO of Telkom SA Ltd, the state-owned telephone company in South Africa, where he oversaw the partial privatisation of the company and a total re-engineering of its operations. Brian has degrees in physics and mathematics and a PhD, all from the University of Pretoria, and has completed the Advanced Management Program at the Harvard Business School.

**Directorships of listed companies held in past three years:** Brian was a director of National Australia Bank Limited from 2001 to 2004, and of various Vodafone Group Plc subsidiary and separately listed boards.

**Other current directorships:** Brian has been a director of Boral Limited since May 2007 and a member of the Advisory Board of Merrill Lynch in Australia since November 2007.



**David Clarke**

**Director**  
LLB  
Age 52

David was appointed to the AMP Limited Board in July 2005. He is a member of the Remuneration Committee and was a director of AMP Capital Investors and a member of its Audit Committee from August 2005 to March 2007.

**Experience:** David has over 25 years experience in investment banking, funds management and retail banking. He joined Westpac Banking Corporation in July 2000 where he ran the Australian Business and Consumer Bank prior to being appointed chief executive of BT Financial Group, Westpac's wealth management business, in September 2002. David was previously director and chief executive of MLC Limited (a subsidiary of Lend Lease Corporation of which he was a director). He built MLC into one of Australia's leading funds management businesses and led the Asian Pacific business operations of Lend Lease, gaining experience across the group's portfolio of global interests, including property development and financial services. David's early career was spent in Lloyds Bank, culminating in becoming the chief executive of Lloyds Merchant Bank in the United Kingdom. David was appointed chief executive officer and managing director of Allco Finance Group Limited in April 2007.

**Directorships of listed companies held in past three years:** David has been a director of Allco Finance Group Limited since April 2007.

**Other current directorships:** David is governor of Ascham School Limited since 1993 and is a director of the Hornery Institute.



**Richard Grellman AM**

**Director**  
FCA  
Age 57

Richard was appointed to the AMP Limited Board in March 2000. He is chairman of the Audit Committee and a member of the Nomination Committee. He has been a director of AMP Life Limited since November 2001 and chairs its Audit Committee. Richard has been a director of Gordian RunOff Limited since May 2004 and chairman since May 2005. He is also a member of the AMP Capital Audit Committee.

**Experience:** Richard has over 32 years of experience in the accounting profession. He was a partner of KPMG from 1982 to 2000 and a member of KPMG's National Board from 1995 to 1997 and national executive from 1997 to 2000. He was an independent financial expert for AMP's demutualisation and investigating accountant for AMP's prospectus and listing. In 2007, Richard was appointed a member of the Order of Australia for service to the community, particularly through leadership roles with Mission Australia and fundraising with Variety, The Children's Charity, and to the finance and insurance sectors.

**Directorships of listed companies held in past three years:** Richard has been the chairman of Cryosite Limited since December 2002, director of Atlas Group Holdings Limited since February 2003, director of Trafalgar Corporate Group since 2002 and its chairman since 2006.

**Other current directorships:** Richard has been chairman of the Board and Council of the NSW Motor Accidents Authority since 1994, director of Mission Australia since 1984, and president and chairman since 2000. In 2006 he was appointed chairman of the NSW Lifetime Care and Support Authority. In 2002 Richard was appointed chairman of the Association of Surfing Professionals (International) Limited.



**Meredith Hellicar**

**Director**  
BA, LLM (Hons)  
Age 54

Meredith was appointed to the AMP Limited Board in March 2003. She is chairman of the Remuneration Committee, has been a director of AMP Bank since June 2004 and has been a director of the AMP Life Limited Board since May 2006 and its chairman since October 2006.

**Experience:** Meredith has over 20 years of senior executive experience in the oil, coal, logistics, legal and financial services industries. She was previously managing director TNT Logistics Asia, chief executive of Corrs Chambers Westgarth and managing director of InTech Financial Services Limited. Her previous directorships include NSW Treasury Corporation, AurionGold, HLA Envirosciences (chairman), the NSW Environment Protection Authority and HCS Limited. Meredith has been a member of the Takeovers Panel since March 1999. She was awarded a Centenary Medal in 2003 for service to Australian society in business leadership and is a member of the CEDA Board of Governors.

**Directorships of listed companies held in past three years:** Meredith was a director of James Hardie Industries NV from October 2001 to February 2007 (she was chairman from August 2004 to February 2007). She was a director of Southern Cross Airports Group from February 2003 to March 2007. Meredith has been a director of Amalgamated Holdings Limited since October 2003.

**Other current directorships:** Meredith has been chairman of the Sydney Institute since 1998 and has been a director of the Garvan Institute Foundation since March 2002.



**John Palmer**

**Director**  
ONZM, BAgrSc, FNZID  
Age 60

John was appointed to the AMP Limited Board on 24 July 2007. He is a member of the Remuneration Committee, and he has been a director of the AMP Life Board since May 2004. He was previously a director of the AMP Bank Board from 1998 to 2003. John is based in New Zealand.

**Experience:** John has considerable experience as a director and chairman of companies in the agricultural and finance sectors. His other business interests focus largely on horticultural production and servicing. He has a track record of successfully leading change and reconstruction of diverse corporates in marketing, agribusiness and aviation. In 1998 he received the Bledisloe Cup for outstanding contribution to the New Zealand fruit industry. In 1999 he was awarded with an Officer of the New Zealand Order of Merit (ONZM) for service to the New Zealand kiwifruit industry.

**Directorships of listed companies held in past three years:** John has been the chairman of Air New Zealand Limited since November 2001 and chairman of Solid Energy NZ Limited since January 2007. He is a director of Rabobank Australia Limited and Saxton Fruit Ltd.



**Dr Nora Scheinkestel**

**Director**  
LLB (Hons), PhD, FAICD  
Age 47

Nora was appointed to the AMP Limited Board in September 2003. She is chairman of the Nomination Committee and a member of the Audit Committee. She has been a director of AMP Capital Investors Limited since February 2004 and chairs its Audit Committee.

**Experience:** Nora was formerly a senior banking executive in international and project financing. She held positions with CRA Limited, Macquarie Bank, Chase AMP and Deutsche Bank where, as head of the Project Finance Unit, she was responsible for the development and financing of major projects in Australasia and South East Asia. Nora's current consulting practice assists government, corporate and institutional clients in areas such as corporate governance and project and structured finance. Nora is an experienced company director having served as chairman and non-executive director of companies in a wide range of industry sectors and in the public, government and private spheres. Previous directorships include North Limited, IOOF Funds Management, Medical Benefits Fund of Australia Limited and chairman and director of various energy and water utilities, in addition to those listed below. Nora is also an Associate Professor at the Melbourne Business School at Melbourne University. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

**Directorships of listed companies held in past three years:** Nora has been a director of PaperlinX since 2000 and of Orica Limited since August 2006. Nora was a director of Newcrest Mining (2000 to 2007), Mayne Group Limited (2005) and of Mayne Pharma Limited (2005 to 2007).

**Sharyn Page**

**Board Executive and Company Secretary**  
BA LLB, ACIS, AACI

Sharyn joined AMP in 1990 and progressed through a variety of legal and compliance roles before taking up the role of Assistant Company Secretary in 2003. She was appointed Board Executive and Company Secretary on 18 July 2005.

### Attendance at board and committee meetings

Details of attendance by directors of AMP Limited at meetings of boards and committees (of which they were members) held during the year ended 31 December 2007, are shown in the table below. The directors also attended other meetings, including management meetings, during the year.

Board/Committee Held/attended	AMP Limited Board meetings		Audit Committee		Nomination Committee		Remuneration Committee		Ad hoc Committees <sup>1</sup>		Subsidiary Board and Committee meetings <sup>2</sup>	
	A	B	A	B	A	B	A	B	A	B	A	B
John Astbury	12	11	5	5	–	–	–	–	–	–	5	4
David Clarke	13	12	–	–	–	–	4	4	–	–	4	4
Richard Grellman	13	12	6	6	3	3	–	–	–	–	28	27
Meredith Hellicar	13	13	–	–	–	–	4	4	–	–	13	13
Peter Mason <sup>3</sup>	13	13	–	–	3	3	4	4	2	2	–	–
Andrew Mohl	13	12	–	–	–	–	–	–	2	2	29	23
John Palmer	6	5	–	–	–	–	–	–	–	–	7	6
Nora Scheinkestel	13	12	6	6	3	3	–	–	–	–	18	16

Footnote:

Column A – indicates number of meetings held while the director was a member of the board/committee.

Column B – indicates number of those meetings attended.

1 Ad hoc committees of the board were constituted during the year in relation to the financial results.

2 Subsidiary board and committee meetings include AMP Life Board and Audit Committee, AMP Bank Board, General Insurance Group (boards and Audit Committees) and AMP Capital Investors (boards and Audit Committees) and AMP Superannuation Board.

3 As part of AMP's governance structure, Peter Mason attended four Audit Committee meetings and 12 subsidiary board meetings.

### Principal activities

AMP is a company focused on helping Australians and New Zealanders manage their financial well-being so they can enjoy the future they want. AMP aims to be the leading provider of quality financial advice, simple, value-for-money products and superior investment performance in the markets in which it operates.

AMP has two major businesses, AMP Financial Services and AMP Capital Investors.

AMP Financial Services offers customers a range of financial products and services, primarily through one of the largest financial planning networks in the market. These products and services include financial planning advice, superannuation, retirement savings and income products, investments, life and general insurance and selected banking products.

AMP Capital Investors is one of the largest investment managers in Australia and is the largest in New Zealand. It also provides investment management services in Asia.

AMP is currently in the process of selling a third business, Cobalt/Gordian, which manages the run-off of AMP's remaining books of general insurance and reinsurance business, as well as providing services to external clients. AMP announced the sale of this business to Enstar Group Limited on 11 December 2007 and the sale is expected to be completed by the end of the first quarter of 2008.

AMP has 3.4 million customers in Australia and New Zealand, around 4,000 employees, 830,000 shareholders and around \$130 billion of assets under management.

### Review of operations and results

AMP has a sound financial base and a powerful and resilient business model. It is executing a disciplined strategy which capitalises on AMP's brand, low-cost and scaleable manufacturing platform, strong partnerships with self-employed planners, diverse investment-management base and consistently good investment performance, cost and capital efficiency, to drive growth in the business and returns for shareholders.

The result for the year ended 31 December 2007 was a consolidated profit attributable to shareholders of AMP Limited, after accounting mismatches, of \$985 million – compared to \$915 million for the previous corresponding period.

There was a 10 per cent increase in underlying profit to \$960 million for the year to 31 December 2007, from \$873 million for the year ended 31 December 2006. This reflected solid cash flows, growth in assets under management and fees, and lower unit costs, which more than offset the lower investment income due to the impact of capital initiatives in the past three years that have reduced invested capital.

Underlying profit smoothes out the effect of investment market volatility by using average long-term rates of return to calculate investment income in a period, rather than actual investment income, which can be higher or lower than the average long-term rate. Underlying profit is AMP's preferred measure of profitability and it is the basis for calculation of AMP's dividends to shareholders.

The business made good progress on its key short-term performance indicators in the period under review.

- Underlying return on equity (RoE) increased to 37.9% from 30.3% in 2006.
- Total operating earnings grew by 12.4% to \$770 million.
- Cost-to-income ratio fell by 0.8 percentage points to 38.6%.
- Value of new business rose 12.9% on 2006 to \$393 million and embedded value grew by 17.2% in the year before transfers (3% discount margin).
- 68% of Australian assets under management met or exceeded their benchmarks in the year to December.

AMP generated total investment gains (before tax) attributable to shareholders, policyholders and other equity interests of \$8,128 million for the year ended 31 December 2007, compared to \$11,791 million for the year to 31 December 2006, reflecting weaker investment markets in 2007 relative to 2006.

Total AMP group assets under management were \$129 billion at 31 December 2007, up 6 per cent from \$122 billion at 31 December 2006.

Today, AMP is a low capital-intensive wealth-management group. AMP intends to continue to invest for growth in 2008 while prudently managing the business through the volatile market conditions that marked the beginning of the year.

#### Capital management

On 15 February 2007, AMP announced that, subject to shareholder approval, AMP Limited shareholders would receive a capital return of 40 cents per share totalling \$750 million. AMP's shareholders approved the capital return at the Annual General Meeting in May 2007, and payment was made on 18 June 2007. The Australian Taxation Office ruled that the capital return would be treated as a reduction in the cost base of the shares and not as a taxable dividend.

Capital and reserves of the group decreased to \$1,927 million at 31 December 2007, from \$2,412 million at 31 December 2006, as a result of the capital return and dividends paid during 2007, partially offset by 2007 profits and movements in reserves and contributed equity.

AMP group debt increased by \$208 million in 2007. Interest cover (underlying basis) increased from 14.9 times in 2006 to 17.3 times in 2007. Gearing on a Standard and Poor's basis was 10 per cent at December 2007.

As a result of the sale of the Cobalt/Gordian operations there will be an increase in Group Office capital. AMP plans to use this

increase in Group Office capital to pay shareholders an additional 2 cents per share in each of the next four dividend payments, commencing with the final 2007 dividend to be paid in April 2008.

AMP's capital management strategy is now moving to focus on optimising its capital mix which is currently biased to equity capital. The next capital management initiative is likely to be a Tier 2 debt issue to fund an on-market buy back of share capital. AMP has chosen to defer any initiative, with the timing of any issue yet to be decided and dependent on credit and equity markets stabilising.

AMP is maintaining its dividend payout ratio policy of 85 per cent of underlying profit, with a target of 85 per cent franking.

#### Impact of accounting mismatches on profit

During the year, the aggregate of accounting mismatches reduced the net profit attributable to the shareholders of AMP Limited by \$71 million from \$1,056 million, before the accounting mismatches, to \$985 million after accounting mismatches. The accounting mismatches have reduced the net profit of AMP Limited by approximately 7 per cent, although having no impact on cash flow and value.

The accounting mismatches arise in respect of:

- gains and losses on 'treasury shares' (2007: loss \$30 million; 2006: loss \$77 million)
- gains and losses on investments in controlled entities of the life statutory funds (2007: loss \$37 million; 2006: loss \$20 million)
- gains and losses on owner-occupied property (2007: loss \$11 million; 2006: loss \$26 million), and
- discounting of deferred tax balances in the valuation of investment contract liabilities (2007: gain \$7 million; 2006: gain \$62 million).

So that the AMP Limited Financial Report for year ended 31 December 2007 can be drawn up in accordance with Australian Accounting Standards, and to present a true and fair view of the results of operations, the presentation of the Income statement has been reformatted in order to explain the impact of the accounting mismatches.

Accounting mismatches are one of the significant impacts arising from the application of Australian equivalents to International Financial Reporting Standards (AIFRS).

As detailed in the accounting policies Note 1(d) in the Financial Report, accounting mismatches arise because the valuation rules for liabilities to policyholders differ from the valuation rules for certain assets which support them. The application of the rules to these policyholder assets has an illogical impact on shareholder profit. For example, where policyholder funds own AMP Limited shares, the increase in AMP Limited's share price (rebased for the capital returns) from \$9.72 to \$9.95 in the 12 months to December 2007 (2006: increase from \$7.09 to \$9.72) has driven an accounting loss of \$30 million (2006: loss of \$77 million) in the consolidated result.

The International Accounting Standards Board (IASB) has discussed accounting mismatches at previous meetings. The IASB has confirmed that it would be preferable to eliminate such accounting mismatches, and is reviewing alternative accounting treatments to address the accounting mismatch issue. The current discussions are part of the wider Insurance Contracts project, and as such are not expected to be resolved in the short term.

#### Political donations

AMP's policy is that it does not make donations to political parties. No political donations were made during 2007.

### Significant changes to the state of affairs

On 23 August 2007, the AMP Board announced that it had agreed that Andrew Mohl would leave AMP at the end of his contract on 31 December 2007, following more than five years as CEO. In September, the Board appointed Craig Dunn to take over as CEO from 1 January 2008.

On 11 December 2007, AMP announced the sale of its closed reinsurance and general insurance operations, Cobalt/Gordian, to Enstar Group Limited for \$585 million. See Note 21 of the Financial Report for further details.

Details of capital changes during 2007 are set out earlier in this report.

There have been no other significant changes in the state of affairs during this financial year.

### Events occurring after the reporting date

#### Dividends

On 14 February 2008, AMP proposed a final dividend on ordinary shares. Details of the proposed final dividend and dividends paid and declared during the financial year are disclosed in Note 16 of the Financial Report.

As at the date of this report, the directors are not aware of any matter or circumstance that has arisen since the end of the year that has significantly affected or may significantly affect the operations of the consolidated entity, the results of its operations or its state of affairs, which is not already reflected in this report.

#### Likely developments

In the opinion of the directors, disclosure of further information about likely developments in AMP's businesses is commercially sensitive and would likely be detrimental and result in unreasonable prejudice to the company.

#### The environment

AMP's environmental policy guides improvements in direct environmental impacts by reducing our use of energy, water, paper and other materials. It also outlines environmental considerations in our purchasing decisions and product design.

During 2007, initiatives to reduce the direct environmental impact of AMP's operations included the expansion of a recycling system and implementation of water saving initiatives.

As an investor, AMP believes that engagement with companies on environmental issues is an effective way to influence management practices for the benefit of customers and the environment. During 2007, AMP Capital Investors was a signatory to the Carbon Disclosure Project ([www.cdproject.net](http://www.cdproject.net)) and an active participant in the Investor Group on Climate Change ([www.igcc.org.au](http://www.igcc.org.au)). AMP Capital Investors is also a signatory to the United Nations Principles of Responsible Investment.

In the normal course of its business operations, AMP is subject to a range of environmental regulations, of which there have been no material breaches during the year.

The environment policy is available on AMP's website: [www.amp.com.au](http://www.amp.com.au)

#### Remuneration disclosures

The remuneration arrangements for AMP directors and senior executives are outlined in the remuneration report which forms part of the directors' report for the year ended 31 December 2007. The remuneration report meets the remuneration disclosure requirements of both the *Corporations Act 2001* and AASB 124 *Related Party Disclosures*.

Directors' and senior executives' interests in AMP Limited shares are also set out in the remuneration report.

#### Non-audit services

The Audit Committee has reviewed details of the amounts paid or payable for non-audit services provided to the AMP group of companies during the year ended 31 December 2007, by the Company's auditor, Ernst & Young.

The Committee is satisfied that the provision of those non-audit services by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act and did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

- All non-audit assignments were approved in accordance with the process set out in the AMP Charter of Audit Independence.
- No non-audit assignments were carried out which were specifically excluded by the AMP Charter of Audit Independence.
- The level of fees for non-audit services amounted to \$1,482,000 or 14 per cent of total audit fees. (Refer to Note 33 of the Financial Report for further details.)

#### Auditor's independence declaration to the directors of AMP Limited

The directors have obtained an independence declaration from our auditor, Ernst & Young, a copy of which is attached to this report and forms part of the directors' report for the year ended 31 December 2007.

#### Indemnification and insurance of directors and officers

Under its Constitution, the company indemnifies, to the extent permitted by law, all officers of the company (including the directors) against any liability (including the costs and expenses of defending actions for an actual or alleged liability) incurred in their capacity as an officer of the company.

This indemnity is not extended to current or former employees of the AMP group against liability incurred in their capacity as an employee, unless approved by the board. No such indemnities have been provided during or since the end of the financial year.

During the financial year, the company agreed to insure all of the officers (including all directors) of the AMP group against certain liabilities as permitted by the Corporations Act. The insurance policy prohibits disclosure of the nature of the cover, the amount of the premium, the limit of liability and other terms.

In addition, the company and each of the directors are parties to Deeds of Indemnity and Access, as approved by the board.

Those Deeds of Indemnity and Access provide that:

- the directors will have access to the books of the company for their period of office and for seven years after they cease to hold office
- the company indemnifies the directors to the extent permitted by law
- the indemnity covers liabilities incurred by the directors in their capacity as officers of the company and of other AMP group companies, and
- the company will maintain directors' and officers' insurance cover for the directors to the extent permitted by law for the period of their office and for seven years after they cease to hold office.

#### Rounding

In accordance with the Australian Securities and Investments Commission Class Order 98/100, amounts in this directors' report and the accompanying Financial Report have been rounded off to the nearest million Australian dollars, unless stated otherwise.

# Remuneration report

Directors' report continued

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## Introduction

This remuneration report provides details of AMP's remuneration policies and practices and explains how they are linked to company performance. The report also details the remuneration arrangements for former Chief Executive Officer (CEO), Andrew Mohl, nominated executives and the non-executive directors of AMP Limited. This group includes the key management personnel for the purposes of AASB 124 *Related Party Disclosures*.

The former CEO and nominated executives comprise the five 'company executives' and five 'relevant group executives' receiving the highest remuneration during the year, as those terms are defined by the *Corporations Act 2001* (Cth).

### AMP's Remuneration Committee

The Remuneration Committee is a committee of the AMP Board. The Remuneration Committee advises the board on the structure, effectiveness, integrity and legal compliance of AMP's remuneration programs, policies and practices.

Key responsibilities include:

- annually reviewing and recommending to the board the total remuneration package of the CEO
- reviewing and approving the remuneration of the CEO's direct reports
- determining the terms and conditions and allocations of the long-term incentive grant, and
- reviewing and approving the performance measures and total expenditure for the short-term incentive plan.

Members of the committee are non-executive directors Meredith Hellicar (Chairman), Peter Mason, David Clarke and John Palmer (appointed 13 February 2008). The committee appoints independent external remuneration consultants to provide advice and market-related information to the committee as required. Current terms of reference for the Remuneration Committee are available on the AMP website: [www.amp.com.au](http://www.amp.com.au)

### Significant changes

In August 2007, the AMP Board announced that it had mutually agreed with Andrew Mohl that he would leave AMP on 31 December 2007, following over five years as CEO. In September, the board appointed Craig Dunn to take over as CEO from 1 January 2008.

Peter Hodgett, General Manager, Human Resources and Strategy, left AMP on 31 December 2007. His role was restructured following the announcement in December 2007 of the sale of Cobalt/Gordian. Jonathan Deane was appointed General Manager, Group Strategy, effective 1 January 2008. On 1 February 2008, AMP announced that David Cohen, General Counsel, intended to leave AMP. The timing of his departure had not been finalised at the signing of this report.

In July 2007, John Palmer was appointed to the AMP Board. His biography is outlined on page 6. On 31 October 2007, John Astbury retired from the AMP Board. On 4 December 2007, Brian Clark was appointed to the AMP Board, effective 1 January 2008. His biography is outlined on page 4.

## 1. Executive remuneration

### 1.1 CEO and nominated executives

The remuneration for the following executives is covered in this report:

#### *CEO and direct reports*

Name	Position
Andrew Mohl	Chief Executive Officer (left AMP on 31 December 2007)
Craig Dunn	Managing Director, AMP Financial Services (prior to 15 October 2007) Chief Operating Officer (15 October 2007 – 31 December 2007) (Chief Executive Officer from 1 January 2008)
Stephen Dunne	Managing Director, AMP Capital Investors
Paul Leaming	Chief Financial Officer
Peter Hodgett	General Manager, Human Resources and Strategy (left AMP on 31 December 2007)
David Cohen	General Counsel
Craig Meller	Director, Product Manufacturing (prior to 15 October 2007) Managing Director, AMP Financial Services (appointed 15 October 2007)
Lee Barnett	Chief Information Officer
Matthew Percival	General Manager, Public Affairs

#### *Other executives*

Philip Garling	Global Head of Infrastructure, AMP Capital Investors (reports to Stephen Dunne, Managing Director, AMP Capital Investors)
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### 1.2 Philosophy

The AMP Board's approach to executive remuneration is to align remuneration with the creation of value for AMP shareholders. AMP's remuneration is market competitive and aims to attract, retain and motivate high calibre employees who contribute to the success of AMP's business.

AMP pays for performance. All executives have a significant component of their remuneration at risk. Specific details about these components are listed below.

### 1.3 Remuneration structure

During 2007, executive remuneration comprised four key components:

Fixed	1. Base salary, including salary sacrifice benefits and applicable Fringe Benefits Tax
	2. Superannuation on base salary
At risk	3. Short-term incentives (STI) and superannuation on STI
	4. Long-term incentives (LTI)

#### *Base salary*

An executive's salary is determined according to their level of responsibility, importance to the business and market competitiveness. Base salaries are fixed payments and are reviewed (but not necessarily increased) each year taking into account the appropriate market-based salary for the role and individual.

The base salary is targeted around the median market rate. This means that AMP is ranked broadly in the middle of comparable companies for executive base salaries. Total remuneration above the market median can be achieved through AMP's short- and long-term incentives, which reward high levels of performance.

#### *Superannuation*

Executives, with the exception of Andrew Mohl and Craig Meller, received superannuation entitlements equal to 10.5 per cent of their base salary and their short-term incentive payment. Andrew Mohl received superannuation contributions equal to nine per cent of the superannuation maximum contribution base.

Similarly, Craig Meller, on appointment to his new role as Managing Director, AMP Financial Services, received entitlements equal to nine per cent of the superannuation maximum entitlements base. Prior to this he received superannuation entitlements equal to 10.5 per cent of his base salary and short-term incentive payment.

Executives may choose to increase the proportion of their remuneration taken as superannuation, subject to legislative guidelines.

**Short-term incentives**

Short-term incentives (STI) are an annual at risk component of remuneration for the CEO, senior executives and permanent employees of the AMP group, which are paid in cash. Individuals earn STI based on the achievement of AMP's group-wide measures and personal objectives. The STI payment recognises individual high performance.

**STI incentive pool**

The size of the short-term incentive pool available for distribution each year is determined by the Remuneration Committee. To make this determination, the Remuneration Committee assesses AMP's performance against financial and qualitative measures

outlined below. The AMP Board has delegated this authority to the Remuneration Committee because it considers the committee is best placed to make this assessment.

The CEO then distributes the pool among business units and group functions based on their contribution to AMP's financial and qualitative results.

**Measures**

The following group-wide measures were used in 2007 to determine the size of the short-term incentive pool. These measures were chosen because they align with the company's strategy and objectives, as approved by the AMP Board, and provide an overall view of performance.

		Performance measure	How it is measured	Link to strategy
Financial measures	70%	Underlying return on equity	Underlying profit of the business after tax, divided by the shareholder equity invested in the company	To achieve: <ul style="list-style-type: none"> <li>– A return on equity in the top 10% of its peer group (the Top 50 Industrials in the S&amp;P/ASX100 Index)</li> <li>– A target of doubling the value of an investment in AMP over a five-year period</li> <li>– AMP's position in the top 25% of the Top 50 Industrials in the S&amp;P/ASX100 Index for total shareholder returns</li> </ul>
		Growth in AMP's value	Increase in value of AMP after also taking into account dividends paid and capital returned to shareholders	
		Total operating earnings	Profits earned by AMP's operating businesses, minus corporate costs	
		Cost to income ratio	Controllable costs divided by gross margin (being total operating earnings and underlying investment income before tax plus controllable costs)	
		Investment performance	Percentage of assets under management which met or exceeded their benchmarks and the value added to the AMP Life No. 1 Fund	
Qualitative measures	30%	Market and competitive positioning	Position in a range of industry surveys covering product and services areas such as superannuation, risk, pensions and investments	<ul style="list-style-type: none"> <li>– To increase market share in our core businesses of superannuation, retirement and individual risk insurance in Australia by developing and delivering market competitive products, services and platforms</li> <li>– To be acknowledged as a high performing company from the perspective of our different stakeholders</li> </ul>
		Progress in developing key stakeholder relationships, including customers, planners, regulatory bodies and employees, to support long-term business objectives	Stakeholder feedback from a range of surveys and research studies including: <ul style="list-style-type: none"> <li>– employee culture and climate surveys</li> <li>– brand tracking</li> <li>– qualitative stakeholder research</li> </ul>	

### *Individual STI objectives*

Individual performance objectives, with both financial and qualitative measures, are set at the start of each year. These measures are chosen because they align with the objectives of the AMP group and relevant business units and functions.

*Financial measures:* An executive's financial measures may include some of the group-wide measures described above, as appropriate for the executive's role, as well as business-unit or function-specific measures.

*Qualitative measures:* Some qualitative measures will be common to all senior executive roles, for example leadership, culture, risk and compliance. In addition, executives will have measures that are specific to their business unit or function. Examples of qualitative measures for the CEO in 2007 included business operations, cultural transformation, growth strategy, personal leadership, external positioning and succession planning.

*Range:* The short-term incentive opportunity ranges from a maximum payment of 50 per cent of base salary for lower level executives up to a maximum of 200 per cent of base salary for the CEO, and Managing Director, AMP Capital Investors. The maximum short-term opportunity depends on the scope of the individual's role (level, responsibility and criticality) and market considerations.

The performance of an individual is assessed by their immediate manager as they are best placed to do this. This assessment is calibrated against the performance of their peers to determine the individual's STI payment. Bonus recommendations are then signed off by the CEO and General Manager, Human Resources, to ensure group-wide consistency and quality control. For direct reports to the CEO, the CEO makes a recommendation to the Remuneration Committee in relation to their STI payments.

The Remuneration Committee assesses the performance of the CEO against his individual objectives, as they are well placed to assess his performance. The Remuneration Committee then makes a recommendation to the AMP Board in relation to any STI payment for the CEO.

### ***Infrastructure Targeted Incentive Plan (AMP Capital Investors)***

*The Infrastructure Targeted Incentive Plan is offered to employees within the infrastructure business of AMP Capital Investors. This includes Philip Garling, Global Head of Infrastructure. The infrastructure team is responsible for identifying, acquiring and managing investments in areas such as transport, power, roads and water supply.*

The objective of the Infrastructure Targeted Incentive Plan is to motivate employees to grow the infrastructure business in a profitable way, and to assist in the retention of key employees.

The plan creates a team incentive pool based on a fixed percentage of the profit achieved by the infrastructure business above a predetermined profit hurdle. The profit hurdle is set with reference to the infrastructure business plan and is chosen so as to align the

interests of employees with the performance of the business. The team incentive pool is allocated amongst team members based on each individual's contribution to profitability over the short, medium and long term.

The AMP Capital Remuneration Committee (ACRC), whose membership includes the CEO and Stephen Dunne, Managing Director, AMP Capital Investors, determines the profit hurdle, assesses performance relative to the profit hurdle, and approves all individual allocations from the team incentive pool that is generated. The AMP Board has delegated this authority to the ACRC because it considers they are best placed to make these assessments.

To provide a long-term focus for employees, and to assist in the retention of key individuals, in cases when the employee's total annual incentive payment (that is, the sum of their Targeted Incentive Plan and STI payments) is greater than their base salary, the amount above their base salary is deferred for up to two years. If an employee leaves during the deferral period he or she generally forfeits the entitlement to this amount. In some cases, such as retirement and redundancy, deferred incentives are paid upon termination.

In order to further align the interests of employees with AMP, employees in the Infrastructure business can choose to invest their deferred amounts into AMP Capital Investors managed funds or receive the original cash value of the deferred amount at the end of the deferral period. These investments are facilitated through a full-recourse, interest-free loan provided to employees at the commencement of the deferral period. The money lent to employees is wholly invested in AMP Capital Investors products.

The amount lent to employees is equivalent to the value of their deferred incentives. If the employee remains employed with AMP at the end of the deferral period, the proceeds from the payment of their deferred incentives are used to repay the loan. If the employee resigns from AMP during the deferral period, the employee retains their units in the managed funds but is required to repay the loan amount in full.

### ***Long-term incentives***

Long-term incentives (LTI) are the second at risk component of remuneration. LTI are primarily delivered in the form of performance rights and restricted shares.

In 2006, AMP introduced a policy as part of LTI participation that executives must not enter into any hedging arrangement in relation to any vested or unvested shares, options or performance rights. Breaches of this policy may lead to forfeiture of the relevant long-term incentives.

Immediately prior to the introduction of this policy, all performance rights holders were required to sign a declaration stating they had not previously engaged in hedging in relation to any vested or unvested shares, options or performance rights.

### 1.4 Description of long-term incentive plans currently offered

#### 1.4.1 Performance rights

Performance rights are granted to those executives considered to have the most direct influence on AMP's business performance. They are granted at no cost to the participating executive.

A performance right is a right to acquire one fully paid ordinary share in AMP Limited after a three-year performance period, provided a specific performance hurdle is met. Prior to exercise, performance rights holders do not receive dividends or have other shareholder benefits (including any voting rights).

#### Determining grant price

Prior to making the grant, a fair value is determined by an independent external consultant based on the share price prevailing at the beginning of the performance period, discounted for the possibility that the performance hurdle may not be met in full. Therefore, the value of a performance right at the time of vesting, if it vests, is likely to be different to the value when first granted.

#### How performance rights are allocated

The eligibility for and number of performance rights awarded to executives, other than the CEO, is proposed by the CEO and approved by the Remuneration Committee. The eligibility for and number of performance rights awarded to the CEO is proposed by the Remuneration Committee and approved by the board. Each executive has a long-term incentive range based on the scope of their role (level, responsibility and criticality) and market considerations. This long-term incentive range is expressed as a percentage of their base salary. The number of performance rights awarded to eligible executives is determined by dividing the dollar value of their approved long-term incentive award by the grant price.

#### Calculating the allocation of performance rights

Base salary	×	Approved LTI award (% of base salary)	÷	Grant price	=	<b>Number of rights allocated</b>
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#### The performance hurdle

The number of performance rights that vest is determined by a vesting schedule based on the performance of AMP relative to a comparator group of companies listed on the Australian Securities Exchange (ASX) over a three-year performance period. The performance measure is AMP's Total Shareholder Return (TSR) relative to that of the Top 50 Industrials in the Standard & Poor's/ Australian Stock Exchange (S&P/ASX) 100 Index as at the start of the performance period. The performance hurdle and vesting schedule were chosen because they align executives' remuneration with the creation of shareholder value relative to peer companies. More details of the performance hurdle and vesting schedule are set out on pages 22 to 23.

At the end of the performance period, AMP's Remuneration Committee receives data from an independent external consultant to determine AMP's TSR performance relative to the comparator group. An independent external consultant is appointed so as to ensure objectivity in measuring AMP's performance. The Remuneration Committee then determines the number of performance rights that vest by applying this data to the vesting schedule.

#### The value of the LTI at the end of the performance period

Performance rights have a three-year performance period.

The value of the LTI to a participant at the end of the performance period (also referred to as the vesting date) would be the amount calculated as follows:

Performance measure achieved %	×	Number of rights allocated	=	Number of rights that vest	×	Market value of shares at vesting date	=	<b>Value of LTI at vesting date</b>
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#### For example:

In 2007, the performance rights granted in September 2004 vested. At the time of the grant, the fair value per performance right was determined to be \$3.55. As AMP's total shareholder return ranked in the top quartile of the comparator group, 100 per cent of the performance rights held by executives in respect of this grant vested and could be exercised for AMP shares. At the time the performance rights vested the AMP share price was \$10.07.

For an executive who was granted 50,000 performance rights in 2004, the fair value of their performance rights at the time of grant was:

Number of performance rights allocated 50,000	×	Fair value of each performance right at date of grant \$3.55	=	<b>Total fair value of performance rights at date of grant \$177,500</b>
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The value to the executive of the performance rights at the end of the performance period, i.e. after three years, was:

Performance measure achieved 100%	×	50,000 rights allocated	=	50,000 rights that vest	×	Market value of shares at vesting date is \$10.07	=	<b>Value of LTI at end of performance period is \$503,500</b>
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In cases where the performance criteria are not met, the value of the performance rights is zero as they do not vest. For example, performance rights granted in 2002 did not vest at the end of the performance period in 2005 and therefore lapsed.

#### Exercising performance rights – converting to shares

Executives have two years from the end of the performance period to exercise any performance rights that vest at a nominal exercise price (\$1 per tranche of shares acquired on exercise). If the performance hurdle is not achieved the performance rights lapse immediately without re-testing of the performance hurdle.

When executives exercise performance rights, these AMP shares are bought on market so there is no dilutionary effect on the value of existing AMP shares.

#### Treatment of performance rights on ceasing employment

Unvested performance rights will lapse when an executive resigns from AMP. All performance rights, whether vested or unvested, will also lapse on termination due to misconduct or inadequate performance. In some other cases, such as retirement and redundancy, performance rights continue to be held subject to the same performance hurdle and performance period.

### Current grants

The following table summarises the terms and conditions of performance rights awarded to the CEO and executives. Andrew Mohl did not receive the grant made on 5 September 2007, as a separate CEO grant was made on 9 March 2007, which is outlined on the following page.

Plan	2007 annual grant	2006 annual grant	2005 annual grant	2004 annual grant
Grant date	5 September 2007 (with additional grant for Craig Meller effective 21 September 2007)	8 September 2006	1 September 2005	6 September 2004
Performance period	1 August 2007 to 31 July 2010	1 August 2006 to 31 July 2009	1 August 2005 to 31 July 2008	1 August 2004 to 31 July 2007
Retesting	No retesting applies on any grants of performance rights			
Exercise period	1 August 2010 to 31 July 2012	1 August 2009 to 31 July 2011	1 August 2008 to 31 July 2010	1 August 2007 to 31 July 2009
Expiry date	1 August 2012	1 August 2011	1 August 2010	1 August 2009
Performance condition	AMP's TSR ranking compared to that of the S&P/ASX 100 top 50 companies (industrials) as at the commencement of the performance period. The share prices for the purposes of calculating the share price growth component of TSR are averaged over the previous three months.			
Vesting schedule	<ul style="list-style-type: none"> <li>– None vest if AMP's TSR ranking is below the 50th percentile of the market comparator group</li> <li>– 50% vest if AMP's TSR ranking is at the 50th percentile of the market comparator group</li> <li>– Between the 50th and 75th percentile, vesting is 50% + 2% for each percentile rounded to the nearest whole percentile over the 50th percentile of the comparator group</li> <li>– 100% vest if AMP's TSR ranking is in at least the 75th percentile of the market comparator group.</li> </ul>			
Comparator group (for all grants)	<p>AGL Energy Ltd, Amcor Ltd, AMP Ltd, ANZ Banking Group Ltd, AXA Asia Pacific Holdings Ltd, Boral Ltd, Brambles Ltd, Centro Properties Group, Coca-Cola Amatil Ltd, Coles Group Ltd, Commonwealth Bank of Australia, CSL Ltd, DB Reef Trust, Fairfax Media Ltd, Foster's Group Ltd, GPT Group, Goodman Group Ltd, Insurance Australia Group Ltd, Lend Lease Corporation Ltd, Macquarie Airports, Macquarie Bank Ltd, Macquarie Infrastructure Group, Mirvac Group, National Australia Bank Ltd, Orica Ltd, Publishing &amp; Broadcasting Ltd, Qantas Airways Ltd, QBE Insurance Group Ltd, Sonic Healthcare Ltd, St George Bank Ltd, Stockland, Suncorp-Metway Ltd, Tabcorp Holdings Ltd, Telstra Corporation Ltd, Toll Holdings Ltd, Transurban Group, Wesfarmers Ltd, Westfield Group, Westpac Banking Corporation, Woolworths Ltd.</p> <p>Plus (for the 2007 annual grant): Alinta Ltd, Aristocrat Leisure Ltd, Asciano Group, ASX Ltd, Babcock &amp; Brown Ltd, Computershare Ltd, Investa Property Group Ltd, Leighton Holdings Ltd, News Corporation Ltd, Tatts Group Ltd.</p> <p>Plus (for the 2006 annual grant): Aristocrat Leisure Ltd, ASX Ltd, Computershare Ltd, CSR Ltd, Investa Property Group Ltd, James Hardie Industries NV, Promina Group Ltd, Resmed Inc, Rinker Group Ltd, Telecom Corporation of NZ Ltd.</p> <p>Plus (for the 2005 annual grant): Aristocrat Leisure Ltd, Foodland Associated, Investa Property Group Ltd, James Hardie Industries NV, News Corporation Ltd, Patrick Corporation Ltd, Promina Group Ltd, Rinker Group Ltd, Symbion Health, Telecom Corporation of NZ Ltd.</p> <p>Plus (for the 2004 annual grant): CSR Ltd, Investa Property Group Ltd, James Hardie Industries NV, Mayne Group Ltd, News Corporation Ltd, Paperlinx Ltd, Patrick Corporation Ltd, Promina Group Ltd, Resmed Inc, Rinker Group Ltd, Telecom Corporation of NZ Ltd.</p>			
Capital return adjustment	To compensate for the reduction in the value of performance rights resulting from the 2005, 2006 and 2007 capital returns, the arrangements with holders were altered so that, in respect of each capital return, they are entitled to be paid 40 cents for each performance right held immediately prior to the relevant capital return that subsequently vests and is converted into an AMP share. For example, an executive holding performance rights granted in 2005 will be entitled to a payment of 80 cents for each performance right granted in 2005 that vests, i.e. after the three-year performance period and if the performance criteria are met. Executives who held performance rights granted in 2004 that vested in 2007 received \$1.20 for each of those performance rights. No other terms described above were altered. The fair value of each grant of performance rights immediately prior to the alteration was the same as the fair value immediately after the alteration. Further details of the alteration are set out in section 2.5 of this report.			

2007 CEO grant

Plan	2007 CEO grant
Grant date	9 March 2007
Performance period	1 January 2007 to 31 December 2009
Retesting	No retesting applies on any grants of performance rights
Exercise period	1 January 2010 to 31 December 2011
Expiry date	1 January 2012
Performance condition	AMP's TSR ranking compared to that of the S&P/ASX 100 top 50 companies (industrials) as at the commencement of the performance period. The share prices for the purposes of calculating the share price growth component of TSR are averaged over the previous three months.
Vesting schedule	<ul style="list-style-type: none"> <li>– None vest if AMP's TSR ranking is below the 50th percentile of the market comparator group</li> <li>– 50% vest if AMP's TSR ranking is at the 50th percentile of the market comparator group</li> <li>– Between the 50th and 75th percentile, vesting is 50% + 2% for each percentile rounded to the nearest whole percentile over the 50th percentile of the comparator group</li> <li>– 100% vest if AMP's TSR ranking is in at least the 75th percentile of the market comparator group.</li> </ul>
Comparator group	AGL Energy, Alinta, Amcor, AMP Limited, ANZ Banking Group Ltd, Aristocrat Leisure, ASX Ltd, AXA Asia Pacific Holdings Ltd, Boral Ltd, Brambles Ltd, Centro Properties Group, Coles Group Ltd, Commonwealth Bank of Australia, Computershare Ltd, CSL Ltd, DB Reef Trust, Fairfax Media Ltd, Foster's Group Ltd, GPT Group, Insurance Australia Group Ltd, Investa Property, James Hardie Industries NV, Lend Lease Corporation Ltd, Macquarie Airports, Macquarie Bank Ltd, Macquarie Goodman, Macquarie Infrastructure Group, Mirvac Group, National Australia Bank Ltd, Orica Ltd, Promina Group, Publishing & Broadcasting, Qantas Airways Ltd, QBE Insurance Group Ltd, Resmed Inc, Rinker Group, Sonic Healthcare Ltd, St. George Bank Ltd, Stockland, Suncorp-Metway Ltd, Tabcorp Holdings Ltd, Tattersall's, Telecom Corporation of NZ, Telstra Corporation Ltd, Toll Holdings Ltd, Transurban Group, Wesfarmers Ltd, Westfield Group, Westpac Banking Corporation, Woolworths Ltd.
Capital return adjustment	To compensate for the reduction in the value of the performance rights resulting from the 2007 capital return, the arrangements with Andrew Mohl were altered so that he will be paid 40 cents for each performance right granted in 2007 that vests and is converted into an AMP share. No other terms described above were altered. The fair value of this grant of performance rights immediately prior to the alteration was the same as the fair value immediately after the alteration.

1.4.2 Restricted shares

A restricted share is an ordinary AMP share that has a holding lock in place until the three-year vesting period ends. Restricted shares are offered to selected high performing employees who contribute significantly to AMP's overall business success. The purpose of the grant is to recognise such employees and assist in retaining them.

While restricted shares are offered to selected employees, they are not offered to the CEO and his direct reports.

As this program is designed as a means of recognising and retaining employees, no performance hurdles apply. However, the shares are subject to a holding lock until the end of a three-year vesting period. If the individual resigns from AMP (or is terminated for misconduct or inadequate performance) during the holding period, the shares are forfeited. In some other cases, such as retrenchment, the individual retains their restricted shares, however, the holding lock remains in place until the end of the three-year vesting period. Restricted shares are bought on market and granted at no cost to employees.

1.4.3 Employee Share Acquisition Plan

AMP currently offers all eligible employees and executives the opportunity to become shareholders in AMP through the Employee Share Acquisition Plan (ESAP). Under ESAP participants can elect to receive part of their base salary (and any short-term incentive payments) in the form of AMP shares. There are no performance hurdles applied to these shares as participants sacrifice part of their salary to acquire the shares.

As an additional incentive to acquire shares, participants are entitled to receive (at no cost to the participant) one matching share for every 10 shares acquired (up to a maximum of 100 matching shares in any 12 month period). To receive the full entitlement to matching shares, shares must be held in the plan for a minimum of three years. There are no performance conditions for receiving matching shares as ESAP is primarily designed to encourage employee share ownership, through participation in the plan. Matching shares are bought on market.

Participants who cease to be employed within the AMP group within the three-year holding period may lose their entitlement to some or all of their matching share entitlement, depending on the reason for leaving the company. To receive the maximum entitlement to matching shares, participants must be employed for the whole three-year period.

#### *Impact of capital returns on matching shares*

Shareholders approved capital returns of 40 cents per share at the AMP Limited Annual General Meetings in 2005, 2006 and 2007.

To compensate for the reduction in the value of entitlements to matching shares resulting from the 2005, 2006 and 2007 capital returns, the arrangements with ESAP participants were altered so that, in respect of each capital return, they are entitled to be paid 40 cents for each matching share entitlement held in ESAP immediately prior to the relevant capital return that vests and is converted into an AMP share. For example, participants who held matching share entitlements under the plan immediately prior to the 2005 capital return will be paid \$1.20 for each matching share that vests in 2008. The fair value of matching share entitlements immediately prior to the alteration was the same as the fair value immediately after the alteration. Further details of the alteration are set out in section 2.5 of this report.

#### **1.4.4 AMP Capital Associates Plan**

*The AMP Capital Associates Plan is offered to selected AMP Capital Investors executives including Stephen Dunne, Managing Director, AMP Capital Investors and Philip Garling, Global Head of Infrastructure.*

The objective of the AMP Capital Associates Plan (CAP) is to motivate and retain key executives in AMP Capital Investors by strengthening the alignment of their interests with the long-term performance of AMP Capital Investors.

Selected executives within AMP Capital Investors may participate in the AMP Capital Associates Plan. Participants in the plan use their own money to invest in deferred purchase agreements with AMP Capital Holdings Limited. Participants also have the opportunity to borrow money through AMP Bank on full commercial terms, in order to fund their investment. Each deferred purchase agreement is known as a CAP unit. CAP units are notional shares in AMP Capital Investors and allow participants to share in the performance of AMP Capital Investors through annual cash distributions on CAP units and participation in the change in capital value of CAP units. The capital value is realised on redemption of the units. Distributions are linked to a measure of the yield of AMP Capital Investors, and the capital value of CAP units is based on independent external valuations of AMP Capital Investors. There are no performance hurdles associated with the plan as participants use their own money to invest in the CAP units.

On the third anniversary of the purchase of each tranche of CAP units, a one-off bonus distribution equal to 10 per cent of the capital value of that tranche is made in cash to the participant provided that the CAP units have not been redeemed. A participant may only receive bonus distributions on those CAP units for which the aggregate purchase price paid by the participant (across all tranches) is less than or equal to \$1 million. The bonus distribution is compensation for reduced liquidity as, generally, the first opportunity for redemption of the investment is after three years. There are no performance conditions for receiving the bonus distribution.

A minimum holding period of three years applies before CAP units can be redeemed by continuing employees. On redemption, the capital value of the participant's CAP unit holdings is transferred to units in selected AMP Capital unit trusts.

In the event of termination of employment with AMP, holders are required to redeem their units. In the case of resignation or termination due to misconduct or poor performance prior to the third anniversary of the purchase of the relevant CAPs, the redemption value will be equal to the lesser of the opening value of the CAPs or the most recent valuation of the CAPs. In some other cases, such as redundancy, the redemptions will be made using the most recent valuation of the CAPs.

Three tranches of CAPs purchases have been made – on 1 January 2005, 1 January 2006 and 1 January 2007. A further tranche is planned for 2008.

#### **1.5 Description of long-term incentive plans no longer offered** **Executive Short-term Incentive Program**

*While the Executive Short-term Incentive Program is no longer offered, it is summarised below as the CEO and some executives received matching shares when the three-year holding lock ended in March 2007.*

At the time this program was offered, AMP invited selected executives to nominate up to 25 per cent of any 2002 or 2003 short-term incentive to be allocated as AMP shares. In addition, selected senior executives were required to take 30 per cent of their 2002 and 2003 short-term incentive as shares. As executives salary sacrificed their short-term incentive for AMP shares, no performance hurdles applied after the short-term incentive was granted.

For shares acquired on 10 March 2004, as part of the 2003 Executive Short-term Incentive Program, a three-year holding lock was imposed on these shares and executives who remained employed for three years received a full entitlement of one matching share (for no cash consideration) for each share held in the plan for three years. There were no performance criteria attached to receiving matching shares as the program was designed primarily as a retention tool. Participants who ceased employment with AMP during the three-year holding period lost their entitlement to receive some or all of their matching shares, depending on the reason their employment ceased.

#### *Impact of capital returns*

To compensate for the reduction in the value of entitlements to matching shares resulting from the capital returns made in 2005 and 2006, arrangements with participants in the program were altered so that, in respect of each of those capital returns, they were paid 40 cents for each matching share entitlement that vested and was converted into an AMP share. For shares acquired on 10 March 2004 as part of the 2003 Executive Short-term Incentive Program, a payment of 80 cents per share was made to each eligible participant when their matching share entitlements vested on 10 March 2007. No compensation was paid for the 2007 capital return as all matching shares under this program had vested by this time. The fair value of matching share entitlements immediately prior to the alteration was the same as the fair value immediately after the alteration. Further details of the alteration are set out in section 2.5 of this report.

## 2. Remuneration tables

This section provides the remuneration details for the Chief Executive Officer (CEO) and nominated executives and the non-executive directors.

### CEO and nominated executives

The following table shows the remuneration details for the former CEO, and nominated executives. This group includes the key management personnel for the purposes of AASB 124 *Related Party Disclosures*. The former CEO and nominated executives comprise the five 'company executives' and five 'relevant group executives' receiving the highest remuneration during the year (as those terms are defined by the *Corporations Act 2001*).

Executive		Short-term employee benefits			Post-employment benefits	Subtotal	Share-based payments <sup>1</sup>		Other long-term benefits		Termination payments <sup>2</sup>			Grand total
		Cash salary \$'000	Short-term incentive \$'000	Other short-term benefits <sup>3</sup> \$'000	Super-annuation benefits \$'000		Value of options and performance rights <sup>4</sup> \$'000	Value of matching shares and restricted shares <sup>5</sup> \$'000	CAPs – bonus distribution <sup>6</sup> \$'000	Deferred incentive payment <sup>7</sup> \$'000	Total before termination payments \$'000	Cash-based payments <sup>8</sup> \$'000	Share-based payments <sup>9</sup> \$'000	
Andrew Mohl, Chief Executive Officer and Managing Director (left AMP on 31 Dec 2007)	2007	<b>1,800</b>	<b>2,742</b>	<b>0</b>	<b>13</b> <sup>10</sup>	<b>4,555</b>	<b>2,261</b>	<b>41</b>	–	–	<b>6,857</b>	<b>2,282</b>	<b>3,051</b> <sup>9</sup>	<b>12,190</b> <sup>9</sup>
	2006	1,682	2,720	38	12	4,452	1,593	209	–	–	6,254	–	–	6,254
Craig Dunn, <sup>11</sup> Chief Operating Officer (appointed CEO & Managing Director on 1 Jan 2008)	2007	<b>879</b>	<b>1,155</b>	<b>0</b>	<b>214</b>	<b>2,248</b>	<b>726</b>	<b>12</b>	–	–	<b>2,986</b>	–	–	<b>2,986</b>
	2006	849	1,225	7	218	2,299	558	71	–	–	2,928	–	–	2,928
Stephen Dunne, Managing Director, AMP Capital Investors	2007	<b>698</b>	<b>1,080</b>	<b>1</b>	<b>187</b>	<b>1,966</b>	<b>452</b>	–	<b>83</b>	–	<b>2,501</b>	–	–	<b>2,501</b>
	2006	609	992	7	168	1,776	317	–	42	–	2,135	–	–	2,135
Paul Leaming, Chief Financial Officer	2007	<b>782</b>	<b>900</b>	<b>0</b>	<b>177</b>	<b>1,859</b>	<b>528</b>	<b>9</b>	–	–	<b>2,396</b>	–	–	<b>2,396</b>
	2006	709	864	6	165	1,744	461	54	–	–	2,259	–	–	2,259
Peter Hodgett, General Manager, Human Resources & Strategy (left AMP on 31 Dec 2007)	2007	<b>574</b>	<b>647</b>	<b>0</b>	<b>128</b>	<b>1,349</b>	<b>399</b>	<b>6</b>	–	–	<b>1,754</b>	<b>1,465</b>	<b>871</b> <sup>9</sup>	<b>4,090</b> <sup>9</sup>
	2006	557	684	1	130	1,372	349	38	–	–	1,759	–	–	1,759
David Cohen, General Counsel	2007	<b>573</b>	<b>653</b>	<b>0</b>	<b>129</b>	<b>1,355</b>	<b>390</b>	<b>8</b>	–	–	<b>1,753</b>	–	–	<b>1,753</b>
	2006	536	660	7	126	1,329	343	44	–	–	1,716	–	–	1,716
Craig Meller, <sup>12</sup> Managing Director, AMP Financial Services	2007	<b>613</b>	<b>659</b>	<b>0</b>	<b>87</b>	<b>1,359</b>	<b>354</b>	–	–	–	<b>1,713</b>	–	–	<b>1,713</b>
	2006	522	618	–	120	1,260	267	35	–	–	1,562	–	–	1,562
Lee Barnett, Chief Information Officer	2007	<b>550</b>	<b>641</b>	<b>0</b>	<b>125</b>	<b>1,316</b>	<b>320</b>	–	–	–	<b>1,636</b>	–	–	<b>1,636</b>
	2006	471	576	–	110	1,157	225	–	–	–	1,382	–	–	1,382
Matthew Percival, General Manager, Public Affairs	2007	<b>454</b>	<b>512</b>	<b>0</b>	<b>101</b>	<b>1,067</b>	<b>324</b>	<b>6</b>	–	–	<b>1,397</b>	–	–	<b>1,397</b>
	2006	446	540	7	104	1,097	272	33	–	–	1,402	–	–	1,402
Philip Garling, <sup>13</sup> Global Head of Infrastructure, AMP Capital Investors	2007	<b>406</b>	<b>410</b>	–	<b>73</b>	<b>889</b>	–	–	<b>44</b>	<b>1,577</b>	<b>2,510</b>	–	–	<b>2,510</b>
	2006	384	390	–	72	846	–	–	9	635	1,490	–	–	1,490
<b>2007 Total</b>		<b>7,329</b>	<b>9,399</b>	<b>1</b>	<b>1,234</b>	<b>17,963</b>	<b>5,754</b>	<b>82</b>	<b>127</b>	<b>1,577</b>	<b>25,503</b>	<b>3,747</b>	<b>3,922</b>	<b>33,172</b>
2006 Total		6,765	9,269	73	1,225	17,332	4,385	484	51	635	22,887	–	–	22,887
2006 Total <sup>14</sup> for CEO and executives disclosed in 2006		5,859	8,261	73	1,032	15,225	4,118	449	42	0	19,834	–	–	19,834

Footnote:

- 1 All share-based payments are equity settled as per AASB 2.
- 2 Andrew Mohl left AMP on 31 December 2007. Details about his termination payment are outlined on page 20. Peter Hodgett left AMP on 31 December 2007.
- 3 As per contractual arrangements, other short-term benefits consisted of legal fees, taxation and financial planning advice, and employee referral bonus.
- 4 The fair value of options and performance rights has been calculated as at the grant date by external consultants using Monte Carlo simulation techniques. Fair value has been discounted for the probability of not meeting the performance hurdles. The value of the award made in any year is amortised over the vesting period.
- 5 The fair value of restricted shares has been determined using the share price of AMP ordinary shares on the grant date. Under the Employee Share Acquisition Plan (ESAP), and the Executive Short-term Incentive Program, participating employees may receive matching shares at the end of the specified vesting period. The employee has no right to dividends on these matching shares until after they are granted. Each matching share has been valued by external consultants as the face value of an AMP ordinary share at grant date less the present value of the expected dividends (not received). The value of the award made in any year is amortised over the vesting period.
- 6 The fair value of the bonus distribution in the AMP Capital Associates Plan has been determined as being 10% of the capital value of each tranche of CAP units as at the most recent valuation date. The value of the bonus distribution is amortised over the three-year vesting period.
- 7 Philip Garling participates in both the AMP Short-term Incentive scheme and the Infrastructure Targeted Incentive Plan. Philip's reported values in both the 'short-term incentive' and 'deferred incentive payments' columns include amounts from these two schemes. Details about the Infrastructure Targeted Incentive Plan are outlined on page 13.
- 8 Cash-based payments comprise contractual payments such as leave entitlements.
- 9 This represents the portion of performance rights granted in 2005, 2006 and 2007 that would normally have been amortised in future years. While the rights remain subject to the usual vesting period and performance hurdle restrictions, AMP is required under the accounting regulations to expense all future liabilities at the time of departure.
- 10 Andrew Mohl received superannuation contributions equal to 9% of the superannuation maximum contribution base, this being the minimum level of employer contributions required in accordance with superannuation law.
- 11 Craig Dunn was appointed to the role of Chief Operating Officer on 15 October 2007. Prior to his appointment to that role he performed the role of Managing Director, AMP Financial Services, until 14 October 2007.
- 12 Craig Meller was appointed Managing Director, AMP Financial Services, on 15 October 2007. Prior to this appointment he performed the role of Director, Product Manufacturing, until 14 October 2007. Following his appointment to the new role, he received superannuation contributions equal to 9% of the superannuation maximum contribution base. Prior to this appointment, he received superannuation contributions equal to 10.5% of his base salary and short-term incentive payments.
- 13 Philip Garling is not a direct report to the CEO. However, he is included as one of the five 'relevant group executives' receiving the highest remuneration for 2007.
- 14 In line with disclosure requirements, the totals for year ended 31 December 2006 relate to individuals disclosed in the 2006 annual report and so do not equal the sum of amounts disclosed for individuals specified for the 2007 annual report.

**Non-executive directors**

The table below shows the remuneration details for the non-executive directors of AMP Limited for 2007. For further details about the remuneration for non-executive directors go to section 5 on page 30. Director Brian Clark is not included as he was appointed to the AMP Limited Board on 1 January 2008.

		Short-term benefits					Post-employment benefits		Total \$'000
		AMP Limited Board and committee fees <sup>1</sup> \$'000	Fees for other group boards <sup>1</sup> \$'000	Other short- term benefits \$'000	Additional board duties \$'000	Non-monetary benefits \$'000	Super- annuation \$'000	Termination benefits \$'000	
Peter Mason, Chairman	<b>2007</b>	<b>515</b>	–	–	–	–	<b>46</b>	–	<b>561</b>
	2006	480	–	–	–	–	43	–	523
John Astbury <sup>2</sup>	<b>2007</b>	<b>129</b>	<b>64</b>	<b>5</b>	–	–	<b>18</b>	–	<b>216</b>
	2006	145	80	6	–	–	21	–	252
David Clarke	<b>2007</b>	<b>152</b>	<b>15</b>	<b>6</b>	–	–	<b>16</b>	–	<b>189</b>
	2006	143	60	6	–	–	19	–	228
Richard Grellman	<b>2007</b>	<b>182</b>	<b>170</b>	<b>6</b>	–	–	<b>36</b>	–	<b>394</b>
	2006	173	165	6	–	–	31	–	375
Meredith Hellicar	<b>2007</b>	<b>165</b>	<b>160</b> <sup>3</sup>	<b>6</b>	–	–	<b>30</b>	–	<b>361</b>
	2006	155	91	6	–	–	23	–	275
John Palmer <sup>4</sup>	<b>2007</b>	<b>61</b>	<b>111</b>	<b>3</b>	–	–	<b>13</b>	–	<b>188</b>
	2006	–	106	–	–	–	30	–	136
Nora Scheinkestel	<b>2007</b>	<b>170</b>	<b>66</b>	<b>6</b>	–	–	<b>22</b>	–	<b>264</b>
	2006	160	60	6	–	–	20	–	246
<b>Total for 2007</b>		<b>1,374</b>	<b>586</b>	<b>32</b>	–	–	<b>181</b>	–	<b>2,173</b>
Total for 2006 for non-executive directors disclosed above		1,256	562	30	–	–	187	–	2,035
2006 total for non-executive directors disclosed in 2006 <sup>5</sup>		1,256	456	30	–	–	157	–	1,899

Footnote:

- 1 Details of the non-executive directors' committee memberships and directorships of subsidiary boards are set out in the following table.
- 2 John Astbury retired from the AMP Limited Board on 31 October 2007.
- 3 Meredith Hellicar was appointed Chairman, AMP Life Limited, on 1 October 2006.
- 4 John Palmer was appointed to the AMP Limited Board on 24 July 2007.
- 5 In line with disclosure requirements, the totals for year ended 31 December 2006 relate to individuals disclosed in the 2006 annual report and so do not equal the sum of amounts disclosed for individuals specified for the 2007 annual report.

Board, committee and subsidiary membership during 2007

	AMP Limited Board	Audit Committee	Nomination Committee	Remuneration Committee	AMP Life Board	AMP Life Audit Committee	Gordian RunOff Limited	Gordian RunOff Audit Committee	AMP Capital Investors Board	AMP Capital Audit Committee	AMP Bank Board
Peter Mason	■		■	■							
John Astbury <sup>1</sup>	■	■			■						
David Clarke <sup>2</sup>	■			■					■	■	
Richard Grellman	■	■	■		■	■	■	■		■	
Meredith Hellicar	■			■	■						■
John Palmer	■				■						
Nora Scheinkestel	■	■	■						■	■	

Footnote:

1 John Astbury retired from the board and relevant committees on 31 October 2007.

2 David Clarke resigned from the AMP Capital Investors Board and the AMP Capital Audit Committee on 23 March 2007.

■ Indicates chairman of a board or committee.

■ Indicates director or member of a board or committee.

2.1 Andrew Mohl's departure

In August 2007, the AMP Board announced that it had mutually agreed with Andrew Mohl that he would leave AMP on 31 December 2007, following over five years as CEO. In line with that agreement, Andrew received, or will receive, the following payments:

- Contractual payment of one year's annual salary of \$1.8 million paid in two equal payments. The first payment was made on 27 December 2007. The second payment will be made in July 2008 provided the restraint of trade period of six months is met.
- Statutory entitlements in respect of unused annual leave and long service leave of \$453,633 were paid on 27 December 2007.

In accordance with the terms and conditions under which they were granted, Andrew Mohl will continue to hold the performance rights granted to him in 2005, 2006 and 2007 subject to the original performance period and performance hurdles (refer to page 14). At the time of grant, the fair values of these grants were \$1,559,000, \$1,959,000 and \$2,570,000 respectively, while the performance periods for these grants end on 31 July 2008, 31 July 2009 and 31 December 2009, respectively.

In accordance with the terms and conditions under which they were granted, all options held by Andrew Mohl lapsed on 30 January 2008.

2.2 Remuneration mix

The table below shows the percentage of total remuneration for 2007 that is related to performance for the former CEO and nominated executives. Fixed pay and benefits account for 26 per cent of the total remuneration (excluding termination benefits) for the CEO and 18 per cent to 37 per cent of the total remuneration (excluding termination benefits) for nominated executives.

	At risk					Total
	Fixed pay and benefits <sup>1</sup>	Performance based		Service based		
		STI <sup>2</sup>	Performance rights and options <sup>3</sup>	Matching and restricted shares	CAPS – bonus distribution	
Andrew Mohl, Chief Executive Officer (left AMP on 31 December 2007)	26%	40%	33%	1%	–	100%
Craig Dunn, Chief Operating Officer (appointed CEO on 1 January 2008)	33%	43%	24%	–	–	100%
Stephen Dunne, Managing Director, AMP Capital Investors	32%	48%	18%	–	2%	100%
Paul Leaming, Chief Financial Officer	36%	42%	22%	–	–	100%
Peter Hodgett, General Manager, Human Resources and Strategy (left AMP on 31 December 2007)	36%	41%	23%	–	–	100%
David Cohen, General Counsel	37%	41%	22%	–	–	100%
Craig Meller, Managing Director, AMP Financial Services (appointed 15 October 2007)	39%	40%	21%	–	–	100%
Lee Barnett, Chief Information Officer	37%	43%	20%	–	–	100%
Matthew Percival, General Manager, Public Affairs	37%	40%	23%	–	–	100%
Philip Garling, Global Head of Infrastructure, AMP Capital Investors	18%	80%	–	–	2%	100%

Footnote:

1 Comprises base salary, superannuation on base salary and non-monetary benefits, excluding termination payments. The figures in this column do not include termination payments. If termination payments were included the proportion of Andrew Mohl's remuneration that is related to performance is 67%, while the corresponding figure for Peter Hodgett is 50%.

2 Includes superannuation paid on STI, and the Infrastructure Targeted Incentive Plan payments for Philip Garling.

3 For the purposes of executive remuneration disclosure under the Corporations Act 2001, performance rights are options.

### 2.3 Performance rights holdings

The table below summarises the movements, by number, in the holdings of performance rights granted by AMP Limited to the former CEO and nominated executives. For details on how the fair value of performance rights have been determined, see section 1.4.1. The fair values shown are as at the dates the performance rights were granted. Philip Garling does not hold performance rights.

The performance rights granted:

- in 2003 were impacted by the capital returns made in 2005 and 2006
- in 2004 were impacted by the capital returns made in 2005, 2006 and 2007
- in 2005 were impacted by the capital returns made in 2006 and 2007, and
- on 9 March 2007 were impacted by the capital return made in 2007.

See section 2.5 for further information on the impact of capital returns on performance rights.

Name	Grant date	Fair value per performance right	Holding at 1 Jan 2007	Rights granted in 2007	Rights exercised in 2007 <sup>1,2</sup>	Rights lapsed in 2007	Holding at 31 Dec 2007	Vested and exercisable at 31 Dec 2007
Andrew Mohl	6-Sep-04	\$3.55	340,337	–	340,337	–	–	–
	1-Sep-05	\$4.19	372,129	–	–	–	372,129	–
	8-Sep-06	\$4.13	474,331	–	–	–	474,331	–
	9-Mar-07	\$4.64	–	553,940	–	–	553,940	–
<b>Total</b>			<b>1,186,797</b>	<b>553,940</b>	<b>340,337</b>	<b>–</b>	<b>1,400,400</b>	<b>–</b>
Craig Dunn	6-Sep-04	\$3.55	122,522	–	122,522	–	–	–
	1-Sep-05	\$4.19	116,291	–	–	–	116,291	–
	8-Sep-06	\$4.13	203,451	–	–	–	203,451	–
	5-Sep-07	\$6.01	–	238,298	–	–	238,298	–
<b>Total</b>			<b>442,264</b>	<b>238,298</b>	<b>122,522</b>	<b>–</b>	<b>558,040</b>	<b>–</b>
Stephen Dunne	23-Oct-03	\$3.84	34,768	–	34,768	–	–	–
	18-Mar-04	\$2.78	6,981	–	6,981	–	–	–
	6-Sep-04	\$3.55	79,832	–	79,832	–	–	–
	1-Sep-05	\$4.19	87,290	–	–	–	87,290	–
	8-Sep-06	\$4.13	115,328	–	–	–	115,328	–
	5-Sep-07	\$6.01	–	139,265	–	–	139,265	–
<b>Total</b>			<b>324,199</b>	<b>139,265</b>	<b>121,581</b>	<b>–</b>	<b>341,883</b>	<b>–</b>
Paul Leaming	6-Sep-04	\$3.55	103,236	–	103,236	–	–	–
	1-Sep-05	\$4.19	103,025	–	–	–	103,025	–
	8-Sep-06	\$4.13	133,929	–	–	–	133,929	–
	5-Sep-07	\$6.01	–	154,739	–	–	154,739	–
<b>Total</b>			<b>340,190</b>	<b>154,739</b>	<b>103,236</b>	<b>–</b>	<b>391,693</b>	<b>–</b>
Peter Hodgett	6-Sep-04	\$3.55	74,005	–	74,005	–	–	–
	1-Sep-05	\$4.19	78,561	–	–	–	78,561	–
	8-Sep-06	\$4.13	106,027	–	–	–	106,027	–
	5-Sep-07	\$6.01	–	111,219	–	–	111,219	–
<b>Total</b>			<b>258,593</b>	<b>111,219</b>	<b>74,005</b>	<b>–</b>	<b>295,807</b>	<b>–</b>
David Cohen	6-Sep-04	\$3.55	74,874	–	74,874	–	–	–
	1-Sep-05	\$4.19	74,426	–	–	–	74,426	–
	8-Sep-06	\$4.13	102,307	–	–	–	102,307	–
	5-Sep-07	\$6.01	–	112,186	–	–	112,186	–
<b>Total</b>			<b>251,607</b>	<b>112,186</b>	<b>74,874</b>	<b>–</b>	<b>288,919</b>	<b>–</b>
Craig Meller	6-Sep-04	\$3.55	58,824	–	58,824	–	–	–
	1-Sep-05	\$4.19	59,725	–	–	–	59,725	–
	8-Sep-06	\$4.13	83,706	–	–	–	83,706	–
	5-Sep-07	\$6.01	–	73,171	–	–	73,171	–
	21-Sep-07	\$5.65	–	68,448	–	–	68,448	–
<b>Total</b>			<b>202,255</b>	<b>141,619</b>	<b>58,824</b>	<b>–</b>	<b>285,050</b>	<b>–</b>
Lee Barnett	6-Sep-04	\$3.55	49,580	–	49,580	–	–	–
	1-Sep-05	\$4.19	50,536	–	–	–	50,536	–
	8-Sep-06	\$4.13	89,286	–	–	–	89,286	–
	5-Sep-07	\$6.01	–	110,252	–	–	110,252	–
<b>Total</b>			<b>189,402</b>	<b>110,252</b>	<b>49,580</b>	<b>–</b>	<b>250,074</b>	<b>–</b>
Matthew Percival	6-Sep-04	\$3.55	62,320	–	62,320	–	–	–
	1-Sep-05	\$4.19	66,157	–	–	–	66,157	–
	8-Sep-06	\$4.13	83,706	–	–	–	83,706	–
	5-Sep-07	\$6.01	–	88,008	–	–	88,008	–
<b>Total</b>			<b>212,183</b>	<b>88,008</b>	<b>62,320</b>	<b>–</b>	<b>237,871</b>	<b>–</b>

Footnote:

- 1 This column shows the number of fully-paid ordinary shares in AMP Limited that were delivered by AMP Limited on exercise of the relevant performance rights. A nominal exercise price of \$1 for all shares received on the exercise of performance rights in a particular grant was paid by the holder. No amount remains unpaid per share.
- 2 All rights exercised in 2007, with grant date in 2004, vested during 2007. No other performance rights grants vested during 2007.

## 2.4 Option holdings

The table below summarises the movements, by number, in the options granted by AMP Limited to the former CEO and nominated executives under the former Executive Option Plan. Options are no longer granted under that plan. Craig Meller, David Cohen, Matthew Percival and Philip Garling do not hold options.

Name	Grant date	Exercise price	Holding at 1 Jan 2007	Options granted in 2007	Options exercised in 2007	Options lapsed in 2007 <sup>1</sup>	Holding at 31 Dec 2007 <sup>2</sup>
Andrew Mohl <sup>3</sup>	26-Jun-99	\$11.44	60,000	–	–	–	60,000
Total	18-Dec-99	\$11.35	40,000	–	–	–	40,000
			<b>100,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>100,000</b>
Craig Dunn	19-Feb-00	\$9.91	30,000	–	–	–	30,000
Total	23-Mar-02	–	100,000	–	–	100,000	–
			<b>130,000</b>	<b>–</b>	<b>–</b>	<b>100,000</b>	<b>30,000</b>
Stephen Dunne	26-Jun-99	\$11.44	10,000	–	–	–	10,000
Total			<b>10,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>10,000</b>
Paul Leaming	26-Jun-99	\$11.44	40,000	–	–	–	40,000
Total			<b>40,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>40,000</b>
Peter Hodgett <sup>4</sup>	26-Jun-99	\$11.44	40,000	–	–	–	40,000
Total			<b>40,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>40,000</b>
Lee Barnett	26-Jun-99	\$11.44	20,000	–	–	–	20,000
Total			<b>20,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>20,000</b>

Footnote:

- 1 Lapsed as a result of not meeting the performance hurdle.
- 2 No options vested in 2007. All holdings at 31 December 2007 are exercisable.
- 3 Andrew Mohl's option grants lapsed on 30 January 2008.
- 4 Peter Hodgett's option grants lapsed on 30 January 2008.

## 2.5 Vesting of incentives

### 2.5.1 Incentives that vested, were paid or lapsed during 2007

#### Short-term incentives

100 per cent of the 2007 short-term incentive for each nominated executive will be paid in cash on 20 March 2008. With the exception of Philip Garling, no short-term incentives for any nominated executives are deferred.

Philip Garling will receive 21 per cent of his short-term incentive payments on 20 March 2008. The balance of the short-term incentive will be paid in cash, with 39.5 per cent due to be paid in March 2009 and 39.5 per cent due for payment in March 2010. Deferred incentives are forfeited in the event of resignation.

#### Long-term incentives

100 per cent of the performance rights awarded to nominated executives on 6 September 2004 vested during 2007 as the performance hurdles for the respective grants were met in full.

100 per cent of the matching share entitlements for nominated executives in respect of shares acquired through the Executive Short-term Incentive Program on 10 March 2004 and the Employee Share Acquisition Plan at various dates in 2004, vested during 2007 as they met the service requirements of these entitlements.

All options awarded to Craig Dunn in March 2002 lapsed in 2007 without payment as they did not meet the performance hurdle.

No other long-term incentives awarded to nominated executives in this or previous financial years (as identified on the following page) vested or were forfeited in 2007. Vesting of long-term incentives in future financial years is subject to performance hurdles and/or service requirements.

#### Incentives that may vest in future years

The estimated maximum and minimum values of incentives granted to the nominated executives that vest in future financial years are set out on the following page. The maximum value represents the fair value of awards made in 2007 and prior financial years that may vest in future financial years. In the case of performance rights, the value may be realised across the year shown and the following two calendar years as performance rights may be exercised over two years. The minimum value of awards yet to vest is zero (as at the grant date) as the respective performance hurdles and/or service requirement may not be met and consequently the awards may not vest.

	2008 Minimum \$'000	2008 Maximum \$'000	2009 Minimum \$'000	2009 Maximum \$'000	2010 Minimum \$'000	2010 Maximum \$'000
Andrew Mohl						
2005 performance rights	—	1,559	—	—	—	—
2006 performance rights	—	—	—	1,959	—	—
2007 performance rights	—	—	—	—	—	2,570
Total	—	<b>1,559</b>	—	<b>1,959</b>	—	<b>2,570</b>
Craig Dunn						
2005 performance rights	—	487	—	—	—	—
2006 performance rights	—	—	—	840	—	—
2007 performance rights	—	—	—	—	—	1,432
Total	—	<b>487</b>	—	<b>840</b>	—	<b>1,432</b>
Stephen Dunne						
2005 performance rights	—	366	—	—	—	—
2006 performance rights	—	—	—	476	—	—
2007 performance rights	—	—	—	—	—	837
AMP Capital Associates Plan	—	52	—	115	—	30
Total	—	<b>418</b>	—	<b>591</b>	—	<b>867</b>
Paul Leaming						
2005 performance rights	—	432	—	—	—	—
2006 performance rights	—	—	—	553	—	—
2007 performance rights	—	—	—	—	—	930
Total	—	<b>432</b>	—	<b>553</b>	—	<b>930</b>
Peter Hodgett						
2005 performance rights	—	329	—	—	—	—
2006 performance rights	—	—	—	438	—	—
2007 performance rights	—	—	—	—	—	668
Employee Share Acquisition Plan (matching shares)	—	1	—	—	—	—
Total	—	<b>330</b>	—	<b>438</b>	—	<b>668</b>
David Cohen						
2005 performance rights	—	312	—	—	—	—
2006 performance rights	—	—	—	423	—	—
2007 performance rights	—	—	—	—	—	674
Total	—	<b>312</b>	—	<b>423</b>	—	<b>674</b>
Craig Meller						
2005 performance rights	—	250	—	—	—	—
2006 performance rights	—	—	—	346	—	—
2007 performance rights	—	—	—	—	—	826
Total	—	<b>250</b>	—	<b>346</b>	—	<b>826</b>
Lee Barnett						
2005 performance rights	—	212	—	—	—	—
2006 performance rights	—	—	—	369	—	—
2007 performance rights	—	—	—	—	—	663
Employee Share Acquisition Plan (matching shares)	—	—	—	—	—	1
Total	—	<b>212</b>	—	<b>369</b>	—	<b>664</b>
Matthew Percival						
2005 performance rights	—	277	—	—	—	—
2006 performance rights	—	—	—	346	—	—
2007 performance rights	—	—	—	—	—	529
Employee Share Acquisition Plan (matching shares)	—	1	—	1	—	1
Total	—	<b>278</b>	—	<b>347</b>	—	<b>530</b>
Philip Garling						
Infrastructure Targeted Incentive Plan	—	1,106	—	789	—	—
AMP Capital Associates Plan	—	—	—	38	—	89
Total	—	<b>1,106</b>	—	<b>827</b>	—	<b>89</b>

*Cash payments on vesting of long-term incentives as a result of capital return alterations*

Shareholders approved capital returns of 40 cents per share at the AMP Limited Annual General Meetings in 2005, 2006 and 2007.

To compensate for the reduction in the value of performance rights and matching share entitlements held under the ESAP and the 2003 Executive Short-term Incentive Program (respectively), resulting from each of the 2005, 2006 and 2007 capital returns, the arrangements with the former CEO and nominated executives named below (and other participating executives) were altered in 2005, 2006 and 2007 so that, in respect of each capital return (and subject to adjustment for any future capital reorganisation), the executives are entitled to payment by AMP of:

- 40 cents for each performance right held immediately prior to the relevant capital return that subsequently vests and is converted into an AMP share, and
- 40 cents for each entitlement to matching shares under ESAP or the 2003 Executive Short-term Incentive Program (as the case may be) held immediately prior to the relevant capital return that subsequently vests and is converted into an AMP share.

As a result of these alterations:

- executives who held performance rights that were granted in 2004 and vested in 2007 received \$1.20 for each of those performance rights
- executives who acquired shares on 10 March 2004 as part of the 2003 Executive Short-term Incentive Program received a payment of 80 cents per share for each matching share entitlement that vested on 10 March 2007, and
- executives who received matching shares under ESAP during 2007, in respect of shares acquired during 2004, received a payment of 80 cents per share for each of those matching shares.

The table below sets out the cash amounts paid in 2007 to nominated executives on performance rights and matching share entitlements that vested in 2007. Philip Garling does not hold performance rights and did not receive any matching shares.

Name	Cash payment on vesting of 2004 performance rights \$'000	Cash payment on vesting of 2003 matching shares \$'000	Total \$'000
Andrew Mohl	408	82	490
Craig Dunn	147	34	181
Stephen Dunne	96	0	96
Paul Leaming	124	26	150
Peter Hodgett	89	17	106
David Cohen	90	23	113
Craig Meller	71	15	86
Lee Barnett	59	0	59
Matthew Percival	75	14	89

The alterations in respect of performance rights, Executive STI program matching shares, and ESAP matching shares took effect on 26 May 2005, 25 May 2006, and 25 May 2007.

Details of the number of fully paid ordinary shares in AMP Limited underlying each tranche of performance rights held by the nominated executives immediately prior to the alteration made in 2007 are provided in section 2.7. The number of fully paid ordinary shares in AMP Limited underlying the ESAP matching share entitlements prior to the alteration made in 2007 for Peter Hodgett and Matthew Percival were 100 and 300 respectively. The market price of an AMP share was \$10.12 as at 25 May 2007, being the date of the 2007 capital return alteration.

All other terms and conditions affecting performance rights and matching share entitlements (see sections 1.4.1, 1.4.3 and 1.5) held by the nominated executives in 2007, and their fair value, remained the same before and after the alterations described above.

## 2.6 Analysis of movements in performance rights and option holdings

The table below summarises the movement of options and performance rights, by value, during the year. The performance rights exercised during 2007 were those granted to executives on 6 September 2004. Philip Garling did not hold any performance rights or options during 2007 and has therefore been excluded from the table.

The value reported in the first column of the following table represents the 'fair value' of performance rights as calculated at the grant date by external consultants using Monte Carlo simulation techniques. Fair value has been discounted for the probability of not meeting the performance hurdles.

The value of performance rights exercised during 2007 represents the number of performance rights exercised multiplied by the market value of an AMP share as traded on the ASX at close of trading on the date of exercise, less the \$1 exercise price per tranche of performance rights exercised.

Name	Value of performance rights granted during 2007 \$'000	Value of performance rights exercised during 2007 \$'000	Value of performance rights lapsed during 2007 <sup>1</sup> \$'000	Value of options lapsed during 2007 <sup>2</sup> \$'000	Total \$'000
Andrew Mohl	2,570	3,505	0	0	6,075
Craig Dunn	1,432	1,289	0	0	2,721
Stephen Dunne	837	1,241	0	0	2,078
Paul Leaming	930	1,063	0	0	1,993
Peter Hodgett	668	766	0	0	1,434
David Cohen	674	791	0	0	1,465
Craig Meller	826	606	0	0	1,432
Lee Barnett	663	522	0	0	1,185
Matthew Percival	529	642	0	0	1,171

Footnote:

1 The value of performance rights and options lapsed during 2007 was zero at the time of, and immediately prior, to lapse.

## 2.7 CEO and executive shareholdings in AMP Limited

In 2006 the Remuneration Committee introduced guidelines outlining the minimum number of AMP shares that a senior AMP executive is expected to hold. The guidelines were introduced to strengthen the alignment between the interests of senior executives and shareholders in the long-term performance of AMP. Senior executives are expected to establish and maintain the following minimum shareholdings:

- CEO: 300,000 shares
- direct reports to the CEO: 60,000 shares.

Each vested performance right and share held in tax deferral by the executive is treated as being equal to 50 per cent of one share.

A five-year transition period (which began in 2006) gives executives a reasonable amount of time to meet their shareholding guidelines. For new appointments, the five-year transition period begins at the time of appointment.

The table below summarises the movements in holdings of shares in AMP Limited held by the nominated executives and their personally-related entities.

Name	Holding at 1 Jan 2007	Granted as remuneration during the period	Received on exercise of performance rights or options	Other charges <sup>1</sup>	Holding at 31 Dec 2007
Andrew Mohl (left AMP 31 December 2007)	1,014,454	–	340,337	303,901	1,658,692
Craig Dunn <sup>2</sup>	276,780	42,268	122,522	–	441,570
Stephen Dunne	525	–	121,581	–	122,106
Paul Leaming	62,448	32,281	103,236	–	197,965
Peter Hodgett (left AMP 31 December 2007)	277,919	21,539	74,005	(92,103)	281,360
David Cohen	132,321	29,150	74,874	–	236,345
Craig Meller	78,050	19,193	58,824	(59,860)	96,207
Lee Barnett	–	–	49,580	1,165	50,745
Matthew Percival	180,340	18,138	62,320	(50,545)	210,253
Philip Garling	–	–	0	2,862	2,862

Footnote:

1 Other changes represent individuals' purchases and sales made during the period. Purchases made during the period include those shares purchased and held under the Employee Share Acquisition Plan. For further details on the terms and conditions of these plans, see section 1.4.3 of this report.

2 The AMP Limited shareholdings for Craig Dunn include 30,000 vested restricted shares granted in previous roles. For further details on the terms and conditions of restricted shares see section 1.4.2.

### 3. Remuneration and company performance

#### Company performance and short-term incentives

The table below shows how company performance relates to the short-term incentive pools paid to employees over the past five years. The table also shows the average short-term incentives paid as a percentage of maximum opportunity.

	2003 <sup>1</sup>	2004	2005	2006	2007
Operating earnings (\$m)	462	502	647	752	770
Underlying return on equity (%)	18.1	21.2	25.0	31.0	37.9
Controllable costs (\$m)	843	833	805	851	894
Short-term incentive pool (\$m)	74	71	70	83	94
Short-term incentive as % of maximum opportunity (%)	64	80	78	80	75

Footnote:

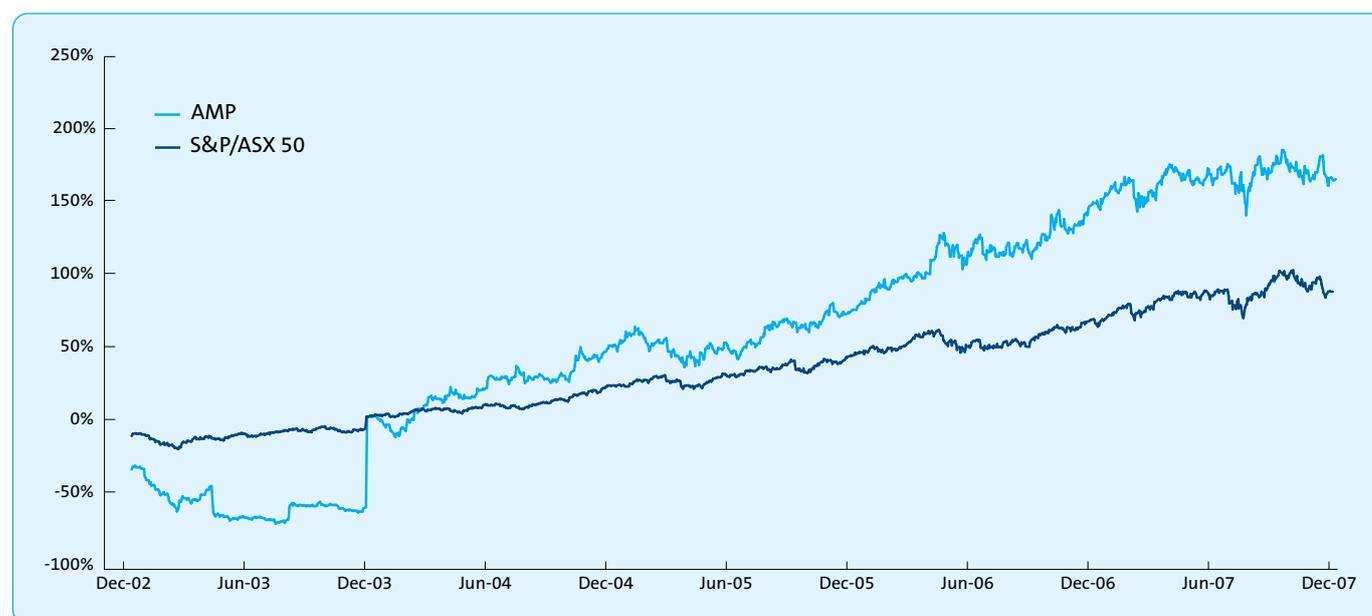
1 On demerged basis.

Company performance since the demerger in December 2003 has provided year-on-year increases in operating margins and returns on equity. AMP's continued strong performance since the demerger is reflected in the high STI payments as a percentage of maximum opportunity.

#### Company performance and long-term incentives

The vesting of options and performance rights awarded to the CEO and executives since June 2000 have all been subject to a performance hurdle relating to AMP's total shareholder return relative to a comparator group of S&P/ASX 100 top 50 companies (industrials). The comparator group members for the various performance rights grants are set out in section 1.4.1.

AMP's total shareholder return compared to the S&P/ASX 50 Index over the past five years (as shown below) reflects the significant difference in AMP's performance before and after the demerger. The total shareholder return is calculated as the growth in share price (using the ASX adjusted price series) plus dividend payments and capital returns over the period.



The 2003 and 2004 performance rights grants vested in full in 2006 and 2007, respectively, following AMP achieving a top quartile TSR ranking. The following table provides a summary of how the current performance rights grants are tracking as at 31 December 2007 based on AMP's relative TSR performance since the start of the respective performance periods.

Grant	Performance period	Total shareholder return to 31 Dec 2007	TSR ranking relative to comparator group	Vesting status as at 31 December 2007 <sup>1</sup>
2005 grant	1 August 2005 to 31 July 2008	84.0%	86th percentile	100%
2006 grant	1 August 2006 to 31 July 2009	23.2%	45th percentile	0%
2007 CEO grant	1 January 2007 to 31 December 2009	13.8%	56th percentile	62%
2007 grant	1 August 2007 to 31 July 2010	-0.8%	57th percentile	64%

Footnote:

1 This column shows the percentage of performance rights that would vest if AMP's TSR ranking relative to the comparator group continued at the level shown until the end of the performance period.

## 4. Contracts

### 4.1 Andrew Mohl, Chief Executive Officer (left AMP on 31 December 2007)

Contract components	Details
Length of contract	Andrew Mohl's contract expired 31 December 2007 by mutual agreement.
Base salary	Base salary for the 2007 year was \$1.8 million.
Superannuation	Superannuation contributions equal to 9% of the superannuation maximum contribution base. For the 2007 year, \$12,900 was paid to his nominated superannuation plan.
Short-term incentive (STI)	<p>Annual short-term incentive opportunity was 0% to 200% of base salary. Any short-term incentive payments awarded are paid in cash.</p> <p>For the 2007 year the board determined that Andrew's STI payment was \$2.742 million, which was 150% of his base salary.</p> <p>The STI is based on performance against a range of 2007 financial, qualitative and personal performance measures:</p> <ul style="list-style-type: none"> <li>– 49% AMP group financial measures (see page 12)</li> <li>– 21% AMP group qualitative measures (see page 12)</li> <li>– 30% personal performance measures (business operations, cultural transformation, growth strategy, personal leadership, external positioning, succession planning).</li> </ul> <p>These measures were recommended by the Remuneration Committee and approved by the AMP Board as they were considered to be the key indicators of the CEO's performance.</p>
Long-term incentive (LTI)	<p>The contract included the opportunity to earn a long-term incentive in the form of performance rights up to 150% of base salary.</p> <p>The Remuneration Committee makes recommendations on CEO's performance rights grant to the AMP Board for approval. Full details of previous grants are outlined in section 2.3.</p> <p>In 2007 he received 553,940 performance rights with a fair value at the time of grant of \$2.570 million.</p> <p>Performance rights can be exercised at the end of the three-year performance period, provided a pre-determined performance hurdle is met (as outlined in section 1.4.1).</p>
End of contract payments	<p>In August 2007, the AMP Board announced that it had mutually agreed with Andrew that he would leave AMP on 31 December 2007, following over five years as CEO. Contractual payments made to him are outlined in section 2.1 on page 20.</p> <p>Andrew's contract expired and was not renewed, and this entitled him to a payment equivalent to 12 months base salary.</p> <p>Note: Andrew's employment with other companies is restricted until July 2008. Under this form of termination, he continues to hold previously granted performance rights subject to existing performance period and hurdles.</p> <p>Andrew received statutory entitlements, including accrued long service leave and annual leave, as well as accumulated superannuation benefits.</p> <p>The other provisions of his contract that related to termination of employment were as follows:</p> <ul style="list-style-type: none"> <li>– Andrew was required to provide six months written notice to the AMP Board to terminate his employment contract.</li> <li>– In the event AMP terminated his employment for any reason other than unsatisfactory performance, AMP was required to give two months written notice and provide a payment equivalent to 10 months base salary if the termination date fell between 8 October 2006 and 31 December 2007 (inclusive).</li> <li>– Under this form of termination, he would continue to hold previously granted performance rights subject to existing performance period and hurdles.</li> <li>– If Andrew's employment ceased as a result of poor performance, AMP was required to give him written notice or payment comprising the lesser of 12 months or the balance of the period until the expiry of the term of his contract. In the event of termination as a result of poor performance, or serious misconduct or cessation of employment by Andrew, performance rights (vested and unvested) would have lapsed immediately.</li> </ul>

#### 4.2 Craig Dunn, Chief Operating Officer (Chief Executive Officer effective 1 January 2008)

This section provides contractual details for Craig Dunn following his appointment to CEO. For Craig's 2007 contract details see section 4.3.

Contract components	Details
Length of contract	Open ended.
Base salary	Base salary in 2008 for his role as CEO is \$1.4 million per annum inclusive of compulsory superannuation contributions. The fixed remuneration will be reviewed annually with the first review to occur in February 2009.
Superannuation	Superannuation contributions equal to 9% of the superannuation maximum contribution base. These contributions are included in his base salary.
Short-term incentive (STI)	<p>The range of annual STI opportunity is between 0% to 200% of base salary. Any short-term incentive payments awarded will be paid in cash.</p> <p>For the 2007 year the board determined an STI payment of \$1.155 million awarded for his performance as Chief Operating Officer and Managing Director AMP Financial Services. This amount is 131% of his previous base salary.</p>
Long-term incentive (LTI)	<p>The contract includes the opportunity for Craig to earn a long-term incentive in the form of performance rights up to 150% of base salary, for the 12 month period commencing 1 August 2008.</p> <p>For the period from 1 January to 31 July 2008, he will receive performance rights to the value of \$506,333.</p> <p>Performance rights can be exercised at the end of the three-year performance period, provided a pre-determined performance hurdle is met.</p>
End of contract payments	<p>Employment may be terminated at any time by AMP giving 12 months' notice or by Craig giving six months' notice. In each case AMP may pay the fixed remuneration for the balance of the notice period in order to bring an earlier end to his employment.</p> <p>AMP may terminate Craig's employment immediately in certain events including serious misconduct and material breach of contract. AMP may also terminate with 12 months' notice if he is incapacitated for an extended period.</p> <p>Accrued fixed salary and statutory entitlements will be paid on any termination. Where AMP terminates employment with notice or employment is terminated due to death, vested and unvested performance rights granted under LTI awards will be retained. Unvested performance rights will continue to be held subject to the original performance hurdles and performance periods. If Craig terminates by giving notice and AMP does not pay out the notice period, he will not be entitled to an STI payment nor will he retain unvested performance rights. Vested performance rights will be retained.</p> <p>On termination for serious misconduct or material breach of contract, no STI payment is payable and all performance rights lapse.</p> <p>If AMP terminates Craig's employment by notice or employment is terminated due to death, the number of performance rights granted in the 12 month LTI cycle in which termination occurs and which he is entitled to retain will be reduced pro rata according to the proportion of that 12 month period in which he has been employed.</p> <p>If Craig terminates his employment by notice and AMP pays out the notice period, he will not be entitled to a pro rata STI payment but vested and unvested performance rights will continue to be held subject to the original performance hurdles and performance periods.</p>

### 4.3 Direct reports to the CEO

Contract components	Details
Length of contract	Open ended.
Base salary	Reviewed annually (not necessarily increased). Base salary is approved by the Remuneration Committee.
Superannuation	All nominated executives receive 10.5% of base salary and short-term incentive payment as superannuation, with the exception of Craig Meller who receives superannuation contributions equal to 9% of the superannuation maximum contribution base.
Short-term incentive (STI)	The maximum short-term incentive opportunity ranges from 150% to 200% of base salary, depending on the role. Actual STI payments are subject to approval by the Remuneration Committee.
Long-term incentive (LTI)	Long-term incentive awards are proposed by the CEO and approved by the Remuneration Committee. The maximum LTI opportunity ranges from 120% to 125% of base salary, depending on the role.
Resignation	Six months notice. Performance rights, options and unvested shares are forfeited.
Termination on notice by AMP	12 months notice or AMP makes a cash payment in lieu of notice (except in the case of termination for serious misconduct).
Termination for serious misconduct	Performance rights, options and unvested shares are forfeited.

The levels of base salary, STI and LTI are reviewed annually and determined in line with the policy outlined in section 1.3 of this report.

### 4.4 Philip Garling, Global Head of Infrastructure, AMP Capital Investors

Contract components	Details
Length of contract	Open ended.
Base salary	Reviewed annually (not necessarily increased). Base salary is approved by the CEO.
Superannuation	10.5% of base salary and short-term incentive payment as superannuation.
Short-term incentive (STI)	The maximum short-term incentive opportunity is 100% of base salary. Actual STI payments are subject to approval by the AMP Capital Remuneration Committee.
Infrastructure Targeted Incentive Plan	Considered for a discretionary payment in the event that the Infrastructure team exceeds their profit hurdle. Actual payments are subject to approval by the AMP Capital Remuneration Committee.
Resignation	Three months' notice. Deferred incentives are forfeited.
Termination on notice by AMP	Three months' notice or AMP makes a cash payment in lieu of notice (except in the case of termination for serious misconduct).
Termination for serious misconduct	Deferred incentives are forfeited.

## 5. Non-executive director remuneration

The 2007 remuneration details for the following non-executive directors are covered in this report:

- Peter Mason, Chairman
- David Clarke
- Meredith Hellicar
- Dr Nora Scheinkestel
- Richard Grellman
- John Palmer (appointed to the board on 27 July 2007)
- John Astbury (retired on 31 October 2007).

Director Brian Clark is not included as he was appointed to the AMP Limited Board on 1 January 2008.

### 5.1 Philosophy

Fees paid to non-executive directors of the AMP Board are determined having regard to advice provided by AMP's remuneration specialists and external remuneration advisers appointed by the Nomination Committee. Factors that are taken into consideration include:

- the level of fees paid to board members of Australian corporations of a similar size
- the complexity of AMP's operations, and
- the responsibilities and workload requirements of board members.

In order to maintain their independence, no proportion of non-executive directors' remuneration is linked to performance.

### 5.2 Structure

The components of non-executive directors' remuneration are:

- board fees (including expense allowance), and
- committee and subsidiary board fees.

Company superannuation contributions are made on these fees as outlined in section 5.3.

#### Board fees

The aggregate fee pool for non-executive directors is approved by shareholders. In 2007 this was \$2,500,000. The board fees for 2007 were as follows:

	Chairman	Other non-executive directors
Base fee <sup>1</sup>	\$515,000	\$140,000
Expense allowance <sup>1</sup>	N/A	\$6,000
Total	<b>\$515,000</b>	<b>\$146,000</b>

Footnote:

- 1 These amounts exclude the minimum company superannuation contributions totaling nine per cent of fees.

The fee for the AMP Chairman incorporates all payments. No additional fees are paid for his membership of board committees or as a non-executive director of subsidiary boards, nor for his attendance at meetings of boards or committees of which he is not a member.

Board fees are not paid to the CEO as responsibilities regarding board membership are considered to be part of the CEO's normal employment conditions.

An expense allowance of \$6,000 is paid to each director, except the Chairman, for incidental expenses related to the business of the company.

#### Committee and subsidiary board fees

During 2007, non-executive directors were paid a fee for service on the AMP Board. Additional fees were paid for service on the Audit, Nomination and Remuneration Committees. Individual non-executive directors are paid additional fees for duties associated with membership of AMP subsidiary boards, and for duties associated with due diligence committees of major projects (or other special purpose committees) on a per-day basis.

	Committee chairman \$	Committee member \$
Audit Committee	35,000	15,000
Nomination Committee	15,000	7,500
Remuneration Committee	25,000	12,500
AMP Life Limited Board	127,500	85,000
Gordian RunOff Limited	75,000	50,000
AMP Capital Investors Limited Board	99,000	66,000
AMP Bank Board	52,500	35,000

The amounts presented in the table above exclude the minimum company superannuation contributions totalling nine per cent of fees. Details about board, committee and subsidiary board membership are shown on page 20.

#### Remuneration table

Refer to page 19 for full details of total remuneration paid to the non-executive directors for 2007.

### 5.3 How board remuneration is paid

Remuneration is paid in the form of cash, shares and superannuation. Directors may specify the allocation of their total remuneration between these three components, subject to the following conditions:

- at least 26 per cent of fees must be taken in the form of AMP shares through the AMP Non-Executive Directors' Share Plan, and
- the minimum superannuation guarantee contributions must be made.

#### AMP Non-Executive Directors' Share Plan

A minimum of 26 per cent of non-executive directors' fees must be taken in the form of AMP shares, which are held until they are released under the terms of the AMP Non-Executive Directors' Share Plan. There are no performance conditions attached to this plan, as non-executive directors sacrifice part of their fees to acquire these shares.

Non-executive directors must retain the AMP shares purchased through the plan for a period of up to 10 years from the date of acquisition, unless otherwise withdrawn with the approval of the Remuneration Committee, or if a director resigns from the AMP Limited Board. Following the release of the shares from the plan, non-executive directors can either sell the shares or continue to hold them.

Non-executive directors do not participate in any employee share plan or receive options or performance rights.

#### Superannuation

Superannuation contributions totalling nine per cent of fees are paid in addition to fees and allowances. Directors may choose to increase the proportion of their remuneration taken as superannuation, subject to legislative guidelines.

#### Retirement benefits

AMP ceased providing retirement benefits to directors in March 2003 and entitlements were frozen at that time. One director, Richard Grellman, who was appointed to the board prior to March 2003, has a frozen retirement allowance which provides cash benefits in the event of death or retirement from the board. The retirement allowance was based on a sliding scale that provides a maximum benefit, after 15 years of service, of five times the average fees over the three years preceding retirement or death.

### 5.4 Shareholdings

The following table summarises the movements in holdings of shares in AMP Limited held by the non-executive directors and their personally related entities.

Name	Holding at 1 Jan 2007	Granted as remuneration during the period	Purchased through the AMP Non-Executive Directors' Share Plan	Other changes <sup>1</sup>	Holding at 31 Dec 2007
Peter Mason	181,717	–	12,697	34,382	228,796
John Astbury <sup>2</sup>	24,793	–	2,857	–	27,650
David Clarke	79,131	–	13,969	5,000	98,100
Richard Grellman	27,276	–	3,446	–	30,722
Meredith Hellicar	33,035	–	3,441	413	36,889
John Palmer	21,579	–	868	–	22,447
Nora Scheinkestel	46,504	–	3,441	5,137	55,082

Footnote:

- 1 Represents individuals' purchases and sales made during the period. Purchases made during the period include those shares purchased and held under the AMP Non-Executive Directors' Share Plan. For further details on the terms and conditions of this plan, see section 5.3 of this report.
- 2 John Astbury retired from the board on 30 October 2007.

## 6. Statement on transfer of related party information

The *Corporations Regulations 2001* allow the transfer of remuneration information required by AASB 124 *Related Party Disclosures* from the Financial Report into the Directors' Report. The following sections comply with the requirements of AASB 124 and have been subject to audit: sections 1.2, 1.3, 1.4, 1.5, 2, 4, 5.

Signed in accordance with a resolution of the directors.



**Peter Mason**  
Chairman

Sydney, 14 February 2008



**Craig Dunn**  
Managing Director and Chief Executive Officer

# Auditor's independence declaration



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680 George Street  
Sydney NSW 2000  
Australia

■ Tel 61 2 9248 5555  
Fax 61 2 9248 5959  
DX Sydney Stock  
Exchange 10172

GPO Box 2646  
Sydney NSW 2001

## Auditor's Independence Declaration to the Directors of AMP Limited

In relation to our audit of the financial report of AMP Limited for the financial year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in blue ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'APR'.

Andrew Price

Partner

14 February 2008

# Analysis of shareholder profit

for the year ended 31 December 2007

This table shows a detailed analysis of the source of net profit after income tax attributable to shareholders of AMP Limited by business unit.

All amounts are after income tax	2007 \$m	2006 \$m
AMP Financial Services	663	607
AMP Capital Investors	150	115
<b>Total business unit operating earnings<sup>1</sup></b>	<b>813</b>	722
Group Office costs	(43)	(37)
<b>Total operating earnings<sup>1</sup></b>	<b>770</b>	685
Underlying investment income	158	184
Interest expense on Group debt	(59)	(63)
Discontinued business – Cobalt/Gordian <sup>2</sup>	78	67
AMP Limited tax loss recognition	13	n/a
<b>Underlying profit</b>	<b>960</b>	873
Investment income market adjustment	–	77
<b>Profit after income tax before other items</b>	<b>960</b>	950
Profit on sale of Cobalt/Gordian business and fair value release provision	93	20
Employee defined benefit schemes	6	5
Fair value of debt and derivatives	(4)	2
Other items	1	(1)
<b>Profit attributable to shareholders of AMP Limited before accounting mismatches</b>	<b>1,056</b>	976
Mismatch items	(71)	(61)
<b>Net profit after accounting mismatches</b>	<b>985</b>	915

Footnote:

- 1 Business unit and total operating earnings for 2006 have been restated as a result of the sale of the Cobalt/Gordian business.
- 2 As previously announced to the market, on 11 December 2007, the AMP group entered into a sale agreement for its closed reinsurance operations, Cobalt/Gordian. The sale, once finalised will represent a complete exit from this business by the AMP group.

# Corporate governance

## Approach to corporate governance

AMP has a set of values that recognises our responsibilities to all of our stakeholders, including shareholders, customers, employees, planners, the community and the environment.

The AMP Board places great importance on the highest standards of governance and continually reviews its governance practices to address AMP's obligations as a responsible corporate citizen.

In March 2003, the ASX Corporate Governance Council (ASX Council) published its Principles of Good Corporate Governance and Best Practice Recommendations.

AMP has adopted the principles and practices, meeting all of the ASX Best Practice Recommendations, with the exception of:

- Recommendation 9.4 relating to shareholder approval of equity based remuneration plans. This is primarily because a number of AMP executive equity plans were established prior to the release of the ASX Best Practice Recommendations and did not require shareholder approval under the *Corporations Act 2001* and ASX Listing Rules. However, at AMP's 2008 Annual General Meeting, which will be held on 15 May 2008, shareholder approval will be sought for the continued participation of the Managing Director and Chief Executive Officer in AMP's long-term incentive plan. Information about AMP's long-term incentive plan was previously provided to shareholders in October 2003 when AMP proposed the demerger of its UK operations. Although specific shareholder approval of this plan was not required at that time, it did form part of the proposed ongoing arrangements for AMP. Shareholders can access a copy of the 2008 Notice of Meeting on the AMP website: [www.amp.com.au/shareholdercentre](http://www.amp.com.au/shareholdercentre), and
- Recommendation 4.3 states that the Audit Committee should be comprised of at least three members. Following John Astbury's retirement as a director on the AMP Board in October 2007, and consequently the Audit Committee, the Audit Committee comprised two members (Richard Grellman as chairman and Nora Scheinkestel). As the board is considering succession planning and board composition generally, the chairman was appointed as a member on the Audit Committee as an interim measure, pending a permanent appointment to that committee.

In accordance with the best practice recommendations, AMP has posted copies of our governance practices in the corporate governance section on our website: [www.amp.com.au](http://www.amp.com.au) including copies of relevant policies and terms of reference.

In August 2007, the ASX Council issued revised Corporate Governance Principles and Recommendations, effective 1 January 2008. AMP is required to report against these in the 2008 annual report, which will be published next year.

## Role of the board of directors

(ASX Best Practice Recommendation 1.1)

### Functions of board and management

The AMP Board is responsible to its shareholders for the overall governance and performance of the AMP group.

### The board

The AMP Board primarily represents the long-term interests of shareholders by:

- providing strategic direction to AMP through constructive engagement with senior management in the development, execution and modification of AMP's strategy
- appointing the Managing Director and Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Company Secretary and approving succession plans
- monitoring the performance of the CEO
- approving remuneration policies and practices
- reporting to shareholders and ensuring that all regulatory requirements are met
- providing advice and counsel to senior management
- ensuring appropriate group wide compliance and risk frameworks and controls are in place
- approving policies governing the operations of the AMP group
- approving decisions concerning the capital of the AMP group,

including capital restructures and significant changes to major financing arrangements

- making decisions in relation to initiatives or matters otherwise not dealt with as part of the strategy process (e.g. major acquisitions and withdrawal from existing major lines of business)
- monitoring financial results on an ongoing basis
- determining dividends and financing of dividend payments
- ensuring the board's effectiveness in delivering best practice corporate governance
- ensuring AMP's business is conducted ethically and transparently
- reviewing strategic risk management including processes for identifying areas of significant business risk, monitoring risk management policies and procedures, overseeing internal controls and reviewing major assumptions used in the calculation of significant risk exposures
- ensuring clear and transparent communication to the market, shareholders and other stakeholders as appropriate
- listening and responding to shareholders' views on the management and direction of the company, and
- considering the interests of all stakeholders.

## Role of management

(ASX Best Practice Recommendation 1.1)

### Functions of board and management

The Chief Executive Officer (CEO) is responsible for the overall management and profit performance of the AMP group. The CEO manages the organisation in accordance with the strategy, plans and policies approved by the board to achieve agreed goals.

## Board composition and size

(ASX Best Practice Recommendations 2.1, 2.5)

### Independence of directors – board composition and commitment

The directors determine the size of the board, with reference to the Constitution, which provides that there will be a minimum of three directors and a maximum of 16 directors. The AMP Board is made up of a majority of independent non-executive directors and has only one executive director, the CEO. The chairman of the board is non-executive and independent of the role of the CEO.

AMP's Constitution is available on AMP's website.

## Appointment of directors

Nominations of new directors, recommended by the Nomination Committee, are considered by the full board. The Nomination Committee considers a wide base of potential directors, taking into account the range of skills and experience required in relation to the:

- current composition of the board
- need for independence
- strategic direction and progress of AMP, and
- geographic spread and diversity of AMP's businesses.

From time to time, the Nomination Committee uses external consultants in this practice. The board assesses nominated directors against a range of criteria including experience, professional skills, personal qualities and their capacity to commit themselves to the board's activities. Any appointment is subject to any share qualification requirement of AMP's Constitution (Clause 60).

A copy of the Nomination Committee terms of reference is available on AMP's website.

## Director independence

It is important that the board operates independently of executive management. Each of the non-executive directors is considered by the board to be independent of management. This means that they do not have any business interest or other relationship that could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of the company.

AMP also includes independent directors on the boards of significant regulated subsidiaries.

### Chairman's appointment and responsibilities

(ASX Best Practice Recommendations 2.2 and 2.3)  
*Independence of directors – board composition and commitment*

The chairman is appointed by the board from the non-executive directors.

The chairman:

- provides appropriate leadership to the board and AMP
- ensures membership of the board is balanced and appropriate for AMP's needs
- facilitates board discussions to ensure the core issues facing the organisation are addressed
- maintains a regular dialogue and mentor relationship with the CEO
- monitors board performance
- guides and promotes the ongoing effectiveness and development of the board and individual directors, and
- attends board committee and subsidiary board meetings from time to time.

### Conduct of board business

The AMP Board normally holds around 10 formal board meetings each year and will also meet whenever necessary to carry out its responsibilities.

When conducting AMP Board business, directors have a duty to question, request information, raise any issue of concern, fully canvass all aspects of any issue confronting AMP and vote on any resolution according to their own judgement. Directors keep confidential board discussions, deliberations and decisions that are not required to be disclosed publicly.

### Conflicts of interest

(ASX Best Practice Recommendation 3.1)  
*Promote ethical and responsible decision-making*

Directors are required to continually monitor and disclose any potential conflict of interest that may arise. Directors must:

- disclose to the board any actual or potential conflicts of interest that may exist as soon as the situation arises
- take necessary and reasonable steps to resolve any conflict of interest within an appropriate period, if required by the board or deemed appropriate by that director, and
- comply with the *Corporations Act 2001* requirements about disclosing interests and restrictions on voting.

Directors discuss with the chairman any proposed board or executive appointments they are considering undertaking and should advise AMP of such appointments to other companies as soon as possible after the appointment is made.

The same requirement exists for related party transactions, including financial transactions with AMP. Related party transactions are reported in writing to the Board Executive and the Company Secretary and, where appropriate, raised for consideration at the next board meeting.

### Access to information

Directors are encouraged to access members of senior management at any time to request relevant information.

Directors are entitled to seek independent advice on AMP related matters at AMP's expense. Directors must ensure that the costs are reasonable and must advise the chairman before the advice is sought. The information must be made available to the rest of the board.

### CEO and CFO assurance

(ASX Best Practice Recommendations 4.1 and 7.2)  
*Integrity in financial reporting*  
*Recognise and manage risk*

The board receives regular reports about the financial condition and operational results of AMP and its controlled entities. The board has received and considered the annual certification from the CEO and the CFO in accordance with ASX Best Practice Recommendations 4.1 and 7.2 and the *Corporations Act 2001* stating that:

- the company's financial statements present a true and fair view of our financial position and performance and are in accordance with Australian Accounting Standards, and
- the risk management and internal compliance and control systems are sound, appropriate and operating effectively in all material respects.

Throughout 2007, significant effort continued to be devoted to the ongoing enhancement of the risk management, internal compliance and control systems. Where internal control deficiencies are identified during the year, additional tests of procedures or tests of resulting account balances included in the financial statements have confirmed that there has been no material impact on the financial statements.

### Committees

The board has established committees to consider certain issues and functions in further detail. The chairman of each committee reports on any matter of substance at the next full board meeting. All committee papers and minutes are provided to the board.

There are currently three standing committees:

- Audit Committee
- Nomination Committee, and
- Remuneration Committee.

Other committees may be formed from time to time, as required. Each committee has its own terms of reference, approved by the board and reviewed annually, with additional review when appropriate.

The chairman and CEO attend committee meetings where appropriate. The structure and membership of the board and its committees are summarised in the diagram below.

 The terms of reference for all committees are available on AMP's website.

## Committees

### AMP Limited Board

Committee	Audit Committee	Nomination Committee	Remuneration Committee
<b>Chair</b>	Richard Grellman	Nora Scheinkestel	Meredith Hellicar
<b>Members</b>	Peter Mason*, Nora Scheinkestel	Peter Mason, Richard Grellman	David Clarke, Peter Mason, John Palmer
<b>Duties</b>	<ul style="list-style-type: none"> <li>– AMP's relationship with the external auditor</li> <li>– Integrity of financial statements</li> <li>– Business risk management framework, including compliance and internal controls</li> </ul>	<ul style="list-style-type: none"> <li>– Composition of the board</li> <li>– Succession planning of the board</li> <li>– Appointment of non-executive directors to subsidiary companies</li> <li>– Continuing education</li> <li>– Board performance reviews</li> <li>– Director remuneration</li> </ul>	<ul style="list-style-type: none"> <li>– Effectiveness, integrity and legal compliance of remuneration programs</li> <li>– Annual review and recommendation of CEO's total remuneration package</li> </ul>

\* Interim appointment

### Nomination Committee

(ASX Best Practice Recommendations 2.4 and 2.5)

#### *Independence of directors – board composition and commitment*

The Nomination Committee supports and advises the AMP Board on board matters including policies, performance, remuneration, composition and succession planning. This includes identifying, evaluating and recommending candidates to the AMP Board and the boards of key operating subsidiaries and providing advice regarding candidates nominated by shareholders.

The Nomination Committee is responsible for reviewing the remuneration of non-executive directors on the AMP Board and on boards of key operating subsidiary boards. AMP has increased the presence of AMP Board non-executive directors on key operating subsidiaries to increase the non-executive directors' knowledge and understanding of the businesses and to enhance the governance of the subsidiary boards.

✓ The terms of reference for all committees are available on AMP's website.

### Board performance assessment

(ASX Recommendation 8.1)

#### *Performance evaluation of the board and its committees, directors and key executives*

The AMP Board reviews its own performance and that of individual directors, including the chairman, on a regular basis. In 2007, an external consultant facilitated these reviews. Future reviews will either be facilitated by the chairman, (and in the case of his own review by another non-executive director), or by an external consultant as deemed appropriate by the board from time to time.

In addition, the board reviews the performance of any director standing for re-election at a general meeting of the company.

All committees of the AMP Board as well as the boards, the individual directors and committees of key operating subsidiaries regularly review their own performance.

### Retirement of directors

One-third of the directors are required to retire by rotation at each Annual General Meeting (AGM). The directors to retire at each AGM are those who have been longest in office since their last election. Where directors have served for equal periods, they may agree among themselves or determine by lot who will retire. A director must retire at the third AGM since last elected or re-elected.

A director appointed as an additional or casual director by the board will hold office until the next AGM when the director is required to stand for election. This election will be in addition to any rotational retirements.

The managing director is not subject to retirement by rotation and is not to be taken into account in determining the retirement by rotation of directors.

A director who holds any executive office with AMP (including the CEO) ceases to be a director when they no longer hold their executive office. The tenure of non-executive directors will generally be no longer than nine years. A non-executive director can continue to hold office after a nine-year term only if they are re-elected by shareholders at every subsequent AGM.

### Remuneration Committee

(ASX Best Practice Recommendations 9.2 and 9.5)

#### *Remunerate fairly and responsibly*

The Remuneration Committee advises the board on overall remuneration strategy and in particular the effectiveness, competitiveness, integrity and alignment with shareholders' interests of AMP's senior executive remuneration programs (including share and performance right plans), protocols and practices.

Key responsibilities include annually reviewing and recommending to the board the performance targets and total remuneration

package of the CEO, and reviewing and approving the remuneration of the CEO's direct reports and the short-term incentive plan performance measures and incentive pool amounts.

✓ The terms of reference for all committees are available on AMP's website.

### Directors' and executives' remuneration

Comprehensive information on AMP's remuneration policies and practices is contained in the remuneration report on pages 10 to 31.

The ASX Best Practice Recommendation 9.4, (which under the revised Corporate Governance Principles and Recommendations ceased to have effect from 1 January 2008), states that companies should ensure that payment of equity-based remuneration for executives is made in accordance with thresholds set in plans approved by shareholders. AMP's equity-based remuneration plans have been designed around appropriate performance benchmarks and shares are acquired 'on market' under those plans. The plans were established between 1998 and 2001, prior to the release of the ASX Best Practice Recommendations, and were not put to shareholders for approval as the plans did not require shareholder approval under the Corporations Act nor under the ASX and NZX Listing Rules. In this respect, AMP was not in compliance with this recommendation; however, there is no dilution of shareholder capital as our policy is for shares to be purchased on-market under all plans.

At AMP's 2008 Annual General Meeting, which will be held on 15 May 2008, shareholder approval will be sought for the continued participation of the Managing Director and Chief Executive Officer in AMP's long-term incentive plan. Information about AMP's long-term incentive plan was previously provided to shareholders in October 2003 when AMP proposed the demerger of its UK operations. Although specific shareholder approval of this plan was not required at that time, it did form part of the proposed ongoing arrangements for AMP. For further information, shareholders can access a copy of the 2008 Notice of Meeting on the AMP website: [www.amp.com.au/shareholdercentre](http://www.amp.com.au/shareholdercentre)

### Audit Committee

(ASX Best Practice Recommendations 4.2, 4.3, 4.4, 4.5 and 7.1)

#### *Safeguard integrity in financial reporting Recognise and manage risk*

The primary function of the Audit Committee is to review and provide recommendations to the board in regard to:

- AMP's financial statements and financial reporting systems
- the appointment, performance and independence of the external auditor
- the effectiveness of the risk management framework including compliance
- internal controls and the assurance provided by internal audit, and
- the adequacy of the scope, cover and cost of AMP group's insurance program.

ASX Best Practice Recommendation 4.3 states that the Audit Committee should be comprised of at least three members. Following John Astbury's retirement as a director on the AMP Board in October 2007, and consequently the Audit Committee, the Audit Committee comprised two members (Richard Grellman as chairman and Nora Scheinkestel). As the board is considering succession planning and board composition generally, the chairman was recently appointed as a member on the Audit Committee as an interim measure, pending a permanent appointment to that committee.

### Auditor independence

The independence of the external auditor is of particular importance to shareholders and the board. The board has adopted a Charter of Audit Independence, which covers the following key points:

- the rotation of the senior audit partner every five years
- the annual confirmation by the auditor that it has satisfied all

- professional regulations relating to auditor independence
- the quarterly reporting on the levels of audit and non-audit fees, and
- the specific exclusion of the audit firm from work which may give rise to a conflict.

In accordance with the *Corporations Act 2001* and, based on the advice of the Audit Committee, the directors have satisfied themselves that the provision of non-audit services during the year by the auditors, Ernst & Young, is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

### Risk management

The board has overall responsibility for ensuring that there is a sound system of risk management and internal compliance and control across the business. It also has responsibility for establishing risk management policies and the risk appetite of the AMP group, and ensuring that these are implemented.

While the board is responsible for risk management, the Audit Committee assists the board by monitoring and evaluating the effectiveness of AMP's risk management and internal control environment. The Audit Committee also approves AMP's accounting policies, reporting practices and production of financial statements and monitors the application of appropriate management controls. It considers internal and external audit reports and reviews the adequacy of AMP's procedures and internal controls in order to monitor financial risks and major operational risks.

Risk and compliance processes and reporting procedures provide assurance to the board and Audit Committee that the preparation of the financial statements and the control systems underlying them are adequate.

Appropriate risk management structures exist throughout the organisation, including the Group Risk and Compliance Committee and business unit risk committees. The risk management framework enables the business to identify and assess risks and controls, respond promptly and appropriately and continue to monitor risks and issues as they evolve. Risk and compliance information is reported quarterly to the Audit Committee, or more urgently, if required.

AMP's risk management structures and procedures are continually being enhanced or updated. In addition, the internal audit function provides independent and objective assurance to the board that risks are being managed effectively across the group.

🔗 The Risk Management Policy is available on AMP's website.

### Compliance

Compliance is a key element of risk management. The board is responsible for ensuring that adequate measures are undertaken to manage compliance with the laws, regulations, contracts, industry codes, internal standards and policies applicable to AMP's operations.

As required by the *Corporations Act 2001*, Australian financial services licensed entities have adopted individually tailored conflict of interest policies.

While the board is responsible for AMP's compliance framework, the Audit Committee assists the board by monitoring and evaluating AMP's compliance. Consistent with AMP's risk management approach, AMP's compliance measures are subject to monitoring and continuous improvement. Any compliance issues or incidents are reported quarterly to the Audit Committee, or more urgently, if required.

### Code of conduct

(ASX Best Practice Recommendations 3.1 and 3.3)  
*Promote ethical and responsible decision-making*

AMP has adopted a code of conduct outlining the standards of personal and corporate behaviour required of all directors, officers and employees.

This code reinforces an already strong ethical culture for the benefit of all stakeholders.

A copy of the code of conduct is provided to all directors and employees on joining AMP.

🔗 AMP's code of conduct is available on AMP's website.

### Trading policy

AMP's Trading Policy sets out AMP's policy regarding the trading in AMP securities by directors and employees and insider trading.

AMP's Trading Policy aims to:

- protect stakeholders' interests at all times
- ensure that directors and employees do not use any information they possess for their personal advantage, or to the detriment of AMP, and
- ensure that directors and employees comply with insider trading provisions of the *Corporations Act*.

Trading in AMP securities by directors, executives and certain employees ('Designated Persons') is restricted to the following trading windows:

- 30-day period beginning on the second day after the release of AMP's interim and annual results
- 30-day period beginning on the second day after the AMP Annual General Meeting, and
- period commencing on the day after the issue of a prospectus offering AMP securities (or a document containing equivalent information) and ending on the day the offer closes.

However, Designated Persons may acquire AMP securities under any share plan (such as the Employee Share Acquisition Plan or the Non-Executive Directors' Share Plan, or any successor or similar plans), on a monthly or other regular basis, outside the trading windows referred to above. These securities are acquired in accordance with a fixed purchase program under the terms of the share plan.

Trading in AMP securities, during or outside the formal trading windows, is subject to the overriding prohibition on trading while in the possession of inside information.

Outside the formal trading windows, a director or employee may, in the first 10 business days in December each year:

- elect to participate in or vary or cease their participation in the AMP Employee Share Acquisition Plan and/or the AMP Executive Short-term Incentive Plan (or any successor or similar plans including any short-term incentive bonus), and
- apply to receive performance rights under the AMP International Employee Share Ownership Plan.

During this limited trading window, a Designated Person may not otherwise trade in AMP securities.

Breaches of this policy will be treated seriously and may lead to disciplinary action being taken against the employee, including dismissal.

🔗 AMP's Trading Policy is available on AMP's website.

### Communication with shareholders

(ASX Best Practice Recommendations 5.1, 5.2 and 6.1)  
*Timely and balanced disclosure*

AMP is committed to transparency and quality in its communication to shareholders. Our approach to communicating with shareholders and financial markets is set out in AMP's Market Disclosure Policy. Information is communicated to shareholders through the distribution of the Annual Report and other communications as required. All significant information is posted on AMP's website as soon as it is disclosed to the ASX.

The guiding principle of the policy is that AMP must immediately notify the market via an announcement to the ASX of any information concerning AMP that a reasonable person would expect to have a 'material' effect on the price or value of AMP securities. The policy permits exceptions to immediate notification in accordance with the ASX Listing Rules.

AMP's Market Disclosure Committee ensures that company announcements:

- are made in a timely manner
- are factual
- are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions, and
- do not omit material information.

Shareholders can elect to receive all communications electronically or not to receive some communication materials by contacting our share registry or visiting our website.

AMP's Market Disclosure Policy is available on AMP's website.

**Annual General Meeting (AGM)**

(ASX Best Practice Recommendations 6.1 and 6.2)

*Rights of shareholders*

All shareholders are encouraged to attend and/or participate in AMP's AGM. The meeting is webcast live or shareholders can attend in person or send a proxy as their representative. Online proxy voting is also available for all shareholders prior to the meeting. Unless indisposed, all directors and senior management attend the meeting, along with the external auditor.

Full details of the next AGM are included in the mailing for this Annual Report and are available on AMP's website.

**Social responsibility**

(ASX Best Practice Recommendation 10.1)

*Recognise the legitimate interests of stakeholders*

AMP's purpose is helping people to manage their finances so they can enjoy the future they want. This in itself is an important social responsibility. We also make a positive contribution to the communities in which we operate through the investment activities of the AMP Foundation.

AMP's Social Responsibility Plan is endorsed by the board. Our strategy is to identify and act on a small number of issues that are close to our core business where we can make a difference. We will not seek publicity around these activities – our actions will speak for us – and we will be open and honest around what we are doing and why.

AMP's Social Responsibility Plan, summarised below, looks at our social responsibilities from four perspectives and outlines our objectives for each. For AMP, Community relates to the general community in Australia and New Zealand; Marketplace encompasses our planners, customers and suppliers; Workplace is our employees; and Environment is the natural world.

While the CEO has overall responsibility for the delivery of our Social Responsibility Plan, this responsibility reaches much further into AMP, with senior management and many other employees directly involved.

AMP's community program is available on AMP's website.

**Comparison of NZX and ASX Corporate Governance rules**

As an overseas listed issuer, AMP is deemed to satisfy and comply with the New Zealand Stock Exchange (NZX) Listing Rules so long as it remains listed on the Australian Stock Exchange (ASX). The only NZX requirements applicable to AMP are to give the NZX the same information and notices it is required to give to the ASX and to include a statement (referred to below) in its annual report.

Some material differences may exist between the corporate governance rules and principles of the ASX and NZX. This may arise because the relevant matters are mandatory under the NZX Corporate Governance Rules but are only best practice recommendations under the ASX Corporate Governance Rules (requiring disclosure of non compliance in the Annual Report).

**2007 social responsibility framework**

<b>Community</b> the general community in Australia and New Zealand	<b>Marketplace</b> encompassing our planners, customers and suppliers	<b>Workplace</b> our employees	<b>Environment</b> our impact on the natural world
Helping to increase the effectiveness of Australia and New Zealand's retirement income systems so that people can better prepare and provide for themselves in retirement. This includes increasing individual saving rates through superannuation, and ensuring that people seek financial advice so as to maximise their retirement income			
Helping to lift the standard of financial advice available to all Australians and New Zealanders. This includes working to improve how well people understand how to manage their money to prepare for retirement			
Influencing investee companies to improve their corporate governance, operational, environmental and social practices with the objective of maximising returns to their shareholders			
Building community involvement programs that have a positive impact on the community and are aligned to AMP's business	Building sustainable supply chains that benefit both AMP and the supplier, and include social and environmental standards	Encouraging AMP employees to increase their skills and capabilities so they are more effective both within and outside AMP	Increasing the efficiency of AMP's operations and reducing its environmental footprint
		Embracing diversity to spur innovation, broaden our perspective and attract, engage and retain talent	

# Full Financial Report

for the year ended 31 December 2007

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# Income statement

for the year ended 31 December 2007

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Income and expenses of policyholders, shareholders and external unitholders<sup>1</sup></b>					
Insurance premium and related revenue	3	930	896	–	–
Fee revenue	3	1,601	1,374	18	13
Other revenue	3	338	167	–	–
Investment gains and losses	3	8,128	11,791	813	509
Insurance claims and related expenses	4	(1,349)	(1,271)	–	–
Operating expenses	4	(2,392)	(2,093)	(18)	(12)
Finance costs	4	(783)	(616)	–	–
Movement in external unitholders' liabilities		(815)	(1,522)	–	–
Change in policyholder liabilities before accounting mismatches					
– life insurance contracts <sup>2</sup>		(201)	(794)	–	–
– investment contracts <sup>2</sup>		(4,149)	(6,263)	–	–
Income tax (expense) credit	5	(445)	(781)	90	57
<b>Profit attributable to shareholders of AMP Limited from continuing operations before accounting mismatches</b>		<b>863</b>	888	<b>903</b>	567
Profit from discontinued operations held for sale after income tax	21	193	88	–	–
<b>Net profit attributable to shareholders of AMP Limited before accounting mismatches</b>		<b>1,056</b>	976	<b>903</b>	567
Unmatched changes in policyholder liabilities (accounting mismatches) due to: <sup>2</sup>					
– treasury shares		(30)	(77)	–	–
– investment in controlled entities of the statutory funds		(37)	(20)	–	–
– other		(4)	36	–	–
<b>Net profit attributable to shareholders of AMP Limited</b>		<b>985</b>	915	<b>903</b>	567

Footnote:

- Income and expenses include amounts attributable to shareholder interests and also policyholder interests in the life statutory funds. Amounts included in respect of the life statutory funds have a substantial impact on most of the consolidated Income statement lines, especially Investment gains and losses. In general, policyholders' interests in the transactions for the period are attributed to them in the lines Change in policyholder liabilities before accounting mismatches and Unmatched changes in policyholder liabilities (accounting mismatches).
- As explained further in Note 1(d), accounting mismatches arise because the recognition and measurement rules for certain policyholder assets differ from the recognition and measurement rules for the actual liability to policyholders in respect of the same assets. These mismatches result in policyholder asset movements impacting the Net profit after accounting mismatches and increased volatility of the reported profit.

## Earnings per ordinary share

	Note	cents	cents
Basic from continuing operations before accounting mismatches	25	46.7	48.1
Diluted from continuing operations before accounting mismatches	25	46.5	47.9
Basic from continuing operations after accounting mismatches	25	42.8	44.8
Diluted from continuing operations after accounting mismatches	25	42.7	44.6
Basic after accounting mismatches	25	53.3	49.6
Diluted after accounting mismatches	25	53.1	49.3

# Balance sheet

as at 31 December 2007

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Assets</b>					
Cash and cash equivalents		<b>2,141</b>	1,108	<b>1</b>	1
Receivables	6	<b>1,180</b>	1,535	<b>299</b>	507
Equity securities	7	<b>43,842</b>	41,376	–	–
Debt securities	7	<b>36,287</b>	32,007	<b>205</b>	517
Property securities	7	<b>5,300</b>	5,626	–	–
Other financial assets	7	<b>7,496</b>	6,634	–	–
Investment property	8	<b>9,333</b>	7,841	–	–
Property, plant and equipment	9	<b>586</b>	502	–	–
Deferred tax assets	5	<b>309</b>	328	<b>87</b>	82
Other assets	10	<b>191</b>	155	–	–
Intangibles	11	<b>1,005</b>	862	–	–
Investments in controlled entities	7, 28	–	–	<b>7,022</b>	7,443
Assets of discontinued operations held for sale	21	<b>747</b>	–	–	–
<b>Total assets of policyholders, external unitholders, shareholders and minority interests</b>		<b>108,417</b>	97,974	<b>7,614</b>	8,550
<b>Liabilities</b>					
Payables	12	<b>4,194</b>	1,555	<b>2</b>	2
Current tax liabilities		<b>501</b>	697	<b>290</b>	487
Provisions	13	<b>406</b>	390	<b>4</b>	5
Borrowings	14	<b>11,250</b>	9,988	–	83
Deferred tax liabilities	5	<b>1,811</b>	1,864	–	–
Subordinated debt	15	<b>403</b>	435	–	–
Other financial liabilities		<b>270</b>	65	–	–
Life insurance contract liabilities	19	<b>20,635</b>	20,974	–	–
Investment contract liabilities	20	<b>52,357</b>	46,668	–	–
External unitholders' liabilities		<b>13,904</b>	12,079	–	–
Outstanding claims liabilities	21	–	805	–	–
Liabilities of discontinued operations held for sale	21	<b>672</b>	–	–	–
<b>Total liabilities of policyholders, external unitholders, shareholders and minority interests</b>		<b>106,403</b>	95,520	<b>296</b>	577
<b>Net assets of shareholders and minority interests</b>		<b>2,014</b>	2,454	<b>7,318</b>	7,973
<b>Equity</b>					
Contributed equity	17	<b>3,827</b>	4,067	<b>4,012</b>	4,253
Reserves	18	<b>(2,446)</b>	(1,983)	<b>(1)</b>	510
Retained earnings	18	<b>546</b>	328	<b>3,307</b>	3,210
<b>Total equity attributable to shareholders</b>		<b>1,927</b>	2,412	<b>7,318</b>	7,973
<b>Minority interests</b>		<b>87</b>	42	–	–
<b>Total equity of shareholders and minority interests</b>		<b>2,014</b>	2,454	<b>7,318</b>	7,973

# Statement of recognised income and expenses

for the year ended 31 December 2007

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Income and expenses (net of tax) recognised directly in equity</b>					
Owner-occupied property					
– valuation gains taken to equity	18	<b>40</b>	35	–	–
Cash flow hedge movements	18	<b>23</b>	15	–	–
Defined benefit fund actuarial gains and (losses)	18, 26	<b>(17)</b>	28	–	–
Exchange differences on translation of foreign operations	18	<b>(3)</b>	(19)	–	–
<b>Total net income (expense) recognised directly in equity</b>		<b>43</b>	59	–	–
Net profit after accounting mismatches		<b>985</b>	915	<b>903</b>	567
<b>Total recognised income and expenses for the period attributable to shareholders of AMP Limited</b>		<b>1,028</b>	974	<b>903</b>	567

# Statement of cash flows

for the year ended 31 December 2007

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Cash flows from operating activities<sup>1</sup></b>	24(a)				
Cash receipts in the course of operations		<b>17,161</b>	13,623	<b>27</b>	4
Interest and other items of a similar nature received		<b>1,793</b>	1,459	<b>2</b>	2
Dividends received		<b>739</b>	616	<b>811</b>	506
Distributions received		<b>4,798</b>	2,778	–	–
Cash payments in the course of operations		<b>(16,523)</b>	(12,795)	<b>(21)</b>	(14)
Finance costs		<b>(797)</b>	(659)	–	–
Income tax refunded (paid)		<b>(849)</b>	(375)	<b>89</b>	10
<b>Cash flows from (used in) operating activities</b>		<b>6,322</b>	4,647	<b>908</b>	508
<b>Cash flows from investing activities<sup>1</sup></b>					
Net proceeds from sale of/(payments to acquire):					
– investment property		<b>(486)</b>	(895)	–	–
– equity securities and unit trusts		<b>(4,148)</b>	721	–	–
– interest bearing securities		<b>152</b>	(2,787)	–	–
– loans		<b>(1,100)</b>	(1,390)	–	–
– other investments		<b>65</b>	1	–	–
Proceeds from loans from controlled entities		–	–	<b>310</b>	57
Proceeds from capital return from controlled entity		–	–	<b>421</b>	750
Payments to acquire controlled and associated companies <sup>2,3</sup>		<b>(36)</b>	(80)	–	–
Proceeds from disposal of controlled and associated companies <sup>2,3</sup>		–	342	–	–
<b>Cash flows from (used in) investing activities</b>		<b>(5,553)</b>	(4,088)	<b>731</b>	807
<b>Cash flows from financing activities<sup>1</sup></b>					
Proceeds from borrowings – non Banking operations		<b>937</b>	646	–	129
Net movement in borrowings – Banking operations		<b>1,107</b>	452	–	–
Net movement in deposits from customers		<b>(296)</b>	60	–	–
Repayment of borrowings		<b>(303)</b>	(131)	<b>(83)</b>	(46)
Payment of capital return <sup>4</sup>		<b>(738)</b>	(739)	<b>(750)</b>	(750)
Dividends paid <sup>5</sup>		<b>(795)</b>	(639)	<b>(806)</b>	(649)
<b>Cash flows from (used in) financing activities</b>		<b>(88)</b>	(351)	<b>(1,639)</b>	(1,316)
<b>Net increase (decrease) in cash</b>		<b>681</b>	208	–	(1)
Balance at the beginning of the period		<b>5,808</b>	5,600	<b>1</b>	2
Effect of exchange rate changes on cash balances		<b>(3)</b>	–	–	–
<b>Balance at the end of the period<sup>6</sup></b>	24(b)	<b>6,486</b>	5,808	<b>1</b>	1

Footnote:

- Amounts include cash flows attributable to discontinued operations held for sale. See Note 21 for further information.
- Cash flows mainly relate to acquisitions and disposals during the year of operating companies controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group.
- Net of cash acquired or disposed.
- Payment of capital return is presented net of the capital return on 'treasury shares'. See Note 17 for further information.
- Dividends paid is presented net of dividends reinvested and dividends on 'treasury shares'. See Note 16 for further information.
- Current period disclosures reflect a reinterpretation of the definition of cash for the purposes of the cash flow statement including the removal of certain investment related cash balances which are more appropriately defined as non-cash balances. Comparative information in relation to the closing cash balance has been reclassified to be consistent with current period disclosure causing a reduction in the closing balance of cash at 31 December 2006 of \$3,063m.

# Notes to the financial statements

for the year ended 31 December 2007

## 1. Summary of significant accounting policies

The consolidated economic entity (the AMP group) comprises AMP Limited (the parent entity), a company limited by shares, and all entities that it controlled during the year and at the balance date.

### (a) Basis of preparation

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the *Corporations Act 2001*.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that this Financial Report, comprising the financial statements and the notes thereto, complies with International Financial Reporting Standards.

The principal accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to the current year and comparative period, unless otherwise stated. The same accounting policies and methods of computation are followed by this Financial Report as compared with the 31 December 2006 annual Financial Report except as described below. Where necessary, comparative information has been reclassified to be consistent with current period disclosures.

The AMP group is predominantly a wealth-management business conducting operations through AMP Life Limited (AMP Life), a registered life insurance company, and other entities. As described in Note 1(c) below, the assets, liabilities, income and expenses arising from investment contracts and life insurance contracts are measured predominantly on the basis of fair value. Subject to the exceptions noted in the accounting policies below, other assets and liabilities in this Financial Report are also measured on a fair value basis.

Assets and liabilities have been presented on the face of the Balance sheet in decreasing order of liquidity and do not distinguish between current and non-current items. The majority of the assets of the AMP group are investment assets held to back investment contract, life insurance contract and general insurance contract liabilities. Although the amount of those assets which may be realised and those liabilities which may be settled within 12 months of the reporting date is not always known, estimates have been provided in Note 20 (for life statutory funds) and Note 21 (for discontinued operations). Details of other amounts expected to be recovered or settled (a) no more than 12 months after the reporting date, and (b) more than 12 months after the reporting date, have been provided in footnotes to the relevant notes.

*Australian Accounting Standards issued but not yet effective*  
Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 31 December 2007. When applied in future periods, these recently issued or amended standards are not expected to have a material impact on the company's results or financial position; however they may impact Financial Report disclosures.

### *Changes in accounting policy*

Since 1 January 2007, the AMP group has adopted a number of Australian Accounting Standards and Interpretations which were mandatory for annual periods beginning on or after 1 January 2007. Adoption of these Standards and Interpretations has not had any effect on the financial position or performance of the AMP group.

### (b) Principles of consolidation

This Financial Report consolidates the financial information of controlled entities. Control is determined as the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities. In certain cases an entity or business may be controlled even though the AMP group does not own more than half of the voting power.

In these cases control has been determined based on the AMP group's power to obtain benefits from the entity or business.

The financial information for subsidiaries is prepared for the same reporting period as the parent entity using consistent accounting policies. Where dissimilar accounting policies may exist, adjustments are made to bring these into line.

AMP Life conducts wealth-management business (see Note 1(c) below) through separate life statutory funds. Transactions in respect of policyholder activities within the life statutory funds are consolidated into the AMP group Financial Report, along with all activities attributable to the shareholders of the parent entity.

The life statutory funds include controlling interests in unit trusts and companies. The total amounts of each underlying asset, liability, income and expense of the controlled entities are recognised in the consolidated financial statements.

When a controlled unit trust is consolidated, the share of the unitholder liability attributable to the AMP group is eliminated but amounts due to external unitholders remain as liabilities in the consolidated Balance sheet.

The share of the net assets of controlled companies attributable to minority interests is disclosed separately on the Balance sheet. In the Income statement, the net profit or loss of the controlled entities relating to minority interests is removed before determining the net profit or loss attributable to shareholders of the parent entity.

Controlled entities that are acquired are accounted for using the purchase method of accounting. Information from the financial reports of controlled entities is included from the date the parent entity obtains control until such time as control ceases. Where the AMP group ceases to control an entity, the consolidated Financial Report includes the results for the part of the reporting period during which the parent entity had control. All inter-company balances and transactions are eliminated in full, including unrealised profits arising from intra-group transactions.

There have been no acquisitions or disposals of controlled entities or other changes in the composition of the AMP group during the year, which would require disclosures significant to an understanding of this Financial Report. Those acquisitions and disposals which took place during the year were largely a result of the investment activities of the life statutory funds.

### *Securitisation vehicles*

The banking operation of the AMP group sells mortgage loans to securitisation vehicles (also referred to as *special purpose entities*) through its loan securitisation program. These securitisation vehicles are deemed by accounting standards to be controlled by the AMP group and are therefore consolidated.

### (c) Accounting for wealth-management and insurance business

The accounting treatment of certain transactions in this Financial Report varies depending on the nature of the contract underlying the transactions. The three major contract classifications relevant to the wealth-management and insurance business of the AMP group are:

- investment contracts
- life insurance contracts, and
- general insurance contracts.

The other transactions of the AMP group, not covered by the areas listed above, are predominantly investment management services and banking.

For the purposes of this Financial Report, holders of investment contracts or life insurance contracts are collectively and individually referred to as *policyholders*.

### *Investment contracts*

The majority of the business of AMP Life relates to wealth-management products such as savings, investment-linked and retirement income policies.

## 1. Summary of significant accounting policies continued

The nature of this business is that AMP Life receives deposits from policyholders and those funds are invested on behalf of the policyholders. With the exception of fixed retirement income policies, the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities. For fixed retirement income policies, the resulting liability is linked to the fair value of the fixed retirement income payments and associated management services.

Under accounting standards such contracts are defined as *life investment contracts* and described as *investment contracts* throughout this Financial Report.

### *Life insurance contracts*

AMP Life also issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured. In addition, there are some policies that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of AMP Life. These policies are referred to as discretionary participating contracts.

Under accounting standards, such contracts are defined as *life insurance contracts*.

### *General insurance contracts*

The general insurance operations of the AMP group comprise the management of the outstanding claims liability on previously issued direct and reinsurance contracts. These contracts transfer significant insurance risk by agreeing to compensate the insured on the occurrence of a specified insured event, such as damage to property or the crystallisation of a third party liability (or the reinsurance thereof), within a given timeframe.

Under accounting standards, such contracts are defined as *general insurance contracts*.

### *Assets backing investment contract and life and general insurance contract liabilities*

These assets are measured on a basis that is consistent with the measurement of the liabilities, to the extent permitted under accounting standards.

As life insurance contract liabilities and general insurance contract liabilities are measured as described in Note 1(x) and 1(r) and investment contract liabilities are measured at fair value, per Note 1(w), assets backing such liabilities are measured at fair value, to the extent permitted under accounting standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in the Income statement, to the extent permitted under accounting standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described below.

All assets that back investment contract and life insurance contract liabilities are included within the life statutory funds and, as such, are separately identifiable. The general insurance business also maintains separate insurance funds that segregate the assets backing general insurance contract liabilities.

General insurance contracts and the assets backing general insurance contracts, form part of the general insurance operations which have been classified as discontinued operations held for sale. For further details see Note 21.

### *Assets not backing investment and insurance contract liabilities*

To ensure consistency across the AMP group, and except where specifically stated otherwise, all financial assets and all non-financial assets, including those not backing investment or insurance contract liabilities, are recognised at fair value to the extent permitted under accounting standards. Similarly, adjustments to the value of such assets are recognised in the Income statement when the corresponding accounting standards allow such treatment. The accounting policy for the parent entity's investments in controlled entities is set out in Note 1(k).

### **(d) Accounting mismatches**

Under AIFRS, accounting mismatches arise from some of the life statutory funds' transactions because the recognition and measurement rules for certain policyholder assets differ from the recognition and measurement rules for the liability to policyholders in respect of the same items. These mismatches result in policyholder asset movements impacting the net profit after income tax attributable to shareholders and increase volatility of the reported profit. Accounting mismatches primarily arise in respect of:

- gains and losses on 'treasury shares'
- gains and losses on investments in controlled entities of the life statutory funds
- gains and losses on owner-occupied properties
- discounting of deferred tax balances in the valuation of investment contract liabilities.

The International Accounting Standards Board (IASB) has discussed accounting mismatches at previous Board meetings. The IASB has confirmed that "it would be preferable to eliminate such [mismatch] effects" and the IASB is reviewing alternative accounting treatments to address the accounting mismatch issue. These discussions are part of the wider IASB Insurance Contracts (Phase II) project, which has a long time frame.

### *'Treasury shares'*

The Australian Securities and Investments Commission (ASIC) has granted relief from restrictions in the *Corporations Act 2001* to allow AMP Life to hold and trade shares in AMP Limited as part of the policyholder funds' investment activities. These shares (defined by accounting standards as 'treasury shares') are held on behalf of policyholders and, as a result, the life statutory funds also recognise a corresponding liability to policyholders.

Under AIFRS, the AMP group cannot recognise 'treasury shares' on the consolidated Balance sheet. These assets, plus any corresponding Income statement fair value movement on the assets and dividend income, are eliminated when the life statutory funds are consolidated into the AMP group. The cost of the investment in the shares is deducted from contributed equity.

However, the corresponding investment contract and insurance contract liabilities, and related Income statement change in the liabilities, remain upon consolidation. At the AMP group consolidated level, this mismatch results in policyholder asset movements reducing the net profit after income tax attributable to shareholders by \$30m (2006: \$77m).

### *Investments in controlled entities of the life statutory funds*

The majority of the life statutory funds' investments are held through controlling interests in a number of separate entities and these investments are measured at fair value. These investment assets are held on behalf of policyholders, and, as a result, the life statutory funds also recognise a corresponding liability to the policyholder.

Consolidation principles require the underlying net assets of the controlled entities to be recognised in the consolidated financial statements. The value of the underlying assets recognised will not necessarily be the same value as the life statutory funds' value of investments in the controlled entities.

However, the corresponding investment contract and insurance contract liabilities, and related Income statement change in the liabilities, remain upon consolidation. At the AMP group consolidated level, this mismatch results in policyholder asset movements reducing the net profit after income tax attributable to shareholders by \$37m (2006: \$20m).

### *Owner-occupied property*

Under AIFRS, property owned by the AMP group, which is also occupied by the AMP group, is considered property, plant and equipment in the consolidated Balance sheet. Upward revaluations of owner-occupied property are recognised in equity.

## 1. Summary of significant accounting policies continued

Downward revaluations are recognised in the Income statement to the extent that they exceed previous upward revaluations of the same property.

However, to the extent any such property is held by the AMP life statutory funds, investment contract and life insurance contract liabilities are required to reflect owner-occupied property at fair value, with movements in those liabilities recognised in the Income statement. This mismatch results in policyholder asset movements reducing the net profit after income tax attributable to shareholders by \$11m (2006: \$26m).

### *Discounting of deferred tax balances in the valuation of investment contract liabilities*

The calculation of investment contract liabilities for unit linked business includes a deduction for the policyholders' share of current tax payable and deferred tax balances of the AMP group. Historically, the deferred tax relating to unit linked business was discounted in setting unit prices, where relevant, and therefore in the calculation of investment contract liabilities. AIFRS does not allow discounting of deferred tax for financial reporting purposes and, as a result, there has been an historical mismatch between the deferred tax retained within investment contract liabilities and that reported within the financial statements.

During 2006, a decision was made on the advice of the Appointed Actuary, having regard to the equity of policyholders and the circumstances of the investment sectors, to move to a non-discounted approach for deferred tax for those investment sectors where discounting was previously applied. The removal of the discounting of deferred tax reverses these accounting mismatches recognised in prior periods. This reversal increases net profit after income tax attributable to shareholders by \$7m (2006: \$62m). The discounting of deferred tax has been completely reversed as at the end of the period.

### **(e) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand that is available on demand and deposits that are held at call with financial institutions. Cash and cash equivalents are carried at fair value, being the principal amount. For the purpose of the cash flow statement, cash also includes other highly liquid investments not subject to significant risk of change in value, with short periods to maturity, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in the Balance sheet.

### **(f) Receivables**

Receivables are financial assets and are measured at fair value. Given the short-term nature of most receivables, the recoverable amount approximates fair value. Reinsurance and other recoveries receivable are discounted to present value in a manner consistent with the outstanding claims liability. See Note 1(r).

### **(g) Equity securities**

Equity securities are financial assets and are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset, exclusive of any transaction costs. Equity securities are subsequently measured at fair value with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the Income statement in the period in which they arise.

The fair value of a quoted equity security reflects the quoted bid price at the Balance sheet date. In the case of certain assets backing investment contract and life insurance contract liabilities there is no active market for these equity securities. A fair value is established using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option-pricing models. There is no reduction for realisation costs in the value of an equity security.

### *Investments in associates*

Investments in associated entities that back investment contract and life insurance contract liabilities are treated as financial assets. These are valued in the same manner as equity securities described above.

### **(h) Debt securities**

Debt securities are financial assets and are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset exclusive of any transaction costs. For debt securities held by AMP's banking operations, initial fair value is determined as the purchase cost of the asset inclusive of any directly attributable transaction costs.

Debt securities, except for those held by AMP's banking operations, are subsequently measured at fair value, with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the Income statement for the period in which they arise. The fair value of a traded interest-bearing security reflects the bid price at the Balance sheet date. Interest-bearing securities that are not frequently traded are valued by discounting the estimated recoverable amounts, using prevailing interest rates. There is no reduction for realisation costs in the value of a debt security. Unlisted interest-bearing securities are valued using interest rate yields obtainable on comparable listed investments. The fair value of loans is established by discounting the estimated recoverable amount using prevailing interest rates. There is no reduction for realisation costs in the value of a debt security.

Debt securities held by AMP's banking operations are subsequently carried at amortised cost using the effective interest rate method.

### **(i) Property securities**

Property securities, comprising investments in property trusts, are financial assets and are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset exclusive of any transaction costs. Property securities are subsequently measured at fair value with any realised and unrealised gains or losses arising from changes in the fair value being recognised in the Income statement for the period in which they arise.

The fair value of a listed property security reflects the bid price at the Balance sheet date. If there is no active market for a property security, a fair value is established using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option-pricing models. There is no reduction for realisation costs in the value of a property security.

The accounting policies for directly held investment property and owner-occupied property are described in Notes 1(l) and (m) respectively.

### **(j) Other financial assets**

Other financial assets include investments in joint ventures and partnerships, units held in cash trusts and diversified trusts and derivatives. See Note 1(u).

### *Investments in joint ventures and partnerships*

Investments in joint ventures and partnerships that back investment contract and life insurance contract liabilities are treated as financial assets and are valued in the same manner as previously described for equity securities described above. See Note 1(g).

### *Cash trusts and diversified trusts*

The fair value of units in a listed cash trust or diversified trust reflects the quoted bid price at the Balance sheet date. There is no reduction for realisation costs in the value of units in a cash trust.

### **(k) Investments in controlled entities**

Investments by AMP Limited in controlled entities are recorded at cost (which, in the case of the investment in AMP Group Holdings Limited, was determined as net asset value on demutualisation) less any accumulated impairment losses.

## 1. Summary of significant accounting policies continued

### (l) Investment property

Investment property is held to earn revenue from rentals and/or for the purposes of capital appreciation. Investment property includes all directly held freehold and leasehold properties but excludes owner-occupied properties. See Note 1(m) below.

Investment property is initially measured at cost, including transaction costs, and is subsequently measured at fair value. Any gains or losses arising from changes in fair value are recognised in the Income statement in the period in which they arise.

All property valuations are undertaken at least annually by independent registered valuers. Fair value is based on appropriate market evidence using earnings capitalisation, discounted cash flow analysis, comparable sales transactions or a combination of these methods. The valuations are adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. There is no reduction for realisation costs in the value of investment property.

### (m) Property, plant and equipment

#### *Owner-occupied property*

Where the whole or a significant portion of a property owned by the AMP group is held for use by the group in the production or supply of goods or services, or for administrative purposes, that property is classified for accounting purposes as owner-occupied property.

Owner-occupied property is initially measured at cost, including transaction costs. It is subsequently measured at the revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation and accumulated impairment losses. Fair value is determined on the same basis as investment property in Note 1(l) above.

When a revaluation increases the carrying value of a property, the increase is recognised directly in equity in the owner-occupied property revaluation reserve. However, an increase is recognised in the Income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income statement. When the carrying value of an asset is decreased as a result of a revaluation, the decrease is recognised in the Income statement. However, any decrease is recognised in the revaluation reserve to the extent that it reverses a balance existing in the reserve in respect of that asset.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the Income statement. The balance of the revaluation reserve, in respect of a property disposed of, is transferred to retained earnings.

Each part of an owner-occupied property, except land, that is significant in relation to the total property is depreciated on a systematic basis over the useful life of the asset, being a period not exceeding 40 years.

#### *Plant and equipment*

Plant and equipment is initially measured at cost, including transaction costs. It is subsequently measured at cost less any subsequent accumulated depreciation and accumulated impairment losses. The written down amount approximates fair value.

Each item of plant and equipment is depreciated on a systematic basis over the useful life of the asset of 3–10 years.

### (n) Intangible assets

#### *Goodwill*

Goodwill is initially measured as the excess of the cost of a business combination over the acquirer's interest in the fair value of the identifiable net assets acquired at the date of acquisition. Subsequently, goodwill is carried at cost less any accumulated impairment losses.

Goodwill is not subject to amortisation but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purposes of assessing impairment of goodwill, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the assets, including goodwill, an impairment loss is recognised in the Income statement.

#### *Management rights*

Rights to receive fees for asset management services acquired either directly or as part of a business combination are recognised as an intangible asset when they can be separately identified and reliably measured and it is probable that the expected benefits will flow to the AMP group. Management rights are initially measured at cost. All management rights have been assessed to have an indefinite useful life as the contractual rights to manage the assets have no fixed term. Management rights are not amortised but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

#### *Capitalised costs*

Costs are capitalised and carried forward only where the costs relate to the creation of an asset with expected future economic benefits which are capable of reliable measurement. Otherwise, all costs are recognised as expenses in the period in which they are incurred. Capitalised costs are amortised over the estimated useful life of the asset, being a period not exceeding five years, commencing at the time the asset is first put into use or held ready for use (whichever is the earlier).

#### *Other intangible assets*

Other intangible assets comprise acquired customer relationships. These intangible assets are a result of business combinations and are recognised when they can be separately identified, reliably measured and it is probable that the expected benefits will flow to the AMP group. These intangible assets are initially measured at cost and are subsequently amortised over their estimated useful life.

### (o) Impairment of assets

Assets measured at fair value, where changes in value are reflected in the Income statement, are not subject to impairment testing. As a result, all financial assets, except debt securities held by AMP's banking operations, and investment properties are not subject to impairment testing. Other assets such as property, plant and equipment, goodwill, intangibles, borrowings and debt securities held by AMP's banking operations are subject to impairment testing.

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation but are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the Income statement, being the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (including realisation costs) and its value in use.

### (p) Taxes

#### *Tax consolidation*

AMP Limited and wholly-owned controlled entities of AMP Limited comprise a tax-consolidated group of which AMP Limited is the head entity. The implementation date for the tax-consolidated group was 30 June 2003.

**1. Summary of significant accounting policies continued**

Under tax consolidation, AMP Limited, as head entity, assumes the following balances from subsidiaries within the tax-consolidated group:

- current tax balances arising from external transactions recognised by entities in the tax-consolidated group, occurring after the implementation date
- deferred tax assets arising from unused tax losses and unused tax credits recognised by entities in the tax-consolidated group.

A tax funding agreement has been entered into by the head entity and the controlled entities in the tax-consolidated group. Controlled entities in the tax-consolidated group continue to be responsible, by the operation of the tax funding agreement, for funding tax payments required to be made by the head entity arising from underlying transactions of the controlled entities. Controlled entities make (receive) contributions to (from) the head entity for the balances recognised by the head entity, described in the points above. The contributions are calculated in accordance with the tax funding agreement. The contributions are payable as set out in the agreement and reflect the timing of AMP Limited's obligations to make payments to the relevant tax authorities.

Assets and liabilities which arise as a result of balances transferred from entities within the tax-consolidated group to the head entity, are recognised as related-party balances receivable and payable in the Balance sheet. The recoverability of balances arising from the tax funding arrangements is based on the ability of the tax-consolidated group to utilise the amounts recognised by the head entity.

**Income tax for investment contracts and life insurance contracts business**

The income tax expense recognised in the Income statement arising in AMP Life reflects tax imposed on shareholders as well as policyholders.

Investment contracts and life insurance contracts liabilities are established net of the policyholders' share of any current tax payable and deferred tax balances of the AMP group.

Arrangements made with some superannuation funds result in AMP Life making payments to the Australian Taxation Office in relation to contributions tax arising in those funds. The amounts paid are not classified as income tax expense.

**Income tax for other business**

The income tax expense for all other business is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to:

- temporary differences between the tax bases of assets and liabilities and their Balance-sheet carrying amounts
- unused tax losses.

**Deferred tax**

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Any tax impact on income and expense items recognised directly in equity is also recognised directly in equity.

Deferred tax, including amounts in respect of investment contracts and life insurance contracts, is not discounted to present value.

**Goods and services tax**

The AMP group operates across a number of tax jurisdictions and offers products and services that may be subject to various forms of goods and services tax (GST) imposed by local tax authorities.

All income, expenses and assets are recognised net of any GST paid, except where they relate to products and services which are input taxed for GST purposes or where the GST incurred is not recoverable from the relevant tax authorities. In such circumstances, the GST paid is recognised as part of the cost of acquisition of the assets or as part of the particular expense.

Receivables and payables are recorded with the amount of GST included. The net amount of GST recoverable from or payable to the tax authorities is included as either a receivable or payable in the Balance sheet.

Cash flows are reported on a gross basis reflecting any GST paid or collected. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, local tax authorities are classified as *operating cash flows*.

**(q) Payables**

Payables are financial liabilities and are measured at fair value. Given the short-term nature of most payables, the recoverable amount approximates fair value.

**(r) Outstanding claims**

The outstanding claims liability in respect of general insurance contracts is measured as the best estimate of the present value of expected future payments for claims incurred at the balance date. A risk margin is added to allow for the inherent uncertainty in the best estimate and to increase the probability that the liability is adequately provided for. The level of risk margin applied for financial reporting is the same as that applied for regulatory solvency purposes. The liability includes an allowance for inflation and superimposed inflation and is discounted to present value using a risk-free rate.

Claims incurred at the balance date comprise:

- claims which have been reported but not yet paid
- claims incurred but not yet reported
- claims incurred but not enough reported
- the anticipated direct and indirect costs of settling these claims.

Outstanding claims are determined by the Approved Actuary in accordance with Actuarial and Prudential Standards.

Outstanding claims in 2007 form part of the general insurance operations which have been classified as discontinued operations held for sale. For further details see Note 21.

**(s) Provisions**

Provisions are recognised when:

- The AMP group has a present obligation (legal or constructive) as a result of a past event.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the amount of the obligation.

Where the AMP group expects some or all of a provision to be reimbursed, for example under an insurance contract,

## 1. Summary of significant accounting policies continued

the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income statement net of any reimbursement.

If the effect of the time-value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate. This rate reflects the current market assessments of the time-value of money and, where appropriate, the risks specific to the liability.

### *Employee entitlements*

Provision is made for employee entitlements accumulated as a result of employees rendering services up to the balance date. These entitlements include salaries, wages, bonuses, annual leave and long service leave, but exclude share-based payments. See Note 1(gg).

Liabilities arising in respect of salaries and wages, annual leave and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities, which have terms to maturity approximating the terms of the related liability.

### *Restructuring*

A restructuring provision is only recognised when it is probable that future costs will be incurred in respect of a fundamental reorganisation or change in focus of the business of the AMP group. A provision is recognised when the AMP group is demonstrably committed to the expenditure and a reliable estimate of the costs involved can be made. The provision is measured as the best estimate of the incremental, direct expenditures to be incurred as a result of the restructure and does not include costs associated with the ongoing activities of the AMP group.

### **(t) Borrowings and subordinated debt**

All borrowings and subordinated debt are financial liabilities and are initially recognised at fair value, net of directly attributable incremental transaction costs.

Borrowings and subordinated debt, other than those held by controlled entities of the life statutory funds, are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income statement over the period of the contract using the *effective interest method*. It is AMP's policy to hedge currency and interest rate risk arising on issued bonds and subordinated debt. When fair value hedge accounting is applied to borrowings and subordinated debt, the carrying values of borrowings and subordinated debt are adjusted for changes in fair value for the period that the fair value hedge relationship remains effective. See Note 1(u).

Borrowings of the controlled entities of the life statutory funds are subsequently measured at fair value with movements recognised in the Income statement.

### **(u) Derivatives and hedging**

The AMP group is exposed to changes in interest and foreign exchange rates. To mitigate the risks arising from these exposures, the AMP group uses derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts. Derivative financial instruments are also used to gain exposure to various markets for asset and liability management purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. All derivatives are carried as assets

when their fair value is positive, and as liabilities when their fair value is negative.

The method of recognising the movement in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The AMP group designates a hedge as either:

- a hedge of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge), or
- a hedge of highly probable forecast transactions (cash flow hedge).

The AMP group documents the relationship between hedging instruments and hedged items at inception of the transaction, as well as its risk management and strategy for undertaking various hedge transactions. The AMP group also documents its assessment of whether the derivatives used in hedging transactions have been, or will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. This assessment is carried out at both hedge inception and on an ongoing basis.

### *Accounting for hedges*

#### (i) Fair value hedges:

- Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.
- If a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to the Income statement over the period to maturity.

#### (ii) Cash flow hedges:

- The effective portion of changes in the fair value of derivatives that are designated to qualify as cash flow hedges are recognised in equity in the cash flow hedges reserve. The balance of the cash flow hedges reserve in relation to each particular hedge is transferred to the Income statement in the period when the hedged item will affect profit or loss.
- The gain or loss relating to any ineffective portion of a hedge is recognised immediately in the Income statement.
- Hedge accounting is discontinued when a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting. The cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income statement.
- When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income statement.

### *Derivatives that do not qualify for hedge accounting*

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative financial instrument that does not qualify for hedge accounting are recognised in the Income statement in the period in which they arise.

### *Fair value estimation*

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and available-for-sale securities) is based on quoted market prices at the Balance sheet date. The quoted market price used for financial assets held by the AMP group is the current bid price; the quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined

**1. Summary of significant accounting policies continued**

using valuation techniques. Valuation techniques include net present value techniques, discounted cash-flow methods and comparison to quoted market prices or dealer quotes for similar instruments. Inputs to the models are market observable.

**(v) Recognition and derecognition of financial assets and liabilities**

Financial assets are recognised at trade date. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or are transferred. A transfer occurs when substantially all the risks and rewards of ownership of the financial asset are passed to an unrelated third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

**(w) Investment contract liabilities**

Investment contracts consist of a financial instrument and an investment management services element, both of which are measured at fair value. With the exception of fixed retirement-income policies, the resulting liability to policyholders is closely linked to the performance and value of the assets (after tax) that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets, after tax, charged to the policyholders with the exception of the impact of the accounting mismatch items. See Note 1(d).

For fixed retirement-income policies, the financial instrument element of the liability is the fair value of the fixed retirement-income payments, being their net present value using a risk-free discount rate. The fair value of the associated management services element is the net present value, using a risk-free discount rate, of all expenses associated with the provision of services and any profit margins thereon. The risk-free discount rate is determined by the Appointed Actuary based on the Commonwealth Government bond rate or the inter-bank zero coupon mid swap rates, depending on the nature, structure and term of the contract liabilities.

**(x) Life insurance contract liabilities**

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as *Margin on Services* (MoS).

Under MoS, the excess of premium received over claims and expenses (the *margin*) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the *service*). The movement in life insurance contract liabilities recognised in the Income statement reflects the planned release of this margin.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The liability is calculated as the net present value of these projected cash flows using best-estimate assumptions about the future. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Where the benefits are not linked to the performance of the backing assets, a risk-free discount rate is used. The risk-free discount rate is determined by the Appointed Actuary based on the Commonwealth Government bond rate or the inter-bank zero coupon mid swap rates depending on the nature, structure and terms of the contract liabilities.

An accumulation method may be used if it produces results that are not materially different from those produced by a projection method. A modified accumulation method is used for some discretionary participating business, where the life insurance liability is the accumulation of amounts invested by policyholders, less fees specified in the policy, plus investment earnings and vested benefits, adjusted to allow for the fact that crediting rates are determined by reference to investment income over a period of greater than one year.

The accumulation method may be adjusted to the extent that acquisition expenses are to be recovered from future margins between fees and expenses.

**Allocation of operating profit and unvested policyholder benefits**

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the *Life Insurance Act 1995* (Life Act).

Once profit is allocated to participating policyholders it can only be distributed to these policyholders. Any distribution of this profit to shareholders is only allowed for overseas business with specific approval of the regulators.

Profit allocated to participating policyholders is recognised in the Income statement as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (i.e. unvested) and that which has been allocated to specific policyholders by way of bonus distributions (i.e. vested) are included within life insurance contract liabilities.

Bonus distributions to participating policyholders are merely a change in the nature of the liability from unvested to vested and, as such, do not alter the amount of profit attributable to shareholders.

The principles of allocation of the profit arising from discretionary participating business determined under the Life Act and MoS are as follows:

- (i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and shareholders in proportion to the balances of policyholders' and shareholders' retained earnings, being 80:20.
- (ii) Other MoS profits arising from discretionary participating business (excluding the additional tax attributable to shareholders in respect of Australian superannuation business) are allocated 80% to policyholders and 20% to shareholders, with the following exceptions:
  - The profit arising from New Zealand corporate superannuation business is apportioned such that shareholders are allocated 15% of the profit allocated to policyholders.
  - The profit arising in respect of Preservation Superannuation Account business is allocated 92.5% to policyholders and 7.5% to shareholders.
- (iii) Additional tax on taxable income to shareholders in respect of Australian superannuation business is allocated to shareholders only.
- (iv) All profits arising from non-participating business, including net investment returns on shareholder capital and retained earnings in life statutory funds (excluding retained earnings dealt with in (i) above) are allocated to shareholders.

**Allocation of expenses within the life statutory funds**

All operating expenses relating to the life insurance contract and investment contract activities are apportioned between acquisition, maintenance and investment management expenses. Expenses which are directly attributable to an individual life insurance contract or investment contract or product are allocated directly to a particular expense category, fund, class of business and product line as appropriate.

Where expenses are not directly attributable, they are appropriately apportioned, according to detailed expense analysis, with due regard for the objective in incurring that expense and the outcome achieved. The apportionment basis has been made in accordance with Actuarial Standards and on an equitable basis to the different classes of business in accordance with the Life Act.

The costs apportioned to life insurance contracts are included in the determination of margin described above.

Investment management expenses of the life statutory funds are classified as other operating expenses. See Note 1(ee).

## 1. Summary of significant accounting policies continued

### (y) Issued capital

Issued capital in respect of ordinary shares is recognised as the fair value of consideration received by the parent entity. Incremental costs directly attributable to the issue of certain new shares are recognised in equity as a deduction, net of tax, from the proceeds.

### (z) Foreign currency transactions

#### *Functional and presentation currency*

Items included in the financial statements for each of the AMP group entities are measured using the currency of the primary economic environment in which that entity operates (the functional currency).

The presentation currency of this Financial Report, and the functional currency of the parent entity, is Australian dollars.

#### *Transactions and balances*

Income and expense items denominated in a currency other than the functional currency are translated at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the Balance sheet date, with exchange gains and losses recognised in the Income statement.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *Translation of controlled entities*

Where the functional currency of a controlled entity is not the presentational currency, the transactions and balances of that entity are translated as follows:

- Income and expenses are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates. In this case, income and expenses are translated at the dates of the transactions.
- Assets and liabilities are translated at the closing rate at the Balance sheet date.
- All resulting exchange differences are recognised as a separate component of equity in the foreign currency translation reserve.

When a foreign operation is sold, a proportionate share of such exchange differences is recognised in the Income statement as part of the gain or loss on sale.

### (aa) Insurance premium and related revenue

#### *Life insurance contracts*

Life insurance contract premiums are separated into their revenue and deposit components. Premium amounts earned by bearing insurance risks are recognised as revenue. Other premium amounts received, which are in the nature of deposits, are recognised as an increase in life insurance contract liabilities.

Premiums with no due date or fixed amount are recognised on a cash-received basis. Premiums with a regular due date are recognised on an accruals basis. Unpaid premiums are only recognised during the days of grace or where secured by the surrender value of the life insurance contract and are reported as outstanding premiums and classified as receivables in the Balance sheet.

#### *Investment contracts*

There is no premium revenue in respect of investment contracts. Amounts received from policyholders in respect of investment contracts comprise:

- origination fees and ongoing investment management fees. See Note 1(bb).
- amounts credited directly to investment contract liabilities. See Note 1(w).

### (bb) Fee and other revenue

Fees are charged to customers in connection with investment contracts and other financial services contracts. Revenue is recognised as services are provided. In some cases services are

provided at the inception of the contract while other services are performed over the life of the contract.

Investment contracts consist of a financial instrument and an investment-management services element. The payment by the policyholder includes the amount to fund the financial instrument and a fee for the origination of the contract. In many cases, that origination fee is based on commission paid to financial planners for providing initial advice. The financial instrument is classified as an investment contract and is measured at fair value. See Note 1(w).

The revenue that can be attributed to the origination service is recognised at inception. Any commission paid related to that fee is also recognised as an expense at that time. See Note 1(ee).

Fees for ongoing investment management services and other services provided are charged on a regular basis, usually daily, and are recognised as income as the service is provided.

Performance-based fees are recognised as revenue when the contractual performance criteria have been met and the right to receive the fee has been established.

### (cc) Investment gains or losses

Dividend and interest income is recognised in the Income statement on an accruals basis when the AMP group obtains control of the right to receive the revenue.

Realised gains and losses represent the change in value between the previously reported value and the amount received on sale of the asset. Unrealised gains and losses represent changes in the fair value of financial assets and investment property recognised in the period.

### (dd) Insurance claims and related expense

#### *Life insurance contracts*

Life insurance contract claims are separated into their expense and withdrawal components. The component that relates to the bearing of risks is treated as an expense. Other claim amounts, which are in the nature of withdrawals, are recognised as a decrease in life insurance contract liabilities.

Claims are recognised when the liability to the policyholder under the life insurance contract has been established or upon notification of the insured event, depending on the type of claim.

#### *Investment contracts*

There is no claims expense in respect of investment contracts. Amounts paid to policyholders in respect of investment contracts are withdrawals and are recognised as a decrease in investment contract liabilities. See Note 1(w).

#### *General insurance contracts*

A claims expense in respect of general insurance contracts is recognised in the Income statement either as claims are incurred or as movements in outstanding claims occur.

General insurance claims expense forms part of the result of the general insurance operations, which have been classified as discontinued operations held for sale. For further details see Note 21.

### (ee) Operating expenses

All operating expenses, other than those allocated to life insurance contracts, are expensed as incurred. See Note 1(x).

Expenses of controlled entities of the life statutory funds represent the business costs of those entities and are consolidated into the results of the AMP group.

The majority of investment contracts issued result in commissions and other payments to external service and advice providers. Where the amount paid equates to a fee charged to policyholders for the provision of advice, the amount is expensed either at inception or over the period of the contract consistent with the basis for recognising the fee revenue on the respective contracts. See Note 1(bb).

## 1. Summary of significant accounting policies continued

### (ff) Finance costs

Finance costs include:

- (i) borrowing costs:
  - interest on bank overdrafts, borrowings and subordinated debt
  - amortisation of discounts or premiums related to borrowings
  - finance charges in relation to finance leases.
- (ii) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
- (iii) changes in the fair value of derivative hedges together with any change in the fair value of the hedged asset or liabilities that are designated and qualify as fair value hedges, foreign exchange gains and losses and other financing related amounts.

Borrowing costs are recognised as expenses when incurred. The accounting policy for derivatives is set out in Note 1(u).

### (gg) Share-based payments

The AMP group issues performance rights, restricted shares and other equity instruments to employees as a form of equity-settled share-based compensation. Equity-settled share-based compensation to employees is an expense in respect of the services received and is recognised in the Income statement over the vesting period of the instrument. There is an equivalent increase in the share-based payment reserve within equity.

The expense is based on the fair value of each grant, measured at the date of the grant. For performance rights and similar instruments the fair value is determined by an external valuer. The fair value calculation takes into consideration a number of factors including the likelihood of achieving market-based vesting conditions such as total shareholder return. The fair value determined at grant date is not altered over the vesting period. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. At each Balance sheet date, the AMP group reviews its estimates of the number of instruments that are expected to vest. Any changes to the original estimates are recognised in the Income statement and the share-based payment reserve, over the remaining vesting period.

Where the terms of an equity-settled share-based payment are modified and the expense increases as a result of the modification, then the increase is recognised over the remaining vesting period. When a modification reduces the expense, there is no adjustment and the pre-modification cost continues to be recognised.

Expenses for awards that do not ultimately vest are reversed in the period in which the instrument lapses, except for awards where vesting is conditional upon a market condition, in which case no reversal is recognised.

If the instruments vest, shares are purchased on-market and transferred to the employee. This purchase results in a decrease in the share-based payments reserve for the amount of the cost of the purchase.

### (hh) Superannuation funds

The AMP group operates two superannuation funds that provide benefits for employees and their dependants on resignation, retirement, disability or death of the employee. The funds have both defined contribution and defined-benefit sections. New employees are only offered defined contribution benefits. AMP also makes contributions to multiple superannuation funds in respect of employees who are not members of AMP operated funds. These contributions are made on a defined contribution basis.

For the defined contribution sections, the AMP group pays contributions to the funds on a mandatory basis. The AMP group has no further payment obligations once the contributions

have been paid. The contributions are recognised in the Income statement as an operating expense when they fall due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

For the defined-benefit sections, the AMP group recognises the net deficit or surplus position of each fund in the Balance sheet. The deficit or surplus is measured as the difference between the fair value of the funds' assets and the discounted defined-benefit obligations of the funds, using a government bond yield as the discount rate. The defined-benefit obligation is calculated annually, with half-yearly reviews, by independent actuaries.

After taking into account any contributions paid into the defined-benefits funds during the period, movements in the net surplus or deficit of each fund, except actuarial gains and losses, are recognised in the Income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions over the period are recognised in full (net of tax), directly in retained profits. The movement is also reflected in the Statement of recognised income and expenses.

Contributions paid into defined-benefit funds are recognised as reductions in the deficit.

### (ii) Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit attributable to shareholders of AMP Limited, by the weighted average number of ordinary shares outstanding during the period. The weighted average number of 'treasury shares' held during the period is excluded in calculating the weighted average number of ordinary shares outstanding.

Diluted earnings per share is calculated by dividing the profit used in the determination of basic earnings per share by the weighted average number of shares outstanding during the period adjusted for potential ordinary shares considered to be dilutive. Potential ordinary shares are contracts such as options and performance rights that may entitle the holder to ordinary shares. These potential ordinary shares are considered dilutive when their conversion into ordinary shares would be likely to cause a reduction in earnings per share.

### (jj) Disposal groups held for sale

Disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. For a disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the disposal group to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of a disposal group, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the disposal group will be recognised at the date of derecognition, which, in relation to AMP's general insurance operations, is expected to be finalised by 31 March 2008.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view of resale. The results of discontinued operations are presented separately on the face of the Income statement. The assets and liabilities of discontinued operations in the current year are presented separately on the face of the Balance sheet whilst the prior year comparatives have not been restated.

## 2. Segment information

Business segments	Continuing operations				Discontinued operations		Total 2007 \$m
	AMP Financial Services <sup>3</sup>	AMP Capital Investors	Other	Eliminations <sup>3</sup>	Total from continuing operations	General Insurance <sup>4</sup>	
	2007 \$m	2007 \$m	2007 \$m	2007 \$m	2007 \$m	2007 \$m	
External revenue	10,567	423	7	–	10,997	21	11,018
Inter-segment revenue	60	307	49	(457)	(41)	41	–
<b>Total revenue<sup>1, 2</sup></b>	<b>10,627</b>	<b>730</b>	<b>56</b>	<b>(457)</b>	<b>10,956</b>	<b>62</b>	<b>11,018</b>
Segment result	1,317	219	(233)	–	1,303	250	1,553
Income tax (expense) credit	(556)	(63)	166	–	(453)	(44)	(497)
<b>Profit attributable to shareholders of AMP Limited before accounting mismatches</b>	<b>761</b>	<b>156</b>	<b>(67)</b>	<b>–</b>	<b>850</b>	<b>206</b>	<b>1,056</b>
Unmatched changes in policyholder liabilities (accounting mismatches)	(30)	–	–	(41)	(71)	–	(71)
<b>Net profit (loss) after accounting mismatches</b>	<b>731</b>	<b>156</b>	<b>(67)</b>	<b>(41)</b>	<b>779</b>	<b>206</b>	<b>985</b>
Total assets	105,850	1,097	1,835	(1,654)	107,128	1,289	108,417
Total liabilities	104,439	804	2,247	(1,654)	105,836	567	106,403
Depreciation	39	1	5	–	45	–	45
Amortisation	13	–	35	–	48	–	48
Other non cash expenses	4,432	5	22	–	4,459	(1)	4,458
Assets acquired during the year	65	3	–	–	68	–	68

Geographic segments	Australia	New Zealand	Other	Eliminations	Total
	2007 \$m	2007 \$m	2007 \$m	2007 \$m	2007 \$m
Revenue from external sales	10,640	397	20	(39)	11,018
Total assets	105,729	2,575	261	(148)	108,417
Assets acquired during the year	50	17	1	–	68

### Footnote:

- 1 Segment revenue is the aggregate of premium and related revenue, fee revenue and other revenue and investment gains (losses) as detailed in Note 3.
- 2 Segment revenue includes operating revenue activity between segments. These transactions are priced on an arm's length basis and are eliminated on consolidation.
- 3 The impact of accounting mismatches relating to discounting of deferred tax balances and investments in controlled entities of the life statutory funds is reflected within the AMP Financial Services segment and the remainder of the accounting mismatches reflected as eliminations. See Note 1(d) for further information on accounting mismatches.
- 4 The segment balances in respect of the discontinued operations include amounts derived from transactions with other business segments. These amounts have been eliminated in the assets and liabilities of the disposal group held for sale on the face of the Balance sheet and in the profit from discontinued operations on the face of the Income statement.

## 2. Segment information continued

Business segments	Continuing operations				Discontinued operations		Total 2006 \$m
	AMP Financial Services <sup>3</sup>	AMP Capital Investors	Other	Eliminations <sup>3</sup>	Total from continuing operations	General Insurance <sup>4</sup>	
	2006 \$m	2006 \$m	2006 \$m	2006 \$m	2006 \$m	2006 \$m	
External revenue	13,757	349	122	–	14,228	39	14,267
Inter-segment revenue	69	276	12	(408)	(51)	51	–
<b>Total revenue<sup>1,2</sup></b>	<b>13,826</b>	<b>625</b>	<b>134</b>	<b>(408)</b>	<b>14,177</b>	<b>90</b>	<b>14,267</b>
Segment result	1,529	145	(27)	–	1,647	138	1,785
Income tax (expense) credit	(826)	(32)	69	–	(789)	(20)	(809)
<b>Profit attributable to shareholders of AMP Limited before accounting mismatches</b>	<b>703</b>	<b>113</b>	<b>42</b>	<b>–</b>	<b>858</b>	<b>118</b>	<b>976</b>
Unmatched changes in policyholder liabilities (accounting mismatches)	42	–	–	(103)	(61)	–	(61)
<b>Net profit (loss) after accounting mismatches</b>	<b>745</b>	<b>113</b>	<b>42</b>	<b>(103)</b>	<b>797</b>	<b>118</b>	<b>915</b>
Total assets	94,587	774	2,607	(1,892)	96,076	1,898	97,974
Total liabilities	93,238	492	2,837	(1,892)	94,675	845	95,520
Depreciation	17	1	–	–	18	–	18
Amortisation	17	–	19	–	36	–	36
Other non cash expenses	7,121	–	28	–	7,149	–	7,149
Assets acquired during the year	17	1	–	–	18	–	18

Geographic segments	Australia	New Zealand	Other	Eliminations	Total
	2006 \$m	2006 \$m	2006 \$m	2006 \$m	2006 \$m
Revenue from external sales	13,649	525	112	(19)	14,267
Total assets	95,508	2,522	61	(117)	97,974
Assets acquired during the year	16	2	–	–	18

## Footnote:

- 1 Segment revenue is the aggregate of premium and related revenue, fee revenue and other revenue and investment gains (losses) as detailed in Note 3.
- 2 Segment revenue includes operating revenue activity between segments. These transactions are priced on an arm's length basis and are eliminated on consolidation.
- 3 The impact of accounting mismatches relating to discounting of deferred tax balances and investments in controlled entities of the life statutory funds is reflected within the AMP Financial Services segment and the remainder of the accounting mismatches reflected as eliminations. See Note 1(d) for further information on accounting mismatches.
- 4 The segment balances in respect of the discontinued operations include amounts derived from transactions with other business segments. These amounts have been eliminated in the assets and liabilities of the disposal group held for sale on the face of the Balance sheet and in the profit from discontinued operations on the face of the Income statement.

## Business segment information

*AMP Financial Services (AFS)* – provides financial planning, investment services, superannuation, mortgage and savings products (provided by AMP Bank) and life insurance products in Australia and New Zealand. The AFS segment also includes investments of the life statutory funds which have controlling equity interests in trusts and companies, which conduct investment activities and operating businesses. The individual assets, liabilities, revenues and expenses of those operating businesses are recognised in the AFS segment.

*AMP Capital Investors (AMPCI)* – provides investment management services in Australia, New Zealand and Asia including private capital, infrastructure and property portfolios and socially responsible investments.

*General Insurance* – comprises reinsurance and corporate insurance operations in run-off. The AMP group has entered into a sale agreement for its general insurance operations. For further details see Note 21.

*Other* – includes the provision of support services to the business units, corporate funding and investment of shareholder capital not allocated to reportable segments.

### 3. Income

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(a) Life insurance premium and related revenue</b>					
Life insurance contract premium revenue	19	<b>904</b>	871	–	–
Reinsurance recoveries	19	<b>26</b>	25	–	–
<b>Total life insurance premium and related revenue</b>		<b>930</b>	896	–	–
<b>(b) Fee revenue</b>					
Investment management and origination fees		<b>1,419</b>	1,217	–	–
Financial advisory fees		<b>166</b>	137	–	–
Banking business fees		<b>14</b>	13	–	–
Service fees					
– subsidiaries		–	–	<b>18</b>	13
– other entities		<b>2</b>	7	–	–
<b>Total fee revenue<sup>1</sup></b>		<b>1,601</b>	1,374	<b>18</b>	13
<b>(c) Other revenue</b>					
Defined benefit fund income	26	<b>8</b>	6	–	–
Other revenue <sup>2</sup>		<b>330</b>	161	–	–
<b>Total other revenue</b>		<b>338</b>	167	–	–
<b>(d) Investment gains and losses</b>					
Interest					
– subsidiaries		–	–	<b>1</b>	1
– other entities <sup>3, 5</sup>		<b>1,611</b>	1,495	<b>1</b>	2
Dividends and distributions					
– subsidiaries		–	–	<b>811</b>	506
– associated entities		<b>324</b>	459	–	–
– other entities <sup>5</sup>		<b>5,553</b>	3,527	–	–
Net rents		<b>680</b>	612	–	–
Net realised and unrealised gains and losses <sup>4, 5</sup>		<b>(120)</b>	5,662	–	–
Other investment income		<b>80</b>	36	–	–
<b>Total investment gains</b>		<b>8,128</b>	11,791	<b>813</b>	509

Footnote:

- 1 The consolidated balances include fee income from trust and fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions, with the exception of \$14m (2006: \$13m) fees from banking operations, which are fees from financial assets that are not at fair value through profit or loss.
- 2 The consolidated balances include trading revenues of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group.
- 3 The consolidated balances include interest income from financial assets at fair value through profit or loss, designated as such upon initial recognition, with the exception of \$628m (2006: \$521m) interest income from held to maturity investments and loans and receivables in banking operations, which are measured at amortised cost.
- 4 The consolidated balances include net gains or losses on financial assets or financial liabilities at fair value through profit or loss, designated as such upon initial recognition.
- 5 Comparative information in relation to these balances has been reclassified to reflect the more detailed analysis of income statement line items in the underlying controlled unit trusts applied in 2007.

## Notes to the financial statements continued

for the year ended 31 December 2007

### 4. Expenses

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(a) Life insurance claims and related expenses</b>					
Life insurance contract claims and related expenses	19	<b>(1,308)</b>	(1,234)	–	–
Outwards reinsurance expense	19	<b>(41)</b>	(37)	–	–
<b>Total life insurance claims and related expenses</b>		<b>(1,349)</b>	(1,271)	–	–
<b>(b) Operating expenses</b>					
Commission expense		<b>(562)</b>	(472)	–	–
Investment management expenses		<b>(304)</b>	(217)	–	–
Fee expense on banking business		<b>(12)</b>	(10)	–	–
<b>Fee and commission expenses<sup>1</sup></b>		<b>(878)</b>	(699)	–	–
Wages and salaries		<b>(580)</b>	(475)	<b>(10)</b>	(8)
Contributions to defined contribution funds		<b>(45)</b>	(37)	–	–
Defined benefit fund expense	26	<b>(2)</b>	(1)	–	–
Share-based payments expense	27	<b>(17)</b>	(10)	<b>(6)</b>	(2)
Other staff costs		<b>(60)</b>	(49)	<b>(1)</b>	(1)
<b>Staff and related expenses</b>		<b>(704)</b>	(572)	<b>(17)</b>	(11)
Occupancy and property maintenance expenses		<b>(240)</b>	(274)	–	–
Information technology and communication		<b>(145)</b>	(120)	–	–
Professional fees		<b>(90)</b>	(78)	–	–
Advertising and marketing		<b>(36)</b>	(22)	–	–
Travel and entertainment		<b>(27)</b>	(22)	–	–
Other expenses <sup>2</sup>		<b>(272)</b>	(306)	<b>(1)</b>	(1)
<b>Other operating expenses</b>		<b>(810)</b>	(822)	<b>(1)</b>	(1)
<b>Total operating expenses</b>		<b>(2,392)</b>	(2,093)	<b>(18)</b>	(12)
<b>(c) Finance costs</b>					
Interest expense on borrowings and subordinated debt <sup>3</sup>		<b>(643)</b>	(471)	–	–
Other finance costs		<b>(140)</b>	(145)	–	–
<b>Total finance costs</b>		<b>(783)</b>	(616)	–	–

Footnote:

- 1 The consolidated balances include fee expense from trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions, with the exception of \$12m (2006: \$10m) fees from banking operations, which are fees from financial assets that are not at fair value through profit or loss.
- 2 The consolidated balances include trading expenses of investment entities controlled by the life statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMP group.
- 3 The consolidated balances include \$414m (2006: \$368m) interest expense from borrowings and subordinated debt in banking operations, which are measured at amortised cost.

## 5. Income tax

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(a) Analysis of income tax (expense) credit</b>				
Current tax	(606)	(711)	3	3
(Decrease) increase in deferred tax assets	(16)	69	47	39
Decrease (increase) in deferred tax liabilities	190	(150)	–	–
Over (under) provided in previous years	(13)	11	40	15
<b>Income tax (expense) credit</b>	<b>(445)</b>	<b>(781)</b>	<b>90</b>	<b>57</b>

### (b) Relationship between income tax expense and accounting profit

The following table provides a reconciliation of differences between prima facie tax calculated as 30% of the profit before income tax for the period and the actual income tax expense recognised in the Income statement for the period. The income tax expense amount reflects the impact of both income tax attributable to shareholders as well as income tax attributable to policyholders.

In respect of income tax expense attributable to shareholders, the tax rate which applies in both 2007 and 2006 is 30% for Australia and 33% for New Zealand. There are certain differences between the amounts of income and expenses recognised in the Financial Report and the amounts recognised for income tax purposes.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against policyholder liabilities. A number of different tax rate regimes apply to policyholders. In Australia, certain classes of policyholder life insurance income and superannuation earnings are taxed at 15%, and certain classes of income on some annuity business are tax-exempt. Rates applicable to New Zealand life insurance business range between 30–33%.

During the period the New Zealand government announced a change in the company tax rate from 33% to 30% for the 2008/2009 tax year. Deferred tax assets and deferred tax liabilities expected to be realised or settled after the change in tax rate has taken effect, have been remeasured to reflect the announced tax rate.

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Profit before income tax from continuing operations	1,237	1,608	813	510
Policyholder tax recognised as a charge to policyholders in determining profit before income tax	(242)	(531)	–	–
<b>Profit before income tax from continuing operations excluding tax charged to policyholders</b>	<b>995</b>	<b>1,077</b>	<b>813</b>	<b>510</b>
Prima facie tax at the rate of 30% (2006: 30%)	(299)	(323)	(244)	(153)
Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts deductible/(taxable) in calculating taxable income:				
Shareholder impact of par-business tax treatment	13	(22)	–	–
Non-deductible expenses	(28)	(17)	–	–
Non-taxable income	22	19	–	–
Tax offsets and credits	17	14	1	3
Dividend income from controlled entities	–	–	243	153
Other items	(18)	17	–	–
Over (under) provided in previous years after excluding amounts attributable to policyholders	37	16	40	15
Benefit arising from previously unrecognised tax losses	56	47	50	39
Difference in overseas tax rates	(3)	(1)	–	–
Income tax (expense) credit attributable to shareholders	(203)	(250)	90	57
Income tax (expense) credit attributable to policyholders	(242)	(531)	–	–
<b>Income tax (expense) credit per Income statement</b>	<b>(445)</b>	<b>(781)</b>	<b>90</b>	<b>57</b>

## Notes to the financial statements continued

for the year ended 31 December 2007

### 5. Income tax continued

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(c) Analysis of deferred tax asset</b>				
Expenses deductible and income recognisable in future years	158	173	1	6
Unrealised movements on borrowings and derivatives	26	18	–	–
General insurance claims costs	–	24	–	–
Losses available for offset against future taxable income	–	36	84	76
Other	125	77	2	–
<b>Total deferred tax assets</b>	<b>309</b>	<b>328</b>	<b>87</b>	<b>82</b>
<b>(d) Analysis of deferred tax liability</b>				
Unrealised investment gains	1,683	1,782	–	–
Unrealised movements on borrowings and derivatives	67	29	–	–
Amounts recognised directly in equity	7	12	–	–
Other	54	41	–	–
<b>Total deferred tax liability</b>	<b>1,811</b>	<b>1,864</b>	<b>–</b>	<b>–</b>
<b>(e) Unused tax losses and deductible temporary differences not recognised</b>				
Revenue losses	226	257	206	232
Capital losses	667	581	667	581

### 6. Receivables

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
Investment income and sales proceeds receivable		367	825	–	–
Life and general insurance contract premiums receivable <sup>2</sup>		281	291	–	–
Reinsurance and other recoveries receivable <sup>2</sup>	21	–	92	–	–
Reinsurers' share of life insurance contract liabilities		47	35	–	–
Trade debtors <sup>1</sup>		242	121	–	–
Other receivables					
– subsidiaries – tax related amounts		–	–	291	490
– subsidiaries – other		–	–	8	17
– associated entities		1	1	–	–
– other entities		242	170	–	–
<b>Total receivables<sup>3, 4</sup></b>		<b>1,180</b>	<b>1,535</b>	<b>299</b>	<b>507</b>

Footnote:

- 1 The consolidated balances include trade debtors of investment entities controlled by the life statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMP group.
- 2 Amounts in relation to the general insurance operations are included within the comparative balances. In 2007, these operations have been classified as discontinued operations held for sale and consequently amounts in relation to 2007 are not included within these balances but are included within Assets of discontinued operations held for sale on the face of the Balance sheet.
- 3 \$198m (2006: \$571m) of Total receivables is expected to be realised 12 months or more from the reporting date.
- 4 All receivables are at fair value through profit or loss, designated as such upon initial recognition.

## 7. Equity, debt and property securities and other financial assets

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Equity securities</b>				
Directly held				
– associated entities	378	338	–	–
– other entities <sup>1</sup>	32,336	30,991	–	–
Held via unit trusts				
– associated entities	1,098	769	–	–
– other entities <sup>1</sup>	10,030	9,278	–	–
<b>Total equity securities<sup>2</sup></b>	<b>43,842</b>	<b>41,376</b>	<b>–</b>	<b>–</b>
<b>Debt securities<sup>3</sup></b>				
Interest bearing securities directly held <sup>1</sup>	23,488	21,792	–	–
Interest bearing securities held via unit trusts				
– associated entities	–	161	–	–
– other entities <sup>1</sup>	3,326	1,713	–	–
Secured loans				
– other entities	9,004	7,899	–	–
Unsecured loans				
– subsidiaries	–	–	204	517
– associated entities	122	1	–	–
– other entities	325	412	1	–
Convertible notes	22	29	–	–
<b>Total debt securities<sup>4</sup></b>	<b>36,287</b>	<b>32,007</b>	<b>205</b>	<b>517</b>
<b>Property securities</b>				
Held via unit trusts				
– associated entities	2,469	2,156	–	–
– other entities	2,831	3,470	–	–
<b>Total property securities<sup>1,2</sup></b>	<b>5,300</b>	<b>5,626</b>	<b>–</b>	<b>–</b>
<b>Other financial assets</b>				
Cash securities held via unit trusts	1,173	1,025	–	–
Other financial assets <sup>1,5</sup>	6,323	5,609	–	–
<b>Total other financial assets<sup>2</sup></b>	<b>7,496</b>	<b>6,634</b>	<b>–</b>	<b>–</b>
<b>Investments in controlled entities</b>	<b>–</b>	<b>–</b>	<b>7,022</b>	<b>7,443</b>

### Footnote:

- Comparative information has been reclassified to reflect the look through of balanced trusts only to the extent that they are controlled entities. In prior periods all balanced trusts were allocated into their constituent equity, debt and property components.
- All equity and property securities, and other financial assets are at fair value through profit or loss, designated as such upon initial recognition.
- All debt securities are recorded at fair value, with the exception of \$8,582m (2006: \$7,592m) of interest bearing securities and secured loans held by banking operations, which are recorded at amortised cost.
- Total debt securities includes \$5,551m (2006: \$4,976m) of debt securities in consolidated securitisation vehicles.
- The other category includes balanced trusts, derivative financial assets and investments held via vehicles such as joint ventures and partnerships.

## 8. Investment property

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Investment property</b>				
Directly held	9,333	7,841	–	–
<b>Total investment property</b>	<b>9,333</b>	<b>7,841</b>	<b>–</b>	<b>–</b>
<b>Movements in investment property</b>				
Balance at the beginning of the period	7,841	5,766	–	–
Additions				
– through direct acquisitions <sup>1</sup>	741	834	–	–
– subsequent expenditure recognised in carrying amount	56	223	–	–
Acquisitions through business combinations	128	225	–	–
Disposals <sup>1</sup>	(311)	(162)	–	–
Net gains (losses) from fair value adjustments <sup>2</sup>	888	956	–	–
Foreign currency exchange differences	(10)	(1)	–	–
<b>Balance at the end of the period</b>	<b>9,333</b>	<b>7,841</b>	<b>–</b>	<b>–</b>

## Footnote:

- 1 Additions through direct acquisitions and Disposals include amounts for investment entities in which the life statutory funds hold a controlling equity interest.
- 2 Investment property is held at fair value, see Note 1(l) for further details regarding the valuation policies for investment property.

## 9. Property, plant and equipment

	Owner-Occupied Property <sup>2</sup> \$m	Leasehold Improvements \$m	Plant & Equipment <sup>2</sup> \$m	Total \$m
<b>2007</b>				
<b>Property, plant and equipment</b>				
Gross carrying amount	342	71	331	744
Less: accumulated depreciation and impairment losses	–	(42)	(116)	(158)
<b>Property, plant and equipment at written down value</b>	<b>342</b>	<b>29</b>	<b>215</b>	<b>586</b>
<b>Movements in property, plant and equipment</b>				
Balance at the beginning of the period	300	30	172	502
Additions				
– through direct acquisitions	–	5	63	68
– subsequent expenditure recognised in carrying amount	4	–	–	4
Acquisitions through business combinations	–	–	17	17
Disposals	–	–	(4)	(4)
Increases from revaluations and impairment losses recognised directly in equity	43	–	–	43
Depreciation expense for the period	(5)	(6)	(34)	(45)
Foreign currency exchange differences	–	–	1	1
<b>Balance at the end of the period</b>	<b>342</b>	<b>29</b>	<b>215</b>	<b>586</b>

	Owner-Occupied Property \$m	Leasehold Improvements \$m	Plant & Equipment <sup>2</sup> \$m	Total \$m
<b>2006</b>				
<b>Property, plant and equipment</b>				
Gross carrying amount	300	66	280	646
Less: accumulated depreciation and impairment losses	–	(36)	(108)	(144)
<b>Property, plant and equipment at written down value</b>	<b>300</b>	<b>30</b>	<b>172</b>	<b>502</b>
<b>Movements in property, plant and equipment</b>				
Balance at the beginning of the period	261	34	41	336
Additions				
– through direct acquisitions	–	1	17	18
– subsequent expenditure recognised in carrying amount	4	–	–	4
Acquisitions through business combinations	–	–	143	143
Disposals	–	–	(16)	(16)
Increases from revaluations and impairment losses recognised directly in equity	35	–	–	35
Depreciation expense for the period	–	(5)	(13)	(18)
<b>Balance at the end of the period</b>	<b>300</b>	<b>30</b>	<b>172</b>	<b>502</b>

Footnote:

- 1 Owner-occupied property is carried at fair value; had the asset been measured at historic cost the amortised carrying value would have been \$203m.
- 2 The consolidated balances include operating assets of investment entities controlled by the life statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMP group.

## 10. Other assets

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Inventories	86	41	–	–
Prepayments	76	62	–	–
Other assets	29	52	–	–
<b>Total other assets<sup>1, 2</sup></b>	<b>191</b>	<b>155</b>	<b>–</b>	<b>–</b>

Footnote:

- 1 \$56m (2006: \$95m) of Total other assets is expected to be realised 12 months or more from the reporting date.
- 2 The consolidated balances include other assets of investment entities controlled by the life statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMP group.

## 11. Intangibles

	Goodwill <sup>1</sup> \$m	Capitalised costs <sup>2</sup> \$m	Management rights \$m	Other intangibles \$m	Total \$m
<b>2007</b>					
<b>Intangibles</b>					
Gross carrying amount	798	325	26	44	1,193
Less: accumulated amortisation and/or impairment losses	(5)	(169)	(2)	(12)	(188)
<b>Intangibles at written down value</b>	<b>793</b>	<b>156</b>	<b>24</b>	<b>32</b>	<b>1,005</b>
<b>Movements in intangibles</b>					
Balance at the beginning of the period	731	109	22	–	862
Additions through acquisitions of controlled entities <sup>1</sup>	140	–	2	32	174
Additions through separate acquisition	–	–	–	–	–
Additions through internal development	–	106	–	–	106
Disposals	(73)	–	–	–	(73)
Amortisation expense for the period	–	(48)	–	–	(48)
Impairment losses (recognised) or reversed in profit	(5)	(8)	–	–	(13)
Other movements	–	(3)	–	–	(3)
<b>Balance at the end of the period</b>	<b>793</b>	<b>156</b>	<b>24</b>	<b>32</b>	<b>1,005</b>
<b>2006</b>					
<b>Intangibles</b>					
Gross carrying amount	731	232	24	–	987
Less: accumulated amortisation and/or impairment losses	–	(123)	(2)	–	(125)
<b>Intangibles at written down value</b>	<b>731</b>	<b>109</b>	<b>22</b>	<b>–</b>	<b>862</b>
<b>Movements in intangibles</b>					
Balance at the beginning of the period	517	109	6	–	632
Additions through acquisitions of controlled entities	214	2	–	–	216
Additions through separate acquisition	–	–	16	–	16
Additions through internal development	–	59	–	–	59
Amortisation expense for the period	–	(36)	–	–	(36)
Impairment losses (recognised) or reversed in profit	–	(28)	–	–	(28)
Other movements	–	3	–	–	3
<b>Balance at the end of the period</b>	<b>731</b>	<b>109</b>	<b>22</b>	<b>–</b>	<b>862</b>

## Footnote:

- The net increase in goodwill during 2007 of \$67m arose on acquisitions of investment entities controlled by the life statutory funds which carry out business operations unrelated to the core wealth management operations of the AMP group. Goodwill of \$517m is attributable to the shareholders of AMP Limited.
- Capitalised costs are required to be amortised over their estimated useful lives as well as being assessed for indicators of impairment at each reporting date. Impairment testing carried out during the period indicated that the carrying value of some capitalised costs exceeded their recoverable amount due to such factors as obsolescence or reassessment of the assets' estimated useful lives. Consequently these capitalised costs were written down to their recoverable amount.

## Impairment testing for goodwill

*Goodwill attributable to shareholders*

The goodwill amount arose from a Life Act Part 9 transfer into the life statutory funds of AMP Life. The amount of goodwill recognised represented the value of in-force business, the value of new business and the benefits of cost synergies obtained as a result of the integration of the business into AMP Life. AMP Life is deemed to be the cash generating unit for the purposes of impairment testing required by accounting standards. The carrying value of \$517m was determined on 1 January 2004 according to the rules applying on adoption of AIFRS.

The amount of goodwill is subject to annual impairment testing at the cash generating unit level.

Key financial indicators are considered when testing goodwill for impairment including: cash flows, AMP Life margins and embedded value of the AMP Life business.

An analysis of these key financial indicators and other valuations performed at 31 December 2007 confirmed that there has been no impairment in the value of goodwill at that date.

*Goodwill attributable to policyholders*

The policyholder goodwill amount arose during the period on acquisitions of investment entities controlled by the life statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMP group.

The amount of goodwill is subject to annual impairment testing, which is carried out at the level of each of the operating entities acquired. Impairment testing is carried out by comparing the recoverable amount of the investment in each operating entity with their fair values less costs to sell. Fair value is established using valuation techniques including the use of recent arm's length transactions and valuations based on earning multiples. As a result of impairment testing during the period the goodwill attributable to policyholders was impaired by \$5m.

## 12. Payables

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Investment purchases payable <sup>1</sup>	3,173	374	–	–
Life insurance and investment contracts in process of settlement	217	204	–	–
Accrued expenses	124	109	–	–
Interest payable	59	90	–	–
Trade creditors <sup>2</sup>	147	81	–	–
Other payables				
– associated entities	–	2	–	–
– other entities	474	695	2	2
<b>Total payables<sup>3</sup></b>	<b>4,194</b>	<b>1,555</b>	<b>2</b>	<b>2</b>

Footnote:

- 1 The increase in Investment purchases payable is due to timing of investment settlements around the balance date in respect of the normal investment activities of the investment entities controlled by the life statutory funds.
- 2 The consolidated balances include Trade creditors of investment entities controlled by the life statutory funds, which carry out business operations unrelated to the core wealth management operations of the AMP group.
- 3 \$183m (2006: \$554m) of Total payables is expected to be settled 12 months or more from the reporting date.

## 13. Provisions

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(a) Provisions</b>				
Employee entitlements	226	212	4	5
Restructuring	8	10	–	–
Other	172	168	–	–
<b>Total provisions<sup>1</sup></b>	<b>406</b>	<b>390</b>	<b>4</b>	<b>5</b>

	Employee entitlements \$m	Restructuring \$m	Other \$m	Total \$m
<b>(b) Movements in provisions – consolidated</b>				
Balance at the beginning of the period	212	10	168	390
Additional provisions recognised	249	5	129	383
Reductions from remeasurement or settlement without cost	(23)	(2)	(104)	(129)
Payments/other sacrifices of economic benefits	(212)	(5)	(16)	(233)
Additions (reductions) through foreign exchange movements	–	–	11	11
Additions (reductions) through acquisition or disposal	–	–	(16)	(16)
<b>Balance at the end of the period</b>	<b>226</b>	<b>8</b>	<b>172</b>	<b>406</b>

	Employee entitlements \$m	Restructuring \$m	Other \$m	Total \$m
<b>(b) Movements in provisions – parent</b>				
Balance at the beginning of the period	5	–	–	5
Additional provisions recognised	5	–	–	5
Payments/other sacrifices of economic benefits	(6)	–	–	(6)
<b>Balance at the end of the period</b>	<b>4</b>	<b>–</b>	<b>–</b>	<b>4</b>

Footnote:

- 1 \$26m (2006: \$59m) of Total provisions is expected to be settled 12 months or more from the reporting date.

## Notes to the financial statements continued

for the year ended 31 December 2007

### 14. Borrowings

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Bank overdrafts	10	109	–	–
Bank loans	426	237	–	–
Bonds and notes <sup>1</sup>	8,711	7,608	–	–
Deposits <sup>2</sup>	1,739	2,030	–	–
Other loans				
– subsidiaries	–	–	–	83
– other entities	364	4	–	–
<b>Total borrowings<sup>3, 4, 5</sup></b>	<b>11,250</b>	<b>9,988</b>	<b>–</b>	<b>83</b>

Footnote:

- The AMP group uses interest rate swaps and cross currency swaps to manage interest rate and currency risk inherent in certain debt issues, the net fair value gain on these hedging instruments as at 31 December 2007 was \$22m (2006: \$11m loss). The group continued to achieve hedge accounting for the current period resulting in the carrying value of bonds and notes being \$60m lower (2006: \$60m lower) reflecting cumulative changes in fair value of the underlying hedged item for the period that the effective hedge relationships were in place.
- Deposits is mainly comprised of at call cash on deposit and term deposits at variable interest rates within the AMP group's banking operations.
- Borrowings includes amounts to fund:
  - AMP Bank and operating businesses in which the life statutory funds hold a controlling equity interest – borrowings of \$10,287m (2006: \$9,083m).
  - Corporate activities of AMP – borrowings of \$963m (2006: \$905m).
- Total borrowings include \$5,509m (2006: \$5,031m) of debt in consolidated securitisation vehicles.
- All borrowings are at fair value through profit or loss, designated as such upon initial recognition, with the exception of \$6,350m (2006: \$6,439m) of borrowings held in AMP Bank and the consolidation securitisation vehicles, which are measured at amortised cost.

### 15. Subordinated debt

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Subordinated Floating Rate Note (3 month BBSW + 0.56% maturing in April 2009)	100	100	–	–
7.125% GBP Subordinated Guaranteed Step-Up Bonds (maturing 2019)	224	247	–	–
6.875% GBP Subordinated Guaranteed Bonds (maturing 2022)	79	88	–	–
<b>Total subordinated debt<sup>1, 2, 3</sup></b>	<b>403</b>	<b>435</b>	<b>–</b>	<b>–</b>

Footnote:

- The AMP group uses interest rate swaps and cross currency swaps to manage interest rate and currency risk inherent in certain debt issues, the net fair value loss on these hedging instruments as at 31 December 2007 was \$3m (2006: \$3m). The group continued to achieve hedge accounting for the current period resulting in the carrying value of subordinated debt being \$12m lower (2006: \$10m lower) reflecting cumulative changes in fair value of the underlying hedged item for the period that the effective hedge relationships were in place.
- Subordinated debt includes amounts to fund:
  - AMP Bank – subordinated debt of \$100m (2006: \$100m).
  - Corporate activities of AMP – subordinated debt of \$303m (2006: \$335m).
- All subordinated debt are at fair value through profit or loss, designated as such upon recognition, with the exception of \$100m (2006: \$100m) held by AMP Bank, which are measured at amortised cost.

## 16. Dividends

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Final dividends paid</b> 2006 paid in 2007: 21 cents per ordinary share franked to 85% (2005 paid in 2006: 18 cents per ordinary share franked to 75%)	<b>394</b>	337	<b>394</b>	337
<b>Interim dividends paid</b> 2007: 22 cents per ordinary share franked to 85% (2006: 19 cents per ordinary share franked to 85%)	<b>412</b>	356	<b>412</b>	356
<b>Total dividends paid<sup>1, 2</sup></b>	<b>806</b>	693	<b>806</b>	693
<b>Final dividend proposed but not recognised</b> 2007: 24 cents per ordinary share franked to 85%	<b>450</b>	n/a	<b>450</b>	n/a
	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Dividend franking account<sup>3, 4</sup></b> Franking credits available to shareholders of AMP Limited (at 30%)	<b>249</b>	239	<b>249</b>	239

Footnote:

- 1 Total dividends paid includes dividends paid on 'treasury shares'. See Note 18 for further information regarding the impact of 'treasury shares' on dividends paid and retained profits.
- 2 All dividends are franked at a tax rate of 30%.
- 3 The above available amounts are based on the balance of the dividend franking account at year end adjusted for:
  - a) franking credits that will arise from the payment of the current tax liability
  - b) franking debits that will arise from the payment of dividends recognised as a liability at the year end
  - c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end
  - d) franking credits that the entity may be prevented from distributing in subsequent years.
- 4 The company's ability to utilise the franking account credits depends on there being sufficient available profits to declare dividends. The impact of the proposed dividend will be to reduce the balance of the franking credit account by \$164m.

## 17. Contributed equity

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Movements in issued capital</b>				
Balance at the beginning of the period	4,253	4,959	4,253	4,959
Transfer of Capital Reserve to Issued Capital <sup>1</sup>	509	—	509	—
Reduction in share capital through Capital return <sup>2</sup>	(750)	(750)	(750)	(750)
Nil (2006: 4,957,739) shares issued under Dividend Reinvestment Plan <sup>3</sup>	—	44	—	44
1,369 (2006: 1,829) shares issued to former members of the AMP Society <sup>4</sup>	—	—	—	—
<b>Balance at the end of the period</b>	<b>4,012</b>	4,253	<b>4,012</b>	4,253
<b>Total issued capital</b>				
1,874,852,944 (2006: 1,874,851,575) ordinary shares fully paid	4,012	4,253	4,012	4,253
<b>Movements in 'treasury shares'<sup>5</sup></b>				
Balance at the beginning of the period	(186)	(210)	—	—
Decrease (increase) in cost of 'treasury shares' due to sales and purchases	(11)	13	—	—
Decrease in cost of 'treasury shares' due to capital return	12	11	—	—
<b>Balance at the end of the period</b>	<b>(185)</b>	(186)	—	—
<b>Total contributed equity</b>				
1,849,660,382 (2006: 1,847,637,683) ordinary shares fully paid <sup>5</sup>	3,827	4,067	4,012	4,253

Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares have no par value.

## Footnote:

- During the period the entire balance of the Capital reserve was transferred to Issued capital in accordance with section 23 of ATO Class Ruling 2007/30. The amount transferred was subsequently used to fund part of the capital return made during the period (see footnote 2 below).
- On 15 February 2007, AMP announced a proposed capital return of 40 cents per share to the shareholders of AMP Limited. The capital return was approved by shareholders at the annual general meeting on 17 May 2007. The record date for determining entitlement to the capital return was 25 May 2007 and payment was made on 18 June 2007.  
On 16 February 2006, AMP announced a proposed capital return of 40 cents per share to the shareholders of AMP Limited. The capital return was approved by shareholders at the annual general meeting on 18 May 2006. The record date for determining entitlement to the capital return was 25 May 2006 and payment was made on 19 June 2006.
- Under the terms of the Dividend Reinvestment Plan (DRP), shareholders may elect to have part of their dividend entitlements satisfied in shares rather than being paid in cash. Shares were issued under the DRP for the 2005 final dividend (paid in April 2006) at \$8.78 per share. No shares were issued in relation to the 2006 or 2007 interim dividends and 2006 final dividend. Shares were purchased on market and transferred to DRP participants.
- The former members of AMP Society exchanged their membership rights for shares in AMP Limited on demutualisation. 1,043,356,440 (2006: 1,043,355,071) shares have been issued since demutualisation to former members at an issue price of \$3.00 per share. Ongoing minor adjustments represent shares issued to former members from the Capital reserve up until the point of the transfer of the reserve to issued capital (see Note 18).
- Of the ordinary shares on issue, AMP Life Limited (a wholly owned controlled entity) holds 25,192,562 (2006: 27,213,892) shares in AMP Limited on behalf of policyholders. ASIC has granted relief from restrictions in the *Corporations Act 2001* to allow AMP Life Limited to hold and trade shares in AMP Limited as part of the policyholder funds' investment activities. The cost of the investment in these 'treasury shares' is reflected as a deduction from total contributed equity.

## 18. Reserves and retained earnings

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Capital reserve<sup>1</sup></b>				
Balance at the beginning of the period	509	510	509	510
Transfer of Capital reserve to Issued capital <sup>1</sup>	(509)	—	(509)	—
Other movements <sup>1</sup>	—	(1)	—	(1)
<b>Balance at the end of the period</b>	<b>—</b>	<b>509</b>	<b>—</b>	<b>509</b>
<b>Equity contribution reserve<sup>2</sup></b>				
Balance at the beginning of the period	1,019	1,019	—	—
Movements during the period	—	—	—	—
<b>Balance at the end of the period</b>	<b>1,019</b>	<b>1,019</b>	<b>—</b>	<b>—</b>
<b>Share-based payments reserve<sup>3</sup></b>				
Balance at the beginning of the period	8	19	1	5
Expense during the period	17	10	6	2
Share purchases	(31)	(21)	(8)	(6)
<b>Balance at the end of the period</b>	<b>(6)</b>	<b>8</b>	<b>(1)</b>	<b>1</b>
<b>Cash flow hedges reserve<sup>4</sup></b>				
Balance at the beginning of the period	18	3	—	—
Gains from changes in fair value	23	15	—	—
<b>Balance at the end of the period</b>	<b>41</b>	<b>18</b>	<b>—</b>	<b>—</b>
<b>Owner-occupied property revaluation reserve<sup>5</sup></b>				
Balance at the beginning of the period	61	26	—	—
Revaluations during the period	40	35	—	—
<b>Balance at the end of the period</b>	<b>101</b>	<b>61</b>	<b>—</b>	<b>—</b>
<b>Foreign currency translation reserve<sup>6</sup></b>				
Balance at the beginning of the period	(13)	6	—	—
Net translation adjustment on self sustaining foreign operations	(3)	(19)	—	—
<b>Balance at the end of the period</b>	<b>(16)</b>	<b>(13)</b>	<b>—</b>	<b>—</b>
<b>Demerger loss reserve<sup>7</sup></b>				
Balance at the beginning of the period	(3,585)	(3,585)	—	—
Movements during the period	—	—	—	—
<b>Balance at the end of the period</b>	<b>(3,585)</b>	<b>(3,585)</b>	<b>—</b>	<b>—</b>
<b>Total reserves</b>	<b>(2,446)</b>	<b>(1,983)</b>	<b>(1)</b>	<b>510</b>

## 18. Reserves and retained earnings continued

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Retained earnings</b>					
Balance at the beginning of the period		<b>328</b>	63	<b>3,210</b>	3,336
Net profit (loss) after tax attributable to shareholders of AMP Limited		<b>985</b>	915	<b>903</b>	567
Defined benefit fund actuarial gains and losses <sup>8</sup>		<b>(17)</b>	28	–	–
Gain (loss) on sale of 'treasury shares' recognised directly in retained earnings		<b>45</b>	5	–	–
Dividends paid <sup>9</sup>	16	<b>(806)</b>	(693)	<b>(806)</b>	(693)
Less: dividends paid on 'treasury shares' <sup>9</sup>		<b>11</b>	10	–	–
<b>Balance at the end of the period</b>		<b>546</b>	328	<b>3,307</b>	3,210

## Footnote:

- 1 During the period the entire balance of the capital reserve was transferred to Issued capital in accordance with section 23 of ATO Class Ruling 2007/30. The amount transferred was subsequently used to fund part of the Capital return made during the period. The Capital reserve was the balance remaining from the amount capitalised in 1998 on the demutualisation of AMP Society after allotting shares to former members under the terms of the demutualisation. Minor adjustments were made from time to time, which involved the issue of further shares to former members.
- 2 The Equity contribution reserve recognises the additional loss on the demerger of AMP's UK operations in December 2003. The additional loss is the difference between: the pro-forma loss on demerger based upon directors' valuation of the UK operations and the estimated net assets to be demerged, and the market based fair value of the UK operations based upon the share price of the restructured UK operations on listing and the actual net assets of the UK operations on demerger.
- 3 The Share-based payments reserve represents the cumulative expense recognised in relation to equity settled share-based payments less the cost of shares purchased and transferred to share-based payments recipients upon vesting.
- 4 The Cash flow hedges reserve represents the cumulative impact of changes in the fair value of derivatives designated as cash flow hedges.
- 5 The Owner-occupied property revaluation reserve represents cumulative valuation gains and losses on owner-occupied property required to be recognised in equity.
- 6 Exchange differences arising on translation of foreign controlled entities within the AMP group are taken to the Foreign currency translation reserve.
- 7 The Demerger loss reserve represents the transfer from Shareholders' retained earnings of the total loss on demerger.
- 8 As explained in Note 1, the adoption of the revised AASB 119 has resulted in actuarial gains and losses on employer-sponsored defined benefit funds now being recognised directly in retained earnings.
- 9 Dividends paid includes the dividends paid on 'treasury shares'. Dividends paid on 'treasury shares' are required to be excluded from the consolidated financial statements by adjusting retained earnings.

## 19. Life insurance contracts

### (a) Assumptions and methodology applied in the valuation of life insurance contract liabilities

Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to Note 1(x) for a description of MoS and the methods for calculating life insurance contract liabilities.

The methods and profit carriers used to calculate life insurance contract liabilities for particular policy types are as follows:

Business type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment account	Modified accumulation	N/A
Risk <sup>1</sup>	Projection/accumulation	Expected premiums
Participating allocated annuities	Accumulation/modified accumulation	N/A
Life annuities	Projection	Annuity payments

Footnote:

1 For 2007 the profit carrier for Risk has changed from expected claims to expected premiums. The impact in 2007 is that \$15m more profit has been recognised than would have been recognised if expected claims had been used as the profit carrier.

Key assumptions used in the calculation of life insurance contract liabilities are as follows:

#### (i) Risk-free discount rates

Except where benefits are contractually linked to the performance of the assets held, a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and term of the future obligations is used. The rates are determined as shown in the following table.

Business type	Basis	31 December 2007		31 December 2006		
		Australia	New Zealand	Australia	New Zealand	
Retail risk	10 year government bond rate	<b>6.4%</b>	<b>6.5%</b>	6.0%	6.0%	
Group risk	Outstanding claims	<b>7.0%</b>	<b>n/a</b>	6.3%	n/a	
Life annuities	Non-CPI	Zero coupon interbank swap curve	<b>6.9%–7.6%</b>	<b>4.9%–6.3%</b>	6.1%–6.7%	n/a
	CPI	Commonwealth indexed bond curve + 20 bp	<b>2.8%–3.8%</b>	<b>n/a</b>	2.9%–3.2%	n/a
	New Zealand	Government bond curve + 45 bp	<b>n/a</b>	<b>n/a</b>	n/a	4.3%–4.8%

#### (ii) Participating business discount rates

Where benefits are contractually linked to the performance of the assets held, as is the case for participating business, a discount rate based on the expected market return on backing assets is used. The assumed earning rates for backing assets for participating business are largely driven by long-term (e.g. 10 year) government bond yields. The 10 year government bond yields used at the relevant valuation dates are as noted above.

Assumed earning rates for each asset sector are determined by adding to the bond yield various risk premia which reflect the relative differences in expected future earning rates for different asset sectors. For products backed by mixed portfolio assets, the assumption varies with the proportion of each asset sector backing the product. The risk premia applicable at the valuation date are shown in the following table.

	Local equities	International equities	Property	Corporate bonds	Other fixed interest	Cash
<b>Australia</b>						
31 December 2007	<b>3.0%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>0.5%</b>	<b>0.0%</b>	<b>(0.5%)</b>
31 December 2006	3.0%	2.5%	2.0%	0.5%	0.0%	(0.5%)
<b>New Zealand</b>						
31 December 2007	<b>3.0%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>0.5%</b>	<b>0.0%</b>	<b>(0.5%)</b>
31 December 2006	3.0%	2.5%	2.0%	0.5%	0.0%	(0.5%)

These risk premia do not include any allowance for imputation credits as they are explicitly allowed for in deriving net of tax investment earning assumptions.

## Notes to the financial statements continued

for the year ended 31 December 2007

### 19. Life insurance contracts continued

The averages of the asset mixes assumed for the purpose of setting investment assumptions at the valuation date for participating business are as shown in the following table. These asset mixes are not necessarily the same as the actual asset mix at the valuation date, as they reflect long-term assumptions.

	Equities	Property	Fixed interest	Cash
<b>Australia</b>				
31 December 2007	35%	15%	34%	16%
31 December 2006	31%	12%	41%	16%
<b>New Zealand</b>				
31 December 2007	45%	19%	29%	7%
31 December 2006	38%	17%	38%	7%

Where an assumption used is net of tax, the tax on investment income is allowed for at rates appropriate to the class of business and asset sector, including any allowance for imputation credits on equity income. For this purpose, the total return for each asset sector is split between income and capital gains. The actual split has varied at each valuation date as the total return has varied.

#### (iii) Future participating benefits

For participating business, the total value of future bonuses (and the associated shareholders' profit margin) included in life insurance contract liabilities is the amount supported by the value of the supporting assets, after allowing for the assumed future experience. The pattern of bonuses and shareholders' profit margin assumed to emerge in each future year depends on the assumed relationship between reversionary bonuses (or interest credits) and terminal bonuses. This relationship is set to reflect the philosophy underlying actual bonus declarations.

Actual bonus declarations are determined to reflect, over time, the investment returns of the particular fund and other factors in the emerging experience and management of the business. These factors include:

- allowance for an appropriate degree of benefit smoothing
- reasonable expectations of policyholders
- equity between generations of policyholders applied across different classes and types of business
- ongoing solvency and capital adequacy.

Given the many factors involved, the range of bonus structures and rates for participating business is extremely diverse.

Typical supportable bonus rates on major product lines are as follows (31 December 2006 in parentheses).

Reversionary bonus	Bonus on sum insured	Bonus on existing bonus
Australia	1.2%–1.6% (1.2%–1.5%)	1.6%–2.2% (1.5%–2.2%)
New Zealand	0.9%–1.2% (0.5%–0.7%)	0.9%–1.2% (0.5%–0.7%)

#### Terminal bonus

The terminal bonus scales are complex and vary by duration, product line, class of business and country.

#### Crediting rates (investment account)

Australia	4.4%–8.2% (3.7%–7.2%)
New Zealand	3.5%–4.6% (3.1%–4.3%)

#### (iv) Future maintenance and investment expenses

Unit maintenance costs are based on budgeted expenses in the year following the reporting date (including GST, as appropriate, and excluding one-off expenses). For future years, these are increased for inflation as described in (v) below. These expenses include fees charged to the life statutory funds by service companies in the AMP Life group. Unit costs vary by product line and class of business based on an apportionment that is supported by expense analyses.

Future investment expenses are based on the fees currently charged by the asset managers.

#### (v) Inflation and indexation

Benefits and premiums under many regular premium policies are automatically indexed by the published Consumer Price Index (CPI). Assumed future take-up of these indexation options is based on AMP's own experience with the annual CPI rates derived from:

- the difference between long-term government bonds and indexed government bonds for Australia
- long-term government bonds for New Zealand.

The assumptions for expense inflation have regard to these rates, recent expense performance, AMP's current plans and the terms of the relevant service company agreement, as appropriate.

The assumed annual indexation and inflation rates at the valuation date are:

	Australia	New Zealand
31 December 2007	3.5% CPI, 3.0% Expenses	2.2% CPI, 3.0% Expenses
31 December 2006	3.2% CPI, 3.0% Expenses	2.6%

## 19. Life insurance contracts continued

### (vi) Bases of taxation

The bases of taxation (including deductibility of expenses) are assumed to continue in accordance with legislation current at the valuation date for Australia, and in accordance with legislation changes effective from 1 January 2008 for New Zealand.

### (vii) Voluntary discontinuance

Assumptions for the incidence of withdrawals, paid ups and premium dormancy are primarily based on investigations of AMP Life's own experience over the past three years. These rates are based upon the assessed global rate for each of the individual products (or product groups) and then, where appropriate, further adjusted for duration, age attained or short-term market and business effects. Given the variety of influences affecting discontinuance for different product groups, the range of voluntary discontinuance rates across AMP Life is extremely diverse.

Future rates of discontinuance used at 31 December 2007 are unchanged from those assumed at 31 December 2006 except for:

- Australia – higher withdrawal rates for Flexible Lifetime Super (FLS) and Allocated Pensions, Term insurance and FLS risk. Changes to duration-based withdrawal rates for FLS risk business that has transferred from corporate superannuation business.
- New Zealand – higher withdrawal rates on disability income business.

Future rates of discontinuance for the major classes of life insurance contracts are assumed to be as shown in the following table.

Business type	31 December 2007		31 December 2006	
	Australia	New Zealand	Australia	New Zealand
Conventional	3.3%–4.0%	2.2%	3.4%–4.0%	2.3%
Investment account	n/a	n/a	10%–15%	n/a
Retail risk	10%–11%	6.8%–8.1%	10%–11%	6.7%–7.6%
FLS risk business (ultimate rate)	7.5%	n/a	7.0%	n/a

### (viii) Surrender values

The surrender bases assumed are those current at the reporting date. There have been no changes to the bases during the year (or the prior year) that would materially affect the valuation results.

### (ix) Mortality and morbidity

Standard mortality tables, based on national or industry wide data, are used (e.g. IA95-97 and IM(F)80 in Australia and New Zealand). These are then adjusted by factors that take account of AMP Life's own experience, primarily over the past three years. For annuity business, adjustment is also made for mortality improvements prior to and after the valuation date.

Rates of mortality assumed at 31 December 2007 are unchanged from those assumed at 31 December 2006 in Australia and New Zealand. Rates of annuitant mortality in Australia are unchanged but those in New Zealand have been aligned with those used in Australia.

Typical mortality assumptions, in aggregate, are as follows:

Risk products	Conventional – % of IA95-97		Term – % of IA95-97	
	Male	Female	Male	Female
Australia	80%	80%	67%	67%
New Zealand	78%	78%	67%	67%

### Annuities

	Male – % of IM80	Female – % of IF80
Australia	72%	61%

For disability income business, the claim assumptions are currently based on CIDA85, which is derived from North American experience. It is adjusted for AMP Life's experience, with the adjustment dependent on age, sex, waiting period, occupation, smoking status and claim duration. For New Zealand, the incidence rates have increased, and, for both Australia and New Zealand termination rates have been decreased as at 31 December 2007 compared to those at 31 December 2006.

For trauma cover, standard tables are not available and so assumptions are mostly based on Australian population statistics, with adjustment for smoking status as well as AMP Life's recent claim experience. Assumptions at 31 December 2007 are unchanged from those used at 31 December 2006.

The Actuarial tables used were:

IA95-97	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995–1997.
IM80* / IF80*	IM80 and IF80 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1979–1982. The tables refer to male and female lives, respectively, and incorporate factors that allow for mortality improvements since the date of the investigation. *IM80 and IF80 are these published tables amended for some specific AMP experience.
CIDA85	A disability table developed by the Society of Actuaries based on North American disability income experience from 1973–1979.

19. Life insurance contracts continued

(x) Impact of changes in assumptions

Under MoS, for life insurance contracts valuations using the projection method, changes in actuarial assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Future profit margins are released over future periods.

Changes in actuarial assumptions do not include market related changes in discount rates such as changes in benchmark market yields caused by changes in investment markets and economic conditions. These are reflected in both life insurance contract liabilities and asset values at the Balance sheet date.

The impact on future profit margins of changes in actuarial assumptions from 31 December 2006 to 31 December 2007 in respect of life insurance contracts (excluding new business contracts, which are measured using assumptions at Balance sheet date) is as shown in the following table.

Assumption change	Change in future profit margins \$m
Non-market related changes to discount rates	38
Mortality and morbidity	(16)
Discontinuance rates	(57)
Maintenance expenses	2
Other assumptions	64

In most cases, the overall amount of life insurance contract liabilities and the current period profit are not affected by changes in assumptions.

However, where in the case of a particular related product group, the changes in assumptions at the end of a period eliminate any future profit margins for the related product group, and results in negative future profit margins, this negative balance is recognised as a loss in the current period. If the changes in assumptions in a period are favourable for a product group currently in loss recognition, then the previously recognised losses are reversed in the period.

(b) Insurance risk sensitivity analysis – life insurance contracts

For life insurance contracts that are accounted for under MoS, amounts of liabilities, income or expense recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins.

This table shows information about the sensitivity of life insurance contract liabilities, current shareholder period profit after income tax, and equity, to a number of possible changes in assumptions relating to insurance risk.

Variable		Change in life insurance contract liabilities		Change in shareholder profit after income tax, and equity	
		Gross of reinsurance \$m	Net of reinsurance \$m	Gross of reinsurance \$m	Net of reinsurance \$m
Mortality	10% increase in mortality rates	(1)	(1)	1	1
Annuitant mortality	50% increase in the rate of mortality improvement	1	1	(1)	(1)
Morbidity – lump sum disablement	20% increase in lump sum disablement rates	–	–	–	–
Morbidity – disability income	20% increase in incidence rates & decrease in recovery rates	–	–	–	1
Discontinuance rates	10% increase in discontinuance rates	–	–	–	–
Maintenance expenses	10% increase in maintenance expenses	–	–	–	–

## 19. Life insurance contracts continued

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(c) Analysis of life insurance contract premium and related revenue</b>				
Total life insurance contract premiums received and receivable	2,014	1,964	—	—
Less: component recognised as a change in life insurance contract liabilities	(1,110)	(1,093)	—	—
Life insurance contract premium revenue <sup>1</sup>	904	871	—	—
Reinsurance recoveries	26	25	—	—
<b>Total life insurance contract premium and related revenue</b>	<b>930</b>	<b>896</b>	<b>—</b>	<b>—</b>
<b>(d) Analysis of life insurance contract claims and related expenses</b>				
Total life insurance contract claims paid and payable	(2,879)	(3,024)	—	—
Less: component recognised as a change in life insurance contract liabilities	1,571	1,790	—	—
Life insurance contract claims expense	(1,308)	(1,234)	—	—
Outwards reinsurance expense	(41)	(37)	—	—
<b>Total life insurance contract claims and related expenses</b>	<b>(1,349)</b>	<b>(1,271)</b>	<b>—</b>	<b>—</b>
<b>(e) Analysis of life insurance contract operating expenses</b>				
Life insurance contract acquisition expenses				
– Commission	(44)	(42)	—	—
– Other	(72)	(73)	—	—
Life insurance contract maintenance expenses				
– Commission	(67)	(62)	—	—
– Other	(261)	(263)	—	—
Investment management expenses	(47)	(49)	—	—

Footnote:

1 Life insurance contract premium revenue consists entirely of direct insurance premiums, there is no inward reinsurance component.

## 19. Life insurance contracts continued

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(f) Life insurance contract liabilities</b>					
<b>Life insurance contract liabilities determined using projection method</b>					
Best estimate liability					
– Value of future life insurance contract benefits		10,790	11,949	–	–
– Value of future expenses		2,359	2,487	–	–
– Value of future premiums		(8,422)	(8,498)	–	–
Value of future profits					
– Life insurance contract holder bonuses		3,235	3,079	–	–
– Shareholders' profit margins		2,538	2,475	–	–
<b>Total life insurance contract liabilities determined using the projection method<sup>1</sup></b>		<b>10,500</b>	<b>11,492</b>	<b>–</b>	<b>–</b>
<b>Life insurance contract liabilities determined using accumulation method</b>					
Best estimate liability					
– Value of future life insurance contract benefits		8,190	7,608	–	–
– Value of future acquisition expenses		(16)	(21)	–	–
<b>Total life insurance contract liabilities determined using accumulation method<sup>1</sup></b>		<b>8,174</b>	<b>7,587</b>	<b>–</b>	<b>–</b>
<b>Value of declared bonus</b>		<b>549</b>	<b>515</b>	<b>–</b>	<b>–</b>
<b>Unvested life insurance contract holder benefits<sup>2</sup></b>		<b>1,448</b>	<b>1,346</b>	<b>–</b>	<b>–</b>
<b>Total life insurance contract liabilities before reinsurance</b>		<b>20,671</b>	<b>20,940</b>	<b>–</b>	<b>–</b>
Add: Reinsurers share of life insurance contract liabilities		43	34	–	–
<b>Total life insurance contract liabilities per the Life Act</b>	20(e)	<b>20,714</b>	<b>20,974</b>	<b>–</b>	<b>–</b>
Less: deferred tax balances separately disclosed on the balance sheet		(79)	–	–	–
<b>Total life insurance contract liabilities</b>	20(e)	<b>20,635</b>	<b>20,974</b>	<b>–</b>	<b>–</b>

## Footnote:

- 1 During 2007 a number of products, representing approximately \$700m of insurance contract liabilities, have moved from a projection method of liability measurement to an accumulation method.
- 2 For life statutory funds which include participating business, part of the assets in excess of the life insurance contract and other liabilities calculated under MoS is attributed to policyholders. Under the Life Act, this is referred to as Policy owner retained profits. For the purpose of reporting under AASB 1038 *Life Insurance Contracts*, this amount is referred to as Unvested life insurance contract holder benefits and is included within Life insurance contract liabilities even though it is yet to be vested in specific policyholder entitlements.

	Note	Consolidated		Parent	
		2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(g) Reconciliation of changes in life insurance contract liabilities</b>					
Total life insurance contract liabilities at the beginning of the period		20,974	20,942	–	–
Change in life insurance contract liabilities recognised in the Income statement					
Premiums recognised as an increase in life insurance contract liabilities	19(c)	1,110	1,093	–	–
Claims recognised as a decrease in life insurance contract liabilities	19(d)	(1,571)	(1,790)	–	–
Deferred tax balances separately disclosed on the Balance sheet	20(e)	(79)	–	–	–
Change in reinsurers share of life insurance contract liabilities		9	(9)	–	–
Foreign exchange adjustment		(9)	(56)	–	–
<b>Total life insurance contract liabilities at the end of the period</b>	19(f)	<b>20,635</b>	<b>20,974</b>	<b>–</b>	<b>–</b>

## 19. Life insurance contracts continued

### (h) Life insurance risk

The life insurance activities of AMP Life involve a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders, often in conjunction with the provision of wealth-management products. Risks and management policies in relation to AMP Life's use of financial instruments are discussed in Note 22.

The design of products carrying insurance risk is managed to ensure that policy wording and promotional materials are clear, unambiguous and do not leave AMP Life open to claims from causes that were not anticipated. Product prices are set through a process of financial analysis, including review of previous AMP Life and industry experience and specific product design features. The variability inherent in insurance risk is managed by having a large portfolio of individual risks, underwriting and the use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

Claims are managed through a dedicated claims management team, with formal claims acceptance limits and appropriate training and development of staff to ensure payment of all genuine claims. Claims experience is assessed regularly and appropriate actuarial reserves are established to reflect up-to-date experience and any anticipated future events. This includes reserves for claims incurred but not yet reported.

AMP Life reinsures (cedes) to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk. This serves primarily to:

- reduce the net liability on large individual risks
- obtain greater diversification of insurance risks
- provide protection against large losses.

The specialist reinsurance companies are regulated by APRA or industry regulators in other jurisdictions and have strong credit ratings from A+ to AAA.

#### *Terms and conditions of life insurance contracts*

The nature of the terms of the life insurance contracts written by AMP Life is such that certain external variables can be identified on which related cash flows for claim payments depend. The following table provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance contracts issued by AMP Life depend.

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
<i>Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability)</i>	These policies provide guaranteed benefits, which are paid on the death or ill-health, that are fixed and not at the discretion of AMP Life.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of any associated investment contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on assets backing the liabilities.
<i>Life annuity contracts</i>	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of the guaranteed regular income is set at inception of the policy, including any indexation.	Longevity, expenses and market earning rates on assets backing the liabilities.
<i>Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)</i>	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum assured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on death or maturity.	Operating profit arising from these contracts is allocated 80:20% between the policyholders and shareholder in accordance with the Life Act. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as bonuses.	Market earning rates on assets backing the liabilities, lapses, expenses, and mortality.
<i>Investment account contracts with discretionary participating features</i>	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early surrender or limited adjustment in adverse markets. Operating profit arising from these contracts is allocated between the policyholders and shareholders in accordance with the Life Act. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as interest credits.	Fees, lapses, expenses and market earning rates on the assets backing the liabilities.

**19. Life insurance contracts** continued**Liquidity risk and future net cash outflows**

The following table shows the estimated timing of future net cash outflows resulting from insurance contract liabilities. This includes estimated future surrenders, death/disability claims and maturity benefits, offset by expected future premiums or contributions and reinsurance recoveries. All values are discounted to the current date using the assumed future investment earning rate for each product.

	Up to 1 year \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
31/12/2007	1,351	3,739	7,139	12,229
31/12/2006	1,368	3,864	7,351	12,583

**20. Other life insurance and investment contracts disclosures**

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(a) Analysis of life insurance and investment contract profit</b>				
Components of profit related to life insurance and investment contract liabilities:				
– Planned margins of revenues over expenses released	<b>446</b>	363	–	–
– Profits (losses) arising from difference between actual and assumed experience <sup>1</sup>	<b>21</b>	150	–	–
<b>Profit related to life insurance and investment contract liabilities</b>	<b>467</b>	513	–	–
Attributable to:				
– Life insurance contracts	<b>282</b>	285	–	–
– Investment contracts	<b>185</b>	228	–	–
<b>Investment earnings on assets in excess of life insurance and investment contract liabilities</b>	<b>91</b>	103	–	–

Footnote:

1 Experience profits include the impact of the reversal of discounting of deferred tax in unit prices of investment contract liabilities (refer Note 1(d) (a profit of \$7m in 2007, \$62m in 2006). Other experience profits arise from the differences in actual mortality, morbidity, voluntary discontinuance and investment experience compared to that assumed.

**(b) Restrictions on assets**

Investments held in the life statutory funds can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions when solvency, capital adequacy and other regulatory requirements are met.

**(c) Capital guarantees**

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
Life insurance contracts with a discretionary participating feature				
– Amount of the liabilities that relate to guarantees	<b>14,602</b>	14,810	–	–
Investment linked contracts				
– Amount of the liabilities subject to investment performance guarantees	<b>1,159</b>	1,115	–	–
Other life insurance contracts with a guaranteed termination value				
– Current termination value	<b>564</b>	173	–	–

## 20. Other life insurance and investment contracts disclosures continued

### (d) Solvency and capital adequacy

Registered life insurance entities are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. These prudential reserving requirements are specified by the Life Act and accompanying Actuarial Standards. AMP Life holds additional amounts of reserves to provide a higher level of security for policyholder benefits than would be achieved by holding the statutory minimum.

Under the Life Act, there are two requirements for each life statutory fund:

- the solvency requirement, and
- the capital adequacy requirement.

#### *Solvency requirements*

The solvency requirement is the absolute minimum that must be satisfied for the business to be allowed to continue to operate. Its purpose is to ensure, as far as practicable, that at any time the fund will be able to meet all existing life insurance contract liabilities, investment contract liabilities and other liabilities as they become due.

The Appointed Actuary of AMP Life has confirmed that the available assets of each life statutory fund have exceeded the solvency reserve required at all times during the reporting period. Across all the life statutory funds, the excess assets, expressed as a percentage of the solvency reserve, at 31 December 2007, were 82% (31 December 2006: 71%).

#### *Capital adequacy requirements*

The capital adequacy requirement is a separate requirement (usually higher) that must be satisfied for the life entity to be allowed to make distributions to its shareholders and to operate without regulatory intervention. Its purpose is to ensure, as far as practicable, that there is sufficient capital in each life statutory fund for the continued conduct of the life insurance business, including writing new business, in a way which is in the interests of policyholders and in accordance with the Life Act.

The Appointed Actuary of AMP Life has confirmed that the available assets of each life statutory fund have exceeded the capital adequacy reserve required at all times during the reporting period. For this purpose, the capital adequacy reserve is defined as the solvency reserve, plus the difference between the capital adequacy requirement and the solvency requirement. Across all the life statutory funds, the excess assets, expressed as a percentage of the capital adequacy reserve, as at 31 December 2007, was 13% (31 December 2006: 12%).

### (e) Actuarial information

Mr Rocco Mangano, as the Appointed Actuary of AMP Life, is satisfied as to the accuracy of the data used in the valuations in the Financial Report and in the tables in this Note and Note 19.

Other than in respect of the treatment of tax on deferred acquisition costs within the New Zealand branch of statutory fund 1 (see below), the policy liabilities (being the sum of the life insurance contract and investment contract liabilities, including any asset or liability arising in respect of the management services element of an investment contract) and solvency reserves have been determined at the reporting date in accordance with the Life Act.

#### *Deferred tax on acquisition costs*

Australian and New Zealand accounting standards both require the tax effect of transactions to be separately disclosed. In Australia the tax and accounting recognition of acquisition costs is the same, hence there is no deferred tax arising from their deferral and inclusion as part of the MoS liability. However, in New Zealand the tax regime recognises a deduction for acquisition expenses as they are incurred rather than over the life of the policy. This results in a difference in the tax and accounting recognition and creates a deferred tax liability.

For accounting purposes this amount (2007: \$79m) is removed from the life insurance contract liability and included within the deferred tax liability. The actuarial standards for life insurance contracts require the policy liabilities to be calculated using the present value of future cashflows net of any tax effect. As a result, the amount of policy liabilities determined in accordance with the Life Act (\$20,714m) includes the deferral of the tax deduction for acquisition expenses and differs from the amount recognised in this Financial Report (\$20,635m) by this amount.

### (f) Amounts expected to be recovered or settled no more than 12 months after the reporting date

Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately \$11,445m (2006: \$9,305m) of policy liabilities may be settled within 12 months of the reporting date.

### (g) Disaggregated information

As describe in Note 1(a), the Life Act requires the life insurance business of AMP Life to be conducted within statutory funds that are separate to the AMP Life shareholder's fund. The financial statements of AMP Life (which are lodged with the relevant Australian regulators) disclose all major components of the financial statements disaggregated between the various life insurance statutory funds and the shareholder's fund, as well as by investment-linked and non-investment-linked business.

**21. Discontinued operations held for sale****(a) Details of discontinued operations held for sale**

On 11 December 2007, the AMP group entered into a sale agreement for its closed reinsurance and general insurance operations, Cobalt/Gordian. The sale once finalised will represent a complete exit from this business by the AMP group.

The Cobalt/Gordian business includes:

- the residual general insurance portfolios including the international reinsurance business and the old AMP Corporate insurance portfolios not divested in 2001
- Cobalt Solutions, a specialist management service organisation, which manages the run off of the AMP group's general insurance business.

The operations have been closed to new business since 1999 and there have been no new general insurance contracts issued in the seven years prior to and including this Financial Report. The sale is subject to a number of regulatory approvals, including the Australian Prudential Regulatory Authority and is expected to be finalised by 31 March 2008. As at 31 December 2007, Cobalt/Gordian was classified as a discontinued operation held for sale.

	2007 \$m	2006 \$m
<b>(b) Financial performance of discontinued operations held for sale</b>		
The results of the discontinued operations held for sale are presented below:		
Revenue	21	42
Expenses <sup>1</sup>	223	75
<b>Profit (loss) before tax from discontinued operations held for sale</b>	<b>244</b>	<b>118</b>
Income tax expense	(51)	(30)
<b>Profit (loss) after tax from discontinued operations held for sale</b>	<b>193</b>	<b>88</b>

Footnote:

- 1 The net negative expenses include releases of provisions.

	2007 \$m	2006 \$m
<b>(c) Assets and liabilities of discontinued operations held for sale</b>		
The major classes of assets and liabilities of the discontinued operations held for sale are as follows:		
<b>Assets<sup>1</sup></b>		
Cash and cash equivalents	37	
Reinsurance and other recoveries receivable	66	
Trade and other receivables	11	
Debt securities	570	
Other financial assets	26	
Deferred tax assets	37	
<b>Total assets of discontinued operations held for sale</b>	<b>747</b>	
<b>Liabilities<sup>1</sup></b>		
Trade and other payables	8	
Current tax liability	24	
Outstanding claims liability	525	
Other financial liabilities	115	
<b>Total liabilities of discontinued operations held for sale</b>	<b>672</b>	
<b>Net assets attributable to discontinued operations held for sale</b>	<b>75</b>	

Footnote:

- 1 The assets and liabilities of the discontinued operations are after excluding asset and liability balances with other controlled entities of the AMP group.

## 21. Discontinued operations held for sale continued

	2007 \$m	2006 \$m
<b>(d) Cash flow information – discontinued operations held for sale</b>		
The net cash flows of the discontinued operations held for sale are as follows:		
Net cash inflow (outflow) from operating activities	(98)	(101)
Net cash inflow (outflow) from investing activities	285	273
Net cash inflow (outflow) from financing activities	–	–
<b>Net cash inflow (outflow) of discontinued operations held for sale</b>	<b>187</b>	172

	2007 \$m	2006 <sup>1</sup> \$m
<b>(e) Reinsurance and other recoveries receivable</b>		
Reinsurance recoveries receivable on the outstanding claims liability	50	76
Reinsurance recoveries receivable on paid claims	16	16
<b>Total reinsurance and other recoveries receivable</b>	<b>66</b>	92

Footnote:

1 As discussed in Note 1(jj), the 2006 comparative balances in relation to discontinued operations have not been restated. The amounts presented are for comparative purposes only.

	2007 \$m	2006 <sup>1</sup> \$m
<b>(f) Analysis of outstanding claims</b>		
Gross central estimate of present value of future claims payments	452	686
Risk margin	73	119
<b>Total outstanding claims liability</b>	<b>525</b>	805

Percentage risk margin adopted in determining the outstanding claims liability	16%	17%
Probability of sufficiency achieved by the risk margin	75%	75%

**The expected settlement pattern of the outstanding claims liability is as follows:**

Current	107	143
Non-current	418	662
<b>Total outstanding claims liability</b>	<b>525</b>	805

**The liability for outstanding claims is segmented as follows:**

Direct insurance	252	416
Inwards reinsurance	273	389
<b>Total outstanding claims liability</b>	<b>525</b>	805

Footnote:

1 As discussed in Note 1(jj), the 2006 comparative balances in relation to discontinued operations have not been restated. The amounts presented are for comparative purposes only.

**Amounts expected to be recovered or settled no more than 12 months after the reporting date**

Investment assets in the form of debt securities are held to back the liability for outstanding claims and are realised on a regular basis to meet claims. The amount of claims likely to be settled within 12 months of the reporting date is set out above.

## 21. Discontinued operations held for sale continued

### (g) Assumptions and methodology applied in the valuation of general insurance contract liabilities

#### *Actuarial methods and assumptions*

The AMP group's general insurance operations have written both direct insurance business and inwards reinsurance business. The process for determining the value of outstanding claims liabilities is generally consistent between the two classes. This process is described below.

Claims estimates are derived from analysis of the results of several different actuarial models. These models take case estimates as well as payments into account and assume that reported incurred amounts or reported payment amounts will develop steadily from period to period. Other models adopt an ultimate loss ratio for each year that reflects both the long-term expected level, as well as incorporating recent experience. The analysis is performed by underwriting year for the inwards reinsurance class and by accident year for the direct insurance class.

Claims are first estimated on an undiscounted basis and are then discounted to allow for the time value of money.

The valuation methods adopted include an implicit allowance for future inflation but do not identify the explicit rate. This allows for both general economic inflation as well as any superimposed inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as developments of legal precedent.

The product liability class of business may be subject to the emergence of new types of latent claims, but no specific allowance is included for this as at the Balance sheet date. Such uncertainties are considered when setting the risk margin appropriate for this class.

A description of the processes used to determine the key assumptions is provided below:

- **average weighted term to settlement** is calculated separately by class of business, based on historical settlement patterns.
- **reinsurance percentage** for the direct insurance business is calculated based on past reinsurance recovery rates and the structure of the reinsurance arrangements in place.
- **discount rates** are derived from market yields on government securities as at the balance date, in the currency of the expected claim payments.
- **Expense rate.** Claim handling expenses are calculated based on the projected costs of administering the remaining claims until expiry.
- **ultimate to incurred claims ratio** is derived by accident year or underwriting year based on the historical development of claims from period to period.

#### *Process for determining risk margin*

The risk margin was determined initially for each portfolio, allowing for the uncertainty of the outstanding claims estimate for each portfolio. Uncertainty was analysed for each portfolio, taking into account:

- past volatility in general insurance claims
- potential uncertainties relating to the actuarial models and assumptions
- the quality of the underlying data used in the models
- the general insurance environment.

The estimate of uncertainty is generally greater for long tail classes when compared to short tail classes due to the longer time until settlement of outstanding claims.

The overall risk margin was determined allowing for diversification between the different portfolios and the relative uncertainty of each portfolio. The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification, in order to arrive at an overall provision that is intended to have a 75% probability of adequacy.

## 22. Risk management and financial instruments information

### Financial Risk Management objectives

The principal objective of the AMP group's Financial Risk Management (FRM) strategy is to establish a robust structure for the determination of risk appetite and the measuring, monitoring, reporting and escalation of financial risks. The AMP group seeks to manage financial risks to maximise the return on shareholder capital, while ensuring:

- that the AMP group remains solvent
- there is sufficient cash flow available to execute the operational strategy set by the AMP Limited Board of Directors (the board).

The AMP group's FRM is carried out in accordance with policies set by the AMP Limited Board. These policies are set out in the AMP group's FRM Policy and they provide a clear structure for managing financial risks including delegations, escalations and reporting. The FRM Policy also outlines the AMP group's financial risk management objectives and identifies organisational responsibilities for the implementation of the FRM Policy. The FRM Policy provides an overview of each of the key financial risks including the nature of the risk, objectives in seeking to manage the risk, the key policy variables for the management of the risk and the business unit responsibility for managing and reporting the risk.

### Financial Risk Management structure

The board has ultimate responsibility for risk management and governance, including ensuring an appropriate risk framework is in place and is operating effectively. There are, however, other bodies and individuals within AMP group that manage and monitor financial risks.

#### *The board*

The board is responsible for the approval of the FRM Policy, shareholder capital investment strategy, capital and financing plans, approval of transactions outside of FRM policy and setting the financial risk appetite.

#### *The Audit Committees*

The AMP Limited Audit Committee (AMP AC) is responsible for ensuring the existence of effective financial risk management policies and procedures, and oversight of the execution of the FRM Policy. The AMP Life, AMP Capital Investors (AMPCI), AMP Bank, and General Insurance Audit Committees, are delegated this responsibility for the elements specific to their respective business units.

#### *AMP group Asset and Liability Committee*

The AMP group Asset and Liability Committee (Group ALCO) provides advice to the Board on FRM Policy, shareholder capital investment strategy, capital and financing plans, and the execution of approved plans. It also monitors and reports to the AMP AC on compliance with the FRM Policy and risks undertaken by subsidiary entities that present a risk to shareholder capital.

#### *AMP group Treasury*

AMP group Treasury (AMP Treasury) is responsible for the execution of FRM Policy and capital/financing plans in compliance with board approved targets and limits. AMP Treasury is also responsible for the execution of approved investment strategy for AMP shareholder capital, for analysis and reporting of financial risks and capital position to Group ALCO, AMP AC and the board, for monitoring and compliance of FRM Policy in relation to financial risk management and identifying and reporting breaches of policy to Group ALCO and the board.

#### *Internal audit*

Internal audit has the responsibility for audit compliance with the FRM Policy as part of its ongoing audit cycle. It is required to review the policy effectiveness and report to the AMP AC.

#### *Controlled entity boards*

The directors and boards of various AMP Limited operating controlled entities are required to comply with the board approved risk appetite. The AMP Limited operating controlled entities are also responsible for approving, where relevant, policyholder asset and liability strategy, and allocated subsidiary shareholder capital investment and for reporting to the AMP AC, entity audit committees and Group ALCO on financial risks.

#### *Appointed Actuary*

The Appointed Actuary is responsible for reporting to the AMP Life Board, AMP AC, Group ALCO and APRA on the financial condition of AMP Life, including solvency, capital adequacy and target surplus. The Appointed Actuary is also responsible for giving advice to the company on distribution of profits, premium rates, charges, policy conditions and reinsurance arrangements. *The Life Insurance Act* also imposes obligations on the Appointed Actuary to bring to the attention of the company, or in some circumstances, APRA, any matter that the Appointed Actuary thinks requires action to be taken to avoid prejudice to the interests of policyholders.

#### *Approved Actuary*

The Approved Actuary is responsible for reporting to the 'Cobalt Gordian' Boards, AMP AC and APRA on solvency and capital adequacy of the general insurance and reinsurance entities. A Financial Condition Report (FCR) and an Insurance Liability Valuation Report (ILVR) must be provided to the board and APRA at least annually, and the ILVR must be peer reviewed by an external independent actuary. The Insurance Act also imposes obligations on the Approved Actuary to bring to the attention of the company, or in some circumstances, APRA, any matter that the Approved Actuary thinks requires action to be taken to avoid prejudice to the interests of policyholders.

### Risks and mitigation

The AMP group's activities expose it to a variety of financial risks:

- market risk, including interest rate risk, currency risk, equity price risk and investment risk
- liquidity and re-financing risk
- credit risk.

The AMP group uses derivative financial instruments, such as foreign exchange contracts, and interest-rate swaps, to hedge certain risk exposures. The major risks associated with financial instruments and the AMP group's policies for managing these risks are set out below.

**22. Risk management and financial instruments information continued****(a) Market risk**

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity markets, and indirectly observable variables such as volatilities and correlations. Market risk in the AMP group primarily arises from the management of insurance contracts and from non-trading market risk positions arising from balance sheet and capital management activities.

*(i) Interest rate risk*

Interest rate risk is the risk to the AMP group's earnings and capital arising from movements in interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between different yield curves and the volatility of interest rates. Interest rate risk management is decentralised in business units within the AMP group as detailed below.

*AMP group's long-term borrowings and subordinated debt*

Interest rate risk arises on the AMP group's long-term borrowings and subordinated debt. The AMP group raises long-term borrowings through pound sterling and euro denominated fixed-rate medium term notes and subordinated bonds, and converts the exposure to floating-rate Australian dollars through cross-currency swaps. The AMP group manages its interest rate risk by entering floating-to-fixed interest-rate swaps, which have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest-rate swaps, the AMP group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The AMP group's policy is to maintain between 40–60% of its borrowings and subordinated debt at a fixed rate. At the balance date, 49% (2006: 60%) of the AMP group's borrowings and subordinated debt were effectively at fixed rates.

*AMP Life*

As discussed in Note 1, AMP Life conducts wealth management and life insurance business through separate life statutory funds. Investment assets of the life statutory funds comprise cash, equity securities, debt securities, property securities, other financial assets and investment property that are held to back investment contract liabilities, life insurance contract liabilities, retained profits and capital. A substantial portion of the interest-bearing financial assets therefore represents investments held in life insurance funds in respect of policyholders' interests.

Interest rate risk to the shareholder of AMP Life arises in respect of financial assets and liabilities held in the shareholder fund and in the life statutory funds, to the extent that there is an economic mismatch between the timing of payments to life insurance and investment contract holders and the duration of the assets held in the statutory funds to back these liabilities. Where the liability to the investment contract holder is directly linked to the value of the assets held to back that liability (i.e. investment-linked business), there is no residual interest rate exposure to the shareholder.

The management of the risks associated with investments undertaken by life statutory funds and the shareholder fund, including interest rate risk, is subject to the relevant regulatory requirements, which are governed by the Life Act. This includes satisfying solvency requirements, which requires statutory reserves to be held specifically to address interest rate risk to the extent that assets are not matched against liabilities.

AMP Life manages interest rate and other market risks pursuant to an asset and liability management policy that has regard to policyholder expectations and risks to the Board's target surplus philosophy for both capital adequacy and solvency as advised by the Appointed Actuary.

*AMP Bank*

Interest rate risk arises in AMP Bank from mismatches of repricing terms (e.g. a three-year fixed rate loan funded with a 90 day term deposit – term risk) and variable rate short-term repricing bases (basis risk). AMP Bank uses natural offsets, interest-rate swaps and basis swaps to hedge the mismatches within exposure limits. AMP Treasury manages the interest rate exposure in AMP Bank by maintaining a risk position, which is generally neutral, within the limits delegated and approved by the AMP Bank board.

*General insurance*

Interest rate risk arises in general insurance to the extent that there is an economic mismatch between the fixed-interest portfolios used to back the outstanding claims' liabilities and those outstanding claims. The interest rate risk is managed by matching the duration profiles of the investment assets and the outstanding claims' liability.

*Interest rate risk sensitivity analysis*

The following table demonstrates the impact of a 100 basis point change in Australian and International interest rates, with all other variables held constant, on the AMP group's shareholder profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date (31 December 2006 and 2007) and there are concurrent movements in interest rates and parallel shifts in the yield curves. The impact on equity includes the effective portion of changes in the fair value of derivatives that are designated to qualify as cash flow hedges.

Change in variables	31 December 2007		31 December 2006	
	Impact on profit after tax \$m	Impact on equity \$m	Impact on profit after tax \$m	Impact on equity \$m
+100 basis points	(21)	15	(10)	20
-100 basis points	20	(17)	9	(23)

The risks faced and methods used for deriving sensitivity information and significant variables did not change from previous periods.

## 22. Risk management and financial instruments information continued

### (ii) Currency risk

Losses in value may result from translating the AMP group's capital invested in overseas operations into Australian dollars at balance date (translation risk) or from adverse foreign currency exchange rate movements on specific cash flow transactions (transaction risk).

Subject to materiality discretions, the AMP group:

- does not hedge the capital invested in overseas operations, thereby accepting the foreign currency translation risk on invested capital
- converts all corporate debt to Australian dollars through cross-currency swaps
- hedges individual investment assets backing shareholder capital, with the exception of the international equities portfolio
- hedges expected foreign currency receipts and payments once the value and timing of the expected cash flow is known.

### Currency risk sensitivity analysis

The analysis below demonstrates the impact of a 10% movement of currency rates against the Australian dollar with all other variables held constant, on the AMP group's shareholder profit after tax (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity. It is assumed that the relevant change occurs as at the reporting date.

Change in variables	31 December 2007		31 December 2006	
	Impact on profit after tax \$m	Impact on equity \$m	Impact on profit after tax \$m	Impact on equity \$m
10%	3	3	3	3
-10%	(3)	(3)	(3)	(3)

The risks faced and methods used for deriving sensitivity information and significant variables did not change from previous periods.

### (iii) Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The AMP group holds all of its equities at fair value through profit or loss.

### Sensitivity analysis

The analysis below demonstrates the impact of a 10% movement in Australian and International equities. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments, therefore any potential indirect impact on fees from AMP group's investment linked business has been excluded. It is assumed that the relevant change occurs as at the reporting date.

Change in variables	31 December 2007		31 December 2006	
	Impact on profit after tax \$m	Impact on equity \$m	Impact on profit after tax \$m	Impact on equity \$m
10% increase in Australian equities	32	32	49	49
10% increase in International equities	25	25	31	31
10% decrease in Australian equities	(27)	(27)	(47)	(47)
10% decrease in International equities	(23)	(23)	(28)	(28)

The risks faced and the methods used for deriving sensitivity information and significant variables did not change from previous periods.

### (iv) Investment risk

Investment risk is the risk of volatility in the AMP group's net investment earnings and value that result in a reduced ability to implement corporate strategy. Investment earnings arise from the AMP group's investment of shareholder capital. Investment classes include equities, property and interest bearing instruments, so the management of investment risk encompasses equity price risk and interest rate risk. AMP Capital Finance Limited, a wholly owned controlled entity, was established as part of the investment risk strategy of the AMP group, to assist business growth through the acquisition of assets to seed new funds or opportunities. AMP group seeks to generate future revenues from the subsequent on-sale of these assets to clients through new or existing funds.

For the purposes of the FRM Policy, investment risk management involves decisions made regarding the allocation of investment assets across asset classes and/or markets and includes the management of risks within these asset classes. Investment risk management relates to the investment allocation decisions made by the AMP group in relation to the investment of shareholder capital.

The investment risk in the shareholder funds are managed by reference to the probability of loss over a one year time horizon at a 99% confidence level (Value at Risk). This loss tolerance is currently set at 3% of shareholder funds (with a tolerance range of + or - 0.5%) under a fat-tailed distribution. Further, the loss tolerance on any single asset may not exceed 0.5%.

**22. Risk management and financial instruments information continued****(b) Liquidity and re-financing risk**

Liquidity risk is the risk that the AMP group will not be able to meet its debt obligations, or other cash outflows, as they fall due, because of lack of liquid assets or access to adequate funding on acceptable terms. Refinancing risk, a sub-set of liquidity risk, is the risk that the maturity profile of debt makes it difficult to refinance (or rollover) maturing debt, or that it creates an excessive exposure to potentially unfavourable market conditions at any given time.

To ensure that the AMP group has sufficient funds available on a timely basis, in the form of cash, liquid assets, borrowing capacity and un-drawn committed funding facilities, to meet its liquidity requirements, AMP Treasury maintains a defined surplus of cash plus projected cash inflows over projected outflows in a going-concern scenario, while meeting regulatory requirements and internal management guidelines.

To mitigate refinancing risk, the AMP group's projected cumulative funding resources are required to exceed its projected cumulative funding requirements over specified maturity periods.

The AMP group's FRM Policy includes a Liquidity Crisis Management Policy. Compliance with this Liquidity Crisis Management Policy in part requires that the AMP group has committed standby facilities of at least \$300m, with no more than 35% of committed standbys from a single source.

The following table summarises the maturity profile of the group's financial liabilities at 31 December 2007. This is based on contractual undiscounted repayment obligations, except for insurance contract liabilities when maturity profiles are determined on the discounted estimated timing of net cash outflows. Repayments that are subject to notice are treated as if notice were to be given immediately.

*Maturity profiles of undiscounted financial liabilities<sup>1</sup>*

	Up to 1 year <sup>2</sup> \$m	1 to 5 years \$m	Over 5 years \$m	No term \$m	Investment- linked <sup>3</sup> \$m	Total \$m
<b>2007</b>						
Borrowings	3,226	184	5,722	265	1,853	11,250
Subordinated debt	—	224	179	—	—	403
Investment contract liabilities	485	664	676	—	50,856	52,681
External unit-holders' liabilities	—	—	—	—	13,904	13,904
Cross currency swaps <sup>4</sup>	312	895	1,824	—	—	3,031
Payables	3,428	21	7	237	506	4,199
Loan commitments	766	—	—	—	—	766
<b>Total undiscounted financial liabilities<sup>5</sup></b>	<b>8,217</b>	<b>1,988</b>	<b>8,408</b>	<b>502</b>	<b>67,119</b>	<b>86,234</b>
<b>2006</b>						
Borrowings	2,459	733	5,408	292	1,096	9,988
Subordinated debt	—	247	188	—	—	435
Investment contract liabilities	253	570	632	—	45,526	46,981
External unit-holders' liabilities	—	—	—	—	12,079	12,079
Cross currency swaps <sup>4</sup>	—	809	1,095	—	—	1,904
Payables	631	28	11	374	519	1,563
Loan commitments	654	—	—	—	—	654
<b>Total undiscounted financial liabilities<sup>5</sup></b>	<b>3,997</b>	<b>2,387</b>	<b>7,334</b>	<b>666</b>	<b>59,220</b>	<b>73,604</b>

## Footnote:

- 1 Estimated net cash outflow profile of life insurance contract liabilities is disclosed in Note 19.
- 2 Borrowings includes deposits in banking operations and \$364m of corporate borrowings.
- 3 For investment-linked business in AMP Life, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any risk in those assets. Therefore, the tables in this section shows the policyholder liability in AMP Life in aggregate only, without any maturity profile analysis. This is also consistent with AMP's management practice.
- 4 Contractual amounts to be exchanged for which gross cash flows are exchanged.
- 5 The totals in the table above will not necessarily agree to the totals in the Balance sheet, as these maturity profiles are based on undiscounted cash flows and the Balance sheet is based on discounted cash flows.

## 22. Risk management and financial instruments information continued

### (c) Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of a traded financial instrument as a result of changes in credit risk on that instrument.

The AMP group's FRM Policy sets out the assessment and determination of what constitutes credit risk for the AMP group. The policy has set exposure limits for each counterparty, credit rating and industry type. Compliance with this policy is monitored and exposures and breaches are escalated to the AMP group Treasurer (Group Treasurer), CFO and CEO through the weekly FRM Report.

Credit risk management is decentralised in business units within the AMP group; however, credit risk directly impacting shareholder capital is measured and managed by AMP Treasury by aggregating risk from credit exposures taken in business units as detailed below.

#### *AMP Life*

Credit risk on the invested fixed income portfolios in the AMP Life statutory funds is managed by the AMP Capital Investors Compliance and Business Risk team (AMP Capital B&CR) and reported to the fund managers, within specified credit criteria in the mandate approved by the AMP Life board. The portion of credit risk on the assets backing pure life risk insurance contracts are included in aggregate with assets held in the shareholder fund and reported to AMP group ALCO by AMP Treasury.

#### *AMP Capital Investors (AMPCI)*

Credit risk on fixed Income portfolios managed by AMPCI (consistent with interest rate and foreign currency risk) is managed by the AMP Capital B&CR team and reported to the fixed income desk. This credit risk arises as part of a broader portfolio of investments under investment mandates with AMP Capital and to the extent relating directly to shareholder funds, is included in the aggregation by AMP Treasury and reported to AMP group ALCO.

#### *AMP Bank*

Credit risk arising in AMP Bank as part of lending activities and management of liquidity is managed as prescribed by AMP Bank's Risk Management Systems Description (RMSD) and reported to AMP Bank Policy ALCO monthly. Exposures relating directly to shareholder funds are included in the aggregation by AMP Treasury and reported to AMP group ALCO.

#### *General insurance*

Credit risk in Gordian Runoff Limited (Gordian) and TGI Australia Limited (TGI) is managed by the AMP Capital B&CR team according to a separate investment mandate approved by the Gordian and TGI boards which aims to duration band match the Gordian and TGI Insurance liability profile within specified credit criteria constraints. Compliance with the mandate is reported to the Gordian and TGI board of directors. The portfolio includes assets supporting both technical reserves and shareholder funds on a co-mingled basis; therefore there is no segregation of funds from an investment management perspective.

#### *Maximum exposure to credit risk*

AMP group's maximum exposure to credit risk without taking account of any collateral or other credit enhancements as of 31 December 2007 was A\$46,913m (2006: A\$39,286m), including potential exposure under any financial guarantees of A\$1,445m (2006: A\$1,353m) and loan commitments of A\$766m (2006: A\$654m).

#### *Management of credit risk concentration*

Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentration of credit risk in the AMP group is managed by individual counterparty, by credit rating and by industry type. AMP group's maximum credit exposure to any non-sovereign counterparty as at 31 December 2007 was A\$705m (2006: A\$769m) with a currently AA rated counterparty.

At balance date, the AMP group had no specific concentration of credit risk with a single counterparty arising from the use of financial instruments, other than the normal clearing-house exposures associated with dealings through recognised exchanges.

The counterparties to non-exchange traded contracts are limited to companies with investment grade credit (BBB or greater). The credit risks associated with these counter parties are assessed under the same management policies as applied to direct investments in the AMP group's portfolio.

AMP group manages credit exposures to individual counterparty limits determined on the basis of credit rating. AMP group looks to diversify its credit risk exposure by managing credit risk, where there is a direct risk to shareholder capital, by credit rating, and industry type to certain exposure limits. Compliance is monitored and exposures and breaches are escalated to the Group Treasurer, CFO and CEO through the weekly FRM Report.

**22. Risk management and financial instruments information continued***Credit exposure by credit rating*

The following table provides information regarding the credit risk exposures of the AMP group at 31 December 2007 according to the credit ratings of the counterparties, where there is a direct risk to shareholder capital, these exposures are managed within limits set by the AMP group's FRM policy:

	2007 \$m	2006 \$m
AAA	5,652	6,339
AA	6,757	5,058
A	1,254	1,651
BBB	430	750
Below BBB	146	156
<b>Total financial assets with credit risk exposure managed by Treasury</b>	<b>14,239</b>	13,954
Financial assets with credit risk exposure not managed by Treasury <sup>1</sup>	<b>32,867</b>	24,764
Other assets <sup>2</sup>	<b>61,311</b>	59,256
<b>Total assets</b>	<b>108,417</b>	97,974

Footnote:

- Balance includes financial assets of investment linked business in AMP Life, where the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets. Balance also includes receivables of \$1,180m (2006: \$1,536m) and secured loans held by banking operations of \$8,103m (2006: \$7,209m), which are not managed by Treasury in accordance with the AMP group's FRM policy.
- Balance represents all other financial and non-financial assets, with no credit risk exposure.

*Credit exposure by industry type*

The following table provides information regarding the credit risk exposures of the AMP group at 31 December 2007 according to industry type, where there is a direct risk to shareholder capital. These exposures are managed within limits set by the AMP group's FRM policy:

	2007 \$m	2006 \$m
Australian Sovereign	1,291	1,070
Other Governments	2,641	3,121
Banks	6,451	5,083
Finance	932	1,027
Building/Construction	238	385
Other	2,686	3,268
<b>Total financial assets with credit risk exposure managed by Treasury</b>	<b>14,239</b>	13,954
Financial assets with credit risk exposure not managed by Treasury <sup>1</sup>	<b>32,867</b>	24,764
Other <sup>2</sup>	<b>61,311</b>	59,256
<b>Total assets</b>	<b>108,417</b>	97,974

Footnote:

- Balance includes financial assets of investment linked business in AMP Life, where the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets. Balance also includes receivables of \$1,180m (2006: \$1,536m) and secured loans held by banking operations of \$8,103m (2006: \$7,209m), which are not managed by Treasury in accordance with the AMP group's FRM policy.
- Balance represents all other financial and non-financial assets, with no credit risk exposure.

## 22. Risk management and financial instruments information continued

### Credit risk of the loan portfolio in AMP Bank

AMP Bank is predominantly a lender for residential properties – both owner-occupied and for investment. In every case AMP Bank completes a credit assessment, which includes cost of living allowance and requires valuation of the proposed security property by a qualified independent valuer. A large portion of AMP Bank's residential loan portfolio is securitised and all loans in securitisation vehicles are mortgage insured thereby further mitigating the risk. As well, AMP Bank's Credit Committee and Board oversee trends in lending exposures and compliance with concentration limits as a further basis of limiting lending risk. AMP Bank secures its loan portfolio with mortgages over relevant properties and as a result manages credit risk on its loan portfolio by loan to value ratio (LVR). The LVR is calculated by dividing the total loan amount by the lower of AMP Bank's approved valuation amount or the purchase price. The average LVR of AMP Bank's loan portfolio for existing and new business is set out in the following table.

LVR	Existing Business 2007	New Business 2007	Existing Business 2006	New Business 2006
0 – 50	29.10%	9.07%	29.06%	7.52%
51 – 60	12.84%	7.03%	13.07%	10.70%
61 – 70	16.75%	9.46%	17.66%	14.20%
71 – 80	30.95%	60.76%	30.13%	54.01%
81 – 95	9.91%	7.63%	10.08%	13.58%
> 95	0.45%	6.05%	–	–

### Past due but not impaired financial assets of the AMP group

The following table provides an aged analysis of financial assets of the AMP group that are past due as at reporting period but not impaired.

	Past due but not impaired				Total \$m
	Less than 31 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 91 days \$m	
<b>2007</b>					
Receivables					
– Trade debtors	1	–	–	2	3
– Other receivables	10	3	2	13	28
Debt securities					
– Loans secured	224	37	12	24	297
<b>Total<sup>1</sup></b>	<b>235</b>	<b>40</b>	<b>14</b>	<b>39</b>	<b>328</b>

	Past due but not impaired				Total \$m
	Less than 31 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 91 days \$m	
<b>2006</b>					
Receivables					
– Life and general insurance contract premiums receivable	–	–	–	6	6
– Reinsurance and other recoveries receivable	–	1	–	4	5
– Trade debtors	8	1	–	2	11
– Other receivables	4	1	1	4	10
Debt securities					
– Loans secured	170	34	15	23	242
<b>Total<sup>1</sup></b>	<b>182</b>	<b>37</b>	<b>16</b>	<b>39</b>	<b>274</b>

Footnote:

1 For investment-linked business in AMP Life, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets. Therefore, the tables in this section do not show the past due financial assets backing investment-linked business in AMP Life.

### (d) Derivative financial instruments

Derivative financial instruments are carried at fair value and recorded in the Balance sheet as assets and liabilities. Asset and liability values on different transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis. Changes in values of derivative financial instruments are recognised in the Income statement unless they qualify as hedges for accounting purposes, as set out in Note 1(u).

**22. Risk management and financial instruments information continued***Derivative transactions undertaken by life insurance controlled entities as part of life insurance operations*

The AMP group uses derivative financial instruments including financial futures, forward foreign exchange contracts, exchange traded and other options and forward rate agreements to hedge the impact of market movements on the value of assets in the investment portfolios, and to effect a change in the asset mix of investment portfolios. Derivative financial instruments are held for risk and asset management purposes within mandates, and not for the purpose of speculation.

In respect of the risks associated with the use of derivative financial instruments, price risk is controlled by exposure limits, which are subject to monitoring and review. Foreign exchange hedges are monitored on a regular basis to ensure they are effective in the reduction of price risk.

*Derivative transactions undertaken by non life insurance controlled entities*

AMP group treasury and banking operations use derivative financial instruments to hedge financial risk from movements in interest rates and foreign exchange rates. Swaps, forwards, futures and options in the interest rate and foreign exchange markets may be used. A description of each of these derivatives is given below.

- i) *Swaps* – a swap transaction obliges the two parties to the contract to exchange a series of cash flows at specified payment or settlement dates. Swap transactions undertaken by the AMP group are:
  - *interest-rate swaps* which involve the contractual exchange of fixed and floating interest rate payments in a single currency based on a notional amount and a reference rate, e.g. BBSW
  - *cross-currency swaps* which involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start and/or end of the contract.
- ii) *Forward and futures contracts* – these are agreements between two parties establishing a contract interest rate on a notional principal over a specified period, commencing at a future date. Forward contracts are tailor-made agreements that are transacted between counter parties in the over-the-counter market (OTC), whereas futures are standardised contracts transacted on regulated exchanges.
- iii) *Options* – an option contract gives the option buyer the right, but not the obligation, to buy or sell a specified amount of a given commodity or financial instrument at a specified price during a certain period or on a specific date. The seller of the option contract is obliged to perform if the holder exercises the right contained therein. Options may be traded OTC or on a regulated exchange.

As stated above, derivative transactions are entered for the purposes of hedging assets, liabilities, forecast transactions, cash flows, and credit exposures. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies as such for accounting purposes.

Derivative transactions may qualify for hedges for accounting purposes if they are fair value or cash flow hedges. The group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1(u), where terms used in the following section are also explained.

The AMP group also enters into derivative transactions that provide economic hedges but do not meet the requirements for hedge accounting treatment.

*Fair value hedges*

The AMP group's fair value hedges principally consist of cross-currency swaps and interest-rate swaps that are used to protect against changes in the fair value of fixed-rate long-term debt due to movements in market interest rates and exchange rates.

The AMP group achieved fair value hedge accounting on various corporate and AMP Bank borrowings and subordinated debt effective from 1 January 2005. For the year ended 31 December 2007, the AMP group recognised a net gain of \$7m (2006: \$10m gain) representing the ineffective portion of fair value hedges. The fair values of outstanding derivatives designated as fair value hedges was a net liability of \$38m at 31 December 2007 (2006: \$36m liability).

*Cash flow hedges of forecast transactions*

The AMP group is exposed to variability in future interest cash flows on debt securities held by AMP Bank, which bear interest at variable rates. Gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions are initially recorded in the cash flow hedges reserve and are transferred to the Income statement when the forecast cash flows are realised. The gains and losses on the ineffective portions of these derivatives are recognised immediately in the Income statement. The AMP group achieved cash flow hedge accounting effective from 1 January 2005. In 2007, no gains or losses from hedge ineffectiveness arose.

As at 31 December 2007, the fair values of outstanding derivatives recognised as cash flow hedges of forecast transactions were a net asset of \$57m (2006: \$22m asset).

At 31 December 2007, the notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	2007 \$m	2006 \$m
0 – 1 years	3,572	3,550
1 – 2 years	902	640
2 – 3 years	780	872
3 – 4 years	310	105
4 – 5 years	330	310
<b>Total notional principal amounts</b>	<b>5,894</b>	<b>5,477</b>

## 22. Risk management and financial instruments information continued

### *Risk of derivative instruments*

The market risk of derivatives is managed and controlled as an integral part of the financial risk of the AMP group. The credit risk of derivatives is also managed in the context of the group's overall credit risk policies.

### **(e) Net fair values**

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the AMP group's Balance sheet at their fair value. Bid prices are used to estimate the fair value of assets, whereas offer prices are applied for liabilities.

	Total carrying amount as per the Balance sheet		Aggregate fair value	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Financial assets</b>				
Loans – secured	<b>9,004</b>	7,899	<b>8,975</b>	7,904
<b>Total financial assets</b>	<b>9,004</b>	7,899	<b>8,975</b>	7,904
<b>Financial liabilities</b>				
Bonds and notes	<b>8,711</b>	7,608	<b>8,777</b>	7,662
Subordinated Floating Rate Note	<b>100</b>	100	<b>106</b>	107
<b>Total financial liabilities</b>	<b>8,811</b>	7,708	<b>8,883</b>	7,769

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Refer to Note 1(u) for fair value estimation methods.

### *Debt securities*

Loans secured within AMP banking operations of \$8,103m (2006: \$7,209m) are recognised at amortised cost net of impairment losses. The estimated fair value of loans secured and advances represents the discounted amount of estimated future cash flows expected to be received, based on the maturity profile of the loans. As the loans are unlisted, the discount rates applied are based on the yield curve appropriate to the remaining term of the loans.

The loans may be carried at an amount in excess of fair value due to fluctuations on fixed rate loans. As the fluctuations in fair value do not represent a permanent diminution and the carrying amounts of the loans are recorded at recoverable amounts after assessing impairment, it is not appropriate to restate their carrying amount.

### *Borrowings*

Borrowings comprise domestic commercial paper and various floating-rate and medium-term notes. The fair values of borrowings are predominantly hedged by derivative instruments – mainly cross-currency and interest-rate swaps. The estimated fair value of borrowings is determined with reference to quoted market prices. For borrowings where quoted market prices are not available, a discounted cash flow model is used, based on a current yield curve appropriate for the remaining term to maturity.

### *Subordinated debt*

Subordinated debt comprises listed securities and their fair value is determined with reference to the actual quoted market prices at balance date. The fair value of subordinated debt is predominantly hedged by derivative instruments – mainly cross-currency and interest-rate swaps.

### **(f) Securitisation**

During the year, mortgages totalling \$2,166m (2006: \$1,789m) were transferred to securitisation vehicles. At 31 December 2007, AMP has outstanding securitised assets amounting to \$5,410m (2006: \$4,869m) after allowing for amortisation of the initial assets securitised.

### **(g) Amounts expected to be recovered no more than 12 months after the reporting date**

The majority of the balances of equity securities, debt securities, property securities and other financial assets are assets of the life statutory funds referred to in Note 20(f). The remainder includes debt securities of \$606m (2006: \$493m) in consolidated securitisation vehicles, which are expected to be recovered no more than 12 months after the reporting date.

### 23. Capital management

The AMP group holds capital to protect customers, creditors and shareholders against unexpected losses to a level that is consistent with AMP's risk appetite.

The AMP group's capital resources include ordinary equity and interest-bearing liabilities. The AMP group excludes interest-bearing liabilities of its banking subsidiary, AMP Bank Limited, and controlled investment subsidiaries and trusts from the AMP group capital resources. Included within interest-bearing liabilities is subordinated debt and other instruments that would qualify as regulatory capital under Australian Prudential Regulation Authority (APRA) standards.

The AMP group makes adjustments to the statutory shareholder equity for accounting mismatch items. Under AIFRS, some assets held on behalf of policyholders (and related tax balances) are included in the accounts at different values to the value used in the calculation of policy liabilities in respect of the same asset. These mismatch items include:

- treasury shares (AMP Limited shares held by the statutory funds on behalf of policyholders)
- owner-occupied properties
- life company statutory funds' investments in controlled entities.

The current AMP group's capital resources consist of:

	31 December 2007	31 December 2006
AMP statutory equity attributable to shareholders	1,927	2,412
Accounting mismatch items	309	316
AMP shareholder equity	2,236	2,728
Subordinated debt <sup>1</sup>	350	350
Senior debt <sup>1</sup>	819	611
<b>Total AMP capital resources</b>	<b>3,405</b>	<b>3,689</b>

Footnote:

- 1 Balances above represent amounts to be repaid upon maturity. Equivalent amounts in the Balance sheet are reflected at their current fair value.

The AMP group assesses the adequacy of its capital requirements through three capital measures; regulatory capital, ratings capital and economic (or risk based) capital. The AMP group targets a level of capital resources to satisfy all three capital measures. The AMP group's capital management strategy forms part of the AMP group's broader strategic planning process.

In addition to managing the level of capital resources, the AMP group also attempts to optimise the mix of capital resources to minimise the cost of capital and maximise shareholder value.

#### (i) Regulatory capital

A number of the operating entities within the AMP group of companies are regulated. The AMP group of companies includes an authorised deposit-taking institution, a life insurance company, approved superannuation trustees and general insurance companies all regulated by APRA. A number of companies also hold Australian Financial Services Licences.

The shareholder minimum regulatory capital requirement (MRR) is the amount of shareholder capital required by each of AMP's regulated businesses to meet their capital requirements as set by the appropriate regulator. These requirements are as follows:

- AMP Life Limited: solvency, capital adequacy and management capital requirements as specified under the Life Act and Life Insurance Actuarial Standards
- AMP Bank Limited: capital requirements as specified under APRA Banking Prudential Standards
- AMP Capital Investors: capital and liquidity requirements under its Australian Financial Services Licence
- Cobalt/Gordian general insurance companies: capital requirements as specified under APRA General Insurance Prudential Standards.

All the AMP group regulated entities have at all times during the current and prior financial year complied with the externally imposed capital requirements to which they are subject.

The AMP group targets a level of capital equal to the MRR plus a target surplus. The majority of the target surplus relates to the AMP Life Limited Statutory Funds and is set by reference to a probability of breaching regulatory capital requirements. This is a two tiered test where the target surplus is set as the greater of the amount required for a:

- 0.5% probability of breaching solvency over one year
- 10% probability of breaching capital adequacy over one year.

### 23. Capital management continued

#### (ii) Ratings capital

The AMP group's capital management strategy is framed against an objective of maintaining the AMP group's 'A' range credit ratings. In line with the target credit rating the AMP group maintains an AA range financial strength rating for its wholly owned life insurance company, AMP Life Limited. The AMP group targets a level of gearing, interest coverage and capital in line with rating agency guidelines for an A range credit rating and AA range financial strength rating.

The key ratings for the AMP group companies, as published by Standard & Poor's and Moody's Investor Services, at 31 December 2007 were as follows.

Company	Standard & Poor's		Moody's	
	Credit rating	Financial strength rating	Credit rating	Financial strength rating
AMP Group Holdings Limited	A/Positive/A-1	n/a	A2/Stable	n/a
AMP Life Limited	AA-/Positive	AA-/Positive	Aa2/Stable	Aa2/Stable
AMP Bank Limited	A-/Stable/A-2	n/a	A2/Stable/P-1	n/a

#### (iii) Economic capital

Risk based capital (RBC) in the AMP group is an internal measure of economic capital adequacy. The AMP group is under no obligation to maintain RBC capital adequacy, because it is an internal measure and not a regulatory capital requirement.

RBC resources consist of net tangible assets and the value of in-force business. Subordinated debt and the expected value of new business are not included.

RBC requirements consist of modelled economic losses over a 12-month period arising from risks of various kinds taken on by the AMP group. The risk types modelled are market, credit, operational, competitive, and claims risks on life and general insurance.

## 24. Notes to the statement of cash flows

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>(a) Reconciliation of the net profit after income tax to cash flows from operating activities</b>				
Net profit after income tax	985	915	903	567
Depreciation of operating assets	45	18	–	–
Amortisation and writedown of intangibles	61	36	–	–
Investment gains and losses and movements in external unitholders liabilities	939	(3,875)	–	–
Dividend and distribution income reinvested	(474)	(498)	–	–
Share-based payments	(17)	(12)	(2)	(4)
Decrease (increase) in receivables and other assets	(244)	(333)	10	(11)
(Decrease) increase in net policy liabilities	5,351	7,986	–	–
(Decrease) increase in income tax balances	(212)	476	(1)	(44)
(Decrease) increase in other payables	(112)	(66)	(2)	–
<b>Cash flows from (used in) operating activities<sup>1</sup></b>	<b>6,322</b>	<b>4,647</b>	<b>908</b>	<b>508</b>

Footnote:

1 Amounts include cash flows attributable to discontinued operations held for sale. See Note 21 for further information.

**(b) Reconciliation of cash**

Comprises:

Cash on hand	1,278	723	1	1
Cash on deposit	900	385	–	–
Bank overdrafts (included in Borrowings)	(10)	(109)	–	–
Short term bills and notes (included in Debt securities)	4,318	4,809	–	–
<b>Balance at the end of the period</b>	<b>6,486</b>	<b>5,808</b>	<b>1</b>	<b>1</b>

**(c) Financing arrangements***(i) Overdraft facilities*

Bank overdraft facility available	300	300	–	–
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*(ii) Credit standby facilities*

Revolving and standby credit facilities				
Available	485	485	–	–
Used	–	–	–	–
<b>Unused</b>	<b>485</b>	<b>485</b>	<b>–</b>	<b>–</b>

*(iii) Loan facilities*

In addition to facilities arranged through bond and note issues (refer Notes 14 and 15), financing facilities are provided through bank loans under normal commercial terms and conditions.

Available	1,563	442	–	–
Used	(805)	(242)	–	–
<b>Unused</b>	<b>758</b>	<b>200</b>	<b>–</b>	<b>–</b>

*(iv) Bond and note funding programs*

Available	20,639	22,566	–	–
Used	(9,100)	(8,042)	–	–
<b>Unused</b>	<b>11,539</b>	<b>14,524</b>	<b>–</b>	<b>–</b>

**(d) Acquisition and disposal of controlled entities**

In the course of normal operating investment activities, the life statutory funds acquire equity interests in entities which, in some cases, result in AMP holding a controlling interest in the investee entity.

Most acquisitions and disposals of controlled entities are in relation to unit trusts with underlying net assets typically comprising investment assets including cash. The consideration for acquisitions or disposals reflects the fair value of the investment assets at the date of the transactions after taking into account minority interests.

Certain controlled entities of the life statutory funds are operating companies which carry out business operations unrelated to the core wealth management operations of the AMP group. There were no significant acquisitions or disposals of controlled operating companies during 2007 or 2006.

## 25. Earnings per share

### (a) Classification of equity securities

Ordinary shares have been included in the calculation of basic earnings per share.

In accordance with AASB 133 *Earnings per Share*, options over unissued ordinary shares and performance rights have been classified as potential ordinary shares and have been considered in the calculation of diluted earnings per share. As all options were out of the money for 2007 and 2006, they have been determined not to be dilutive for those periods. Performance rights have been determined to be dilutive in 2007 and 2006. Although performance rights have been determined to be dilutive in accordance with AASB 133 *Earnings per Share*, if these instruments vest and are exercised, it is AMP's policy to buy AMP shares 'on market' so there will be no dilutive effect on the value of AMP shares.

Since the end of the financial year and up to the date of the report, no performance rights have been issued, 26,320 performance rights have been exercised and no performance rights have lapsed. During the same period no options have been issued or exercised however, 140,000 options have lapsed. There have been no movements in number of shares on issue.

Of the ordinary shares on issue, AMP Life (a wholly owned controlled entity) holds 25,192,562 (2006: 27,213,892) shares in AMP Limited on behalf of policyholders. ASIC has granted relief from restrictions in the *Corporations Act 2001* to allow AMP Life Limited to hold and trade shares in AMP Limited as part of the policyholder funds' investment activities. In determining the weighted average number of ordinary shares used in the calculation of earnings per share, a reduction is made for the average number of shares held by AMP Life in AMP Limited during the period.

	Consolidated	
	2007 million	2006 million
<b>(b) Weighted average number of ordinary shares used</b>		
Weighted average number of ordinary shares used in calculation of basic earnings per share	<b>1,849</b>	1,844
Add: potential ordinary shares considered dilutive	<b>8</b>	11
Weighted average number of ordinary shares used in calculation of diluted earnings per share	<b>1,857</b>	1,855
	\$m	\$m
<b>(c) Level of earnings used</b>		
Basic from continuing operations before accounting mismatches	<b>863</b>	888
Diluted from continuing operations before accounting mismatches	<b>863</b>	888
Basic from continuing operations after accounting mismatches	<b>792</b>	827
Diluted from continuing operations after accounting mismatches	<b>792</b>	827
Basic after accounting mismatches	<b>985</b>	915
Diluted after accounting mismatches	<b>985</b>	915
	cents	cents
<b>(d) Earnings per share</b>		
Basic from continuing operations before accounting mismatches	<b>46.7</b>	48.1
Diluted from continuing operations before accounting mismatches	<b>46.5</b>	47.9
Basic from continuing operations after accounting mismatches	<b>42.8</b>	44.8
Diluted from continuing operations after accounting mismatches	<b>42.7</b>	44.6
Basic after accounting mismatches	<b>53.3</b>	49.6
Diluted after accounting mismatches	<b>53.1</b>	49.3

**26. Superannuation funds**

AMP contributes to two employer-sponsored superannuation funds that exist to provide benefits for employees and their dependants on resignation, retirement, disability or death of the employee. The funds consist of both defined contribution sections and defined-benefit sections.

The defined contribution sections receive fixed contributions from AMP group companies and the group's legal obligation is limited to these contributions.

The defined-benefit sections provide members with a choice of lump sum benefits or pension benefits based on years of membership and final salary. New employees are only offered defined contribution-style benefits.

The following disclosures relate only to the defined-benefit sections of the plans.

The following tables summarise the components of the net amount recognised in the consolidated Income statement, the movements in the defined-benefit obligation and plan assets, and the net amounts recognised in the consolidated Balance sheet for the defined-benefit funds.

	Consolidated	
	2007 \$m	2006 \$m
<b>(a) Defined-benefit income (expense)</b>		
Current service cost	(2)	(2)
Interest cost	(17)	(16)
Expected return on plan assets <sup>1,2,3</sup>	25	23
<b>Total defined-benefit income (expense)</b>	<b>6</b>	<b>5</b>
<b>(b) Movements in defined benefit obligation</b>		
Balance at the beginning of the period	(356)	(368)
Current service cost	(2)	(2)
Interest cost	(17)	(16)
Contributions by plan participants	(1)	(1)
Actuarial gains and losses <sup>4</sup>	(33)	7
Benefits paid	22	24
<b>Balance at the end of the period</b>	<b>(387)</b>	<b>(356)</b>
<b>(c) Movement in fair value of plan assets</b>		
Balance at the beginning of the period	382	348
Expected return on plan assets	25	23
Actuarial gains and losses <sup>4</sup>	10	34
Contributions by plan participants	1	1
Benefits paid	(22)	(24)
<b>Balance at the end of the period</b>	<b>396</b>	<b>382</b>

## Footnote:

- 1 The expected return on plan assets is determined at the beginning of the period, and is based on financial modelling of expected real returns for each of the major asset classes, combined with the price inflation assumption to develop nominal returns.
- 2 The actual return on fund assets for the period in Australia was \$34m (2006: \$51m).
- 3 The actual return on fund assets for the period in New Zealand was \$1m (2006: \$7m).
- 4 As explained in Note 1, actuarial gains and losses are recognised directly in retained profits.

## 26. Superannuation funds continued

	Consolidated	
	2007 \$m	2006 \$m
<b>(d) Defined-benefit (deficit) surplus</b>		
Present value of wholly funded defined-benefit obligations	<b>(387)</b>	(356)
Less: Fair value of plan assets	<b>396</b>	382
Plus: Past service costs not yet recognised	–	–
<b>Net defined-benefit (deficit) surplus recognised in the Balance sheet</b>	<b>9</b>	26
<b>Movement in net defined-benefit (deficit) surplus</b>		
(Deficit) surplus at the beginning of the period	<b>26</b>	(20)
Plus: Total income (expenses) recognised in income	<b>6</b>	5
Plus: Employer contributions	–	–
Plus: Actuarial gains (losses) recognised in the Statement of recognised income and expense <sup>1</sup>	<b>(23)</b>	41
<b>(Deficit) surplus at the end of the period<sup>2</sup></b>	<b>9</b>	26

Footnote:

- 1 The cumulative amount of the actuarial gains and losses recognised in the Statement of recognised income and expense is \$106m (2006: \$129m).
- 2 All actuarial gains and losses, and past service costs have been recognised in the Balance sheet.

### (e) Historical analysis of defined-benefit (deficit) surplus

	Consolidated			
	2007 \$m	2006 \$m	2005 \$m	2004 \$m
<b>Australian defined-benefit (deficit) surplus</b>				
Present value of wholly funded defined-benefit obligations	<b>(342)</b>	(309)	(324)	(334)
Less: Fair value of plan assets	<b>352</b>	334	303	284
<b>Balance sheet</b>	<b>10</b>	25	(21)	(50)
Actuarial gains and losses arising on plan liabilities	<b>(35)</b>	10	5	(9)
Actuarial gains and losses arising on plan assets	<b>11</b>	30	20	(53)
<b>New Zealand defined-benefit (deficit) surplus</b>				
Present value of wholly funded defined-benefit obligations	<b>(45)</b>	(47)	(44)	(41)
Less: Fair value of plan assets	<b>44</b>	48	45	45
<b>Balance sheet</b>	<b>(1)</b>	1	1	4
Actuarial gains and losses arising on plan liabilities	<b>1</b>	(3)	–	2
Actuarial gains and losses arising on plan assets	<b>(2)</b>	4	1	1

**26. Superannuation funds continued****(f) Principal actuarial assumptions**

The following table sets out the principal actuarial assumptions used as at the reporting date in measuring the defined-benefit obligations of the Australian and New Zealand defined-benefit funds:

	Australia		New Zealand	
	2007	2006	2007	2006
Discount rate (before tax)	<b>6.3%</b>	5.9%	<b>6.9%</b>	5.8%
Expected return on assets (before tax)	<b>7.8%</b>	6.8%	<b>5.3%</b>	5.3%
Expected rate of pension increases	<b>3.0%</b>	3.0%	<b>1.9%</b>	1.9%
Expected rate of salary increases	<b>4.5%</b>	4.5%	<b>n/a</b>	n/a
Proportion of benefits expected to be taken as pensions	<b>60.0%</b>	60.0%	<b>n/a</b>	n/a
Inflation increases	<b>n/a</b>	n/a	<b>2.5%</b>	2.5%

**(g) Arrangements for employer contributions for funding defined-benefit funds**

The information set out in Note 26(a) and (b) regarding the measurement and recognition of defined-benefit funds' surpluses or deficits is determined in accordance with AASB 119 *Employee Benefits*. However, for the purposes of recommending contributions to the defined-benefit funds, fund actuaries consider the positions of the funds as measured under AAS 25 *Financial Reporting by Superannuation Plans* which determines the funds' liabilities according to different measurement rules. The surplus determined under AAS 25 differs from the net deficit recognised in the Balance sheet under AASB 119, largely due to the use of different discount rates in valuing benefits.

At the dates of the most recent financial reports of the plans, the surplus measured as the difference between the net market value of plan assets and the accrued benefits of the plans was \$23m (2006: \$44m) for the Australian defined-benefit fund and \$4m (2006: \$4m) for the New Zealand defined-benefit fund.

*Funding methods and current recommendations – Australia*

The Australian defined-benefit funds' funding policy is intended to fully cover benefits by the time they become payable. The method of funding benefits adopted is the attained age normal method. This funding method aims to spread the cost of future benefits for current members evenly over their future working lifetimes.

The economic assumptions used to determine the current contribution recommendations are the same as the actuarial assumptions in Part (f) above, except for the discount rate which is assumed to be 6.75% (before tax) for the purposes of determining accrued benefits.

*Funding methods and current recommendations – New Zealand*

The New Zealand defined-benefit funds' funding policy is intended to fully cover benefits by the time they become payable. The main group of benefits is pension rights of retired members and their spouses. The retirement benefits of active members are valued on a simplified actuarial projection basis as they are not material to the valuation of the fund.

As at 1 January 2006, the date of the last triennial valuation, the fund was considered to be in a sound financial position with assets exceeding the value of accrued benefits. As such the actuarial advice at that time was for AMP to take a contribution holiday until 1 July 2007. The actuary also recommended that an informal actuarial report be prepared at 1 January 2007 and this recommended the contribution holiday be extended until 1 July 2008. The next formal actuarial valuation will be conducted as at 1 January 2009 and will be completed by 31 July 2009.

**(h) Allocation of assets**

Shown in the following table are the asset allocations of the defined-benefit funds.

	Australia <sup>1</sup>		New Zealand <sup>1</sup>	
	2007	2006	2007	2006
Equity	<b>46%</b>	44%	<b>63%</b>	59%
Property	<b>18%</b>	19%	<b>19%</b>	13%
Fixed interest	<b>22%</b>	26%	<b>9%</b>	20%
Cash	<b>5%</b>	3%	<b>9%</b>	8%
Alternative growth assets	<b>10%</b>	9%	<b>0%</b>	0%

Footnote:

- 1 The investment assets of the plans may at times include either direct or indirect investments in AMP Limited shares. These investments are part of normal investment mandates within the plans and are not significant in relation to total plan assets. The plans do not hold any other assets which are occupied or used by AMP Limited.

## 27. Share-based payments

### (a) Summary of AMP's share-based payment plans

AMP has a number of employee share-based payment plans. These long-term incentive plans form part of AMP's overall remuneration strategy, and are necessary for AMP to attract, motivate and retain high performing employees who contribute to the success of the business. Long-term incentives represent an 'at risk' component of remuneration.

A number of share-based payment plans are no longer offered to employees as part of AMP's long-term incentive program. This is in line with AMP's strategy to simplify the choice of long-term incentive plans offered to employees. Whilst some plans are no longer offered, due to the requirement to record the share-based payments expense over the vesting period of the payments, the plans do form part of the share-based payments expense for the period. As such, information about these plans is provided below as well as plans which AMP currently offers as part of its long-term incentive program.

On adoption of AIFRS, exemptions were permitted which allowed AMP to only recognise a share-based payments expense for equity instruments that were granted after 7 November 2002 and that had not vested on or before 1 January 2005. All plans described below form part of the share-based payments expense recorded in the Income statement except the Employee and Executive Option Plan which ceased to be offered prior to 7 November 2002. Details of this plan have been provided below, however no expense has been recorded in relation to these instruments. The following table provides a list of AMP's share-based payment plans and the share-based payments expense recorded in relation to those plans during the year:

	Consolidated	
	2007 \$'000	2006 \$'000
<b>Plans currently offered</b>		
Performance rights	13,916	7,884
Restricted shares	2,655	1,890
Employee share acquisition plan – matching shares	77	60
<b>Plans no longer offered</b>		
Executive Short-term Incentive Program – matching shares	79	471
Employee and Executive Option Plan	n/a	n/a
<b>Total share-based payments expense</b>	<b>16,727</b>	<b>10,305</b>

### (b) Performance rights

#### *Plan description*

Performance rights are granted to those executives considered to have the most direct influence on AMP's business performance.

A performance right is a right to acquire one fully paid ordinary share in AMP after a three-year performance period, provided a specific performance hurdle is met. Prior to exercise, performance rights holders do not receive dividends or have other shareholder benefits (including any voting rights).

In 2002, 2003, 2004 and 2007 AMP offered share bonus rights to employees in overseas domiciles where it was not possible or tax-efficient to grant performance rights. The terms and conditions of the share bonus rights are identical to the terms and conditions of the performance rights, except settlement is in cash rather than equity instruments.

#### *The performance hurdle*

The number of performance rights that vest is determined by a vesting schedule based on the performance of AMP relative to a comparator group of companies listed on the ASX over a three-year performance period. The performance measure is Total Shareholder Return (TSR) relative to the top 50 industrials in the Standard & Poor's/Australian Stock Exchange (S&P/ASX) 100 Index as at the start of the performance period. The performance hurdle and vesting schedule were chosen because they align executives' remuneration with the creation of shareholder value relative to peer companies.

At the end of the performance period, AMP's Remuneration Committee receives data from an independent external consultant to determine AMP's TSR performance relative to the comparator group. An independent external consultant is appointed so as to ensure objectivity in measuring AMP's performance. The Remuneration Committee then determines the number of performance rights that vest by applying this data to the vesting schedule.

#### *Exercising performance rights*

Executives have two years from the end of the performance period to exercise any performance rights that vest at a nominal exercise price (\$1 per tranche of shares acquired). If the performance hurdle is not achieved the performance rights lapse immediately without re-testing of the performance hurdle.

When executives exercise performance rights, these AMP shares are bought on market so there is no dilutionary effect on the value of existing AMP shares.

#### *Treatment of performance rights on ceasing employment*

Unvested performance rights will lapse when an executive resigns from AMP. All performance rights, whether vested or unvested, will also lapse on termination due to misconduct or inadequate performance. In other cases, such as redundancy and retirement, performance rights continue to be held subject to the same performance hurdle and performance period.

**27. Share-based payments** continued*Plan valuation*

The fair value of performance rights has been calculated as at the grant date, by external consultants using a simulation technique known as a Monte Carlo simulation. Fair value has been discounted for the probability of not meeting the TSR performance hurdles.

In determining the share-based payments expense for the period, the number of instruments expected to vest has been adjusted to reflect the number of employees expected to remain with AMP until the end of the performance period.

For the purposes of the valuation it is assumed that performance rights are exercised as soon they have vested. Assumptions regarding the dividend yield and volatility have been estimated based on AMP's actual historic dividend yield and volatility over an appropriate period.

The following table shows the factors which were considered in determining the independent fair value of the performance rights granted during the current period and the comparative period:

Grant date	Share price	Contractual life	Dividend yield	Volatility	Risk-free rate	Performance hurdle discount	Fair value
21/09/2007	\$10.32	4.9 years	4.3%	20%	6.4%	45%	\$5.65
05/09/2007	\$10.70	4.9 years	4.3%	20%	6.3%	44%	\$6.01
09/03/2007	\$9.98	4.9 years	4.3%	20%	6.0%	54%	\$4.64
08/09/2006	\$9.00	4.9 years	4.5%	20%	5.8%	54%	\$4.13

The following table shows the movements during the period of all performance rights:

Grant date	Exercise period	Exercise price	Balance at 1 Jan 2007	Exercised during the year <sup>1</sup>	Granted during the year	Lapsed during the year	Balance at 31 Dec 2007 <sup>2</sup>
23/10/2003	30/08/2006 – 29/08/2008	Nil	265,175	233,057	–	–	<b>32,118</b>
18/03/2004	30/08/2006 – 29/08/2008	Nil	53,248	46,799	–	–	<b>6,449</b>
06/09/2004	01/08/2007 – 31/07/2009	Nil	2,171,818	1,984,740	–	15,279	<b>171,799</b>
01/09/2005	31/07/2008 – 31/07/2010	Nil	2,237,611	–	–	124,773	<b>2,112,838</b>
08/09/2006	01/08/2009 – 31/07/2011	Nil	2,663,225	–	–	114,960	<b>2,548,265</b>
09/03/2007	01/01/2010 – 31/12/2011	Nil	–	–	553,940	–	<b>553,940</b>
05/09/2007	01/08/2010 – 31/07/2012	Nil	–	–	2,661,041	–	<b>2,661,041</b>
21/09/2007	01/08/2010 – 31/07/2012	Nil	–	–	68,448	–	<b>68,448</b>
<b>Total</b>			<b>7,391,077</b>	<b>2,264,596</b>	<b>3,283,429</b>	<b>255,012</b>	<b>8,154,898</b>

## Footnote:

- 1 The weighted average share price at the time of exercise of these performance rights was \$10.31.
- 2 The weighted average remaining contractual life of performance rights outstanding at the end of the period is 3.4 years.

Since the end of the financial year and up to the date of the report, no performance rights have been issued, 26,320 performance rights have been exercised; and no performance rights have lapsed. Of the performance rights outstanding at the end of the period, 32,118 granted on 23/10/2003, 6,449 granted on 18/03/2004 and 145,479 granted on 06/09/2004 have vested and are exercisable.

*2005, 2006 and 2007 capital returns*

To compensate for the reduction in the value of performance rights resulting from the 2005, 2006 and 2007 capital returns, the arrangements with holders were altered so that, in respect of each capital return, they are entitled to be paid 40 cents for each performance right held immediately prior to the relevant capital return that subsequently vests and is converted into an AMP share. For example, an executive holding performance rights granted in 2005 will be entitled to a payment of 80 cents for each performance right granted in 2005 that vests, i.e. after the three-year performance period and if the performance criteria are met. Executives who held performance rights granted in 2004 that vested in 2007 received \$1.20 for each of those performance rights. No other terms described above were altered. The fair value of each grant of performance rights immediately prior to the alteration was the same as the fair value immediately after the alteration.

**(c) Restricted shares***Plan description*

A restricted share is an ordinary AMP share that has a holding lock in place until the three-year vesting period ends.

Restricted shares are offered to selected high performing employees who contribute significantly to AMP's overall business success. The purpose of the grant is to recognise such employees and assist in retaining them. While restricted shares are offered to selected employees, they are no longer offered to the CEO and his direct reports.

## 27. Share-based payments continued

As this program is designed as a means of recognising and retaining employees, no performance hurdles apply. However, the shares are subject to a holding lock until the end of a three-year vesting period. If the individual resigns from AMP during the holding period, the shares are forfeited. In the case of retrenchment, the individual retains their restricted shares; however the holding lock remains in place until the end of the three-year vesting period. Restricted shares are bought on market and granted at no cost to employees.

### Plan valuation

The fair value of restricted shares has been determined using the share price of AMP ordinary shares on the grant date. As employees holding restricted shares are entitled to dividend payments no adjustment has been made to the fair value in respect of future dividend payments. In determining the share-based payments expense for the period, the number of instruments expected to vest has been adjusted to reflect the number of employees expected to remain with AMP until the end of the vesting period.

The following table shows the number of restricted shares that have been granted during the current period and comparative period and the fair value of restricted shares as at the grant date.

Grant date	Number granted	Weighted average fair value
05/09/2007 <sup>1</sup>	451,589	\$10.79
08/09/2006 <sup>1</sup>	370,058	\$8.91

### Footnote:

1 In 2006 and 2007, AMP offered share bonus rights to employees in overseas domiciles where it was not possible or tax-efficient to grant restricted shares. The terms and conditions of the share bonus rights are identical to the terms and conditions of the restricted shares except the share bonus rights are not entitled to dividends and settlement is in cash rather than equity instruments.

### 2005, 2006 and 2007 capital returns

No adjustments were made to the restricted shares for the 2005, 2006 and 2007 capital returns.

## (d) Employee Share Acquisition Plan

### Plan description

AMP currently offers all eligible employees and executives the opportunity to become shareholders in AMP through the Employee Share Acquisition Plan (ESAP). Under ESAP participants can elect to receive part of their base salary (and any short-term incentive payments) in the form of AMP shares. There are no performance hurdles applied to this part of the plan as participants sacrifice part of their salary to acquire these shares.

As an additional incentive to acquire shares, participants are entitled to receive (at no cost to the participant) one matching share for every 10 shares acquired (up to a maximum of 100 matching shares in any 12 month period). To receive the full entitlement to matching shares, shares must be held in the plan for a minimum of three years. There are no performance conditions for receiving matching shares as ESAP is primarily designed to encourage employee share ownership, through participation in the plan. Matching shares are bought on market.

Participants who cease to be employed within the AMP group within the three-year holding period may lose their entitlement to some or all of their matching shares, depending on the reason for leaving the company.

### Plan valuation

Under ESAP, participating employees receive matching shares at the end of a three-year vesting period. During this vesting period, the employee has no right to the matching shares and does not receive the dividends on the matching shares. Each matching share has been valued by external consultants as the face value of an AMP ordinary share at grant date less the present value of the expected dividends (not received). The number of matching shares expected to be granted is estimated based on the average number of shares held in the ESAP by each employee at the beginning of each year. In determining the share-based payments expense for the period, the number of matching shares expected to be granted has been adjusted to reflect the number of employees expected to remain with AMP until the end of the three-year vesting period.

The following table shows the number of matching shares expected to be granted based on the shares purchased by employees under the ESAP during the current period and the comparative period and the fair value of matching shares as at the grant date.

Grant date	Estimated number of matching shares to be granted	Weighted average fair value
2007 – various	28,320	\$9.11
2006 – various	24,432	\$7.87

**27. Share-based payments** continued*2005, 2006 and 2007 capital returns*

To compensate for the reduction in the value of entitlements to matching shares resulting from the 2005, 2006 and 2007 capital returns, the arrangements with ESAP participants were altered so that, in respect of each capital return, they are entitled to be paid 40 cents for each matching share entitlement held in ESAP immediately prior to the relevant capital return that vests and is converted into an AMP share. For example, participants who held matching share entitlements under the plan immediately prior to the 2005 capital return will be paid \$1.20 for each matching share that vests in 2008. The fair value of matching share entitlements immediately prior to the alteration was the same as the fair value immediately after the alteration. The fair value of each grant of performance rights immediately prior to the alteration was the same as the fair value immediately after the alteration.

**(e) Executive Short-term Incentive Program***Plan description*

At the time the program was offered, AMP invited selected executives to nominate up to 25% of any 2002 and 2003 short-term incentive to be allocated as AMP shares. In addition, selected senior executives were required to take 30% of their 2002 and 2003 short-term incentive as shares. As executives salary sacrificed their short-term incentive for AMP shares, no performance hurdles applied after the short-term incentive was granted.

For shares acquired on 10 March 2004, as part of the 2003 Executive Short-term Incentive Program, a three-year holding lock was imposed on these shares and executives who remained employed for three years received a full entitlement of one matching share (for no cash consideration) for each share held in the plan for three years. There were no performance criteria attached to receiving matching shares as the program was designed primarily as a retention tool. Participants who ceased employment with AMP during the three-year holding period lost their entitlement to receive some or all of their matching shares, depending on the reason their employment ceased.

*Matching shares valuation*

Under the Executive Short-term Incentive Program, participating executives receive matching shares at the end of a three-year vesting period. During this vesting period, the executive has no right to the matching shares and does not receive the dividends on the matching shares. Each matching share entitlement has been valued by external consultants as the face value of an AMP ordinary share at grant date (date of the deferral of the short-term incentive into the Executive Short-term Incentive Program) less the present value of the expected dividends (not received). In determining the share-based payments expense for the period, the number of matching shares expected to be granted has been adjusted to reflect the number of employees expected to remain with AMP until the end of the three-year vesting period.

The following table shows the number of matching shares expected to be granted based on the shares purchased by employees under the Executive Short-term Incentive Program and the fair value of matching shares as at the grant date.

Grant date	Estimated number of matching shares to be granted	Weighted average fair value
2005 and 2006 and 2007 – not offered	n/a	n/a
10/03/2004	253,319	\$4.52
29/03/2004	34,188	\$5.68
28/03/2003	168,760	\$5.93
06/06/2003	102,993	\$5.03

*Impact of capital returns*

To compensate for the reduction in the value of entitlements to matching shares resulting from the capital returns made in 2005 and 2006, arrangements with participants in the program were altered so that, in respect of each of those capital returns, they were paid 40 cents for each matching share entitlement that vested and was converted into an AMP share. For shares acquired on 10 March 2004 as part of the 2003 Executive Short-term Incentive Program, a payment of 80 cents per share was made to each eligible participant when their matching share entitlements vested on 10 March 2007. No compensation was paid for the 2007 capital return as all matching shares under this program had vested by this time. The fair value of matching share entitlements immediately prior to the alteration was the same as the fair value immediately after the alteration.

**(f) Employee and Executive Option Plan***Plan description*

In the past, employees and executives were granted options to purchase AMP shares, subject to various performance hurdles. However, options have not been offered since 2002.

The ability to exercise options is subject to a performance hurdle that is tested at the end of a three-year performance period. Prior to their exercise, option holders do not receive dividends or have other shareholder benefits (including any voting rights). The performance hurdle is Total Shareholder Return (TSR) relative to a group of comparable companies by size. The number of options that vest is determined by a vesting schedule based on the level of company performance relative to the comparator group.

## 27. Share-based payments continued

At the end of the performance period, AMP's Remuneration Committee uses data from an independent external consultant to determine AMP's TSR performance relative to the comparator group. The use of an independent external consultant ensures objectivity in measuring AMP's performance. If some or all options do not vest at this time, then the performance period is extended by two years. Options that have not vested at the end of the extended performance period lapse. Options that have vested can be exercised up to 10 years from the grant date.

As mentioned previously, all options were granted prior to 7 November 2002 and are therefore exempt from being included in the calculation of the share-based payments expense which is recorded in the Income statement.

The current exercise prices of outstanding options are generally above the current market price of AMP shares.

Details of options over unissued ordinary shares of AMP Limited are as follows:

Grant date	Exercise period	Exercise price <sup>1</sup>	Balance at 1 Jan 2007	Exercised during the year	Granted during the year	Lapsed during the year	Balance at 31 Dec 2007
<b>Executive Option Plan</b>							
26/06/1999	26/06/2002 – 25/06/2009	\$11.44	978,212	–	–	10,000	<b>968,212</b>
28/08/1999	26/06/2002 – 25/06/2009	\$11.17	16,538	–	–	–	<b>16,538</b>
30/10/1999	30/10/2002 – 29/10/2009	\$10.83	20,000	–	–	–	<b>20,000</b>
18/12/1999	18/12/2002 – 17/12/2009	\$11.35	40,000	–	–	–	<b>40,000</b>
01/01/2000	01/01/2003 – 31/12/2009	\$11.90	29,544	–	–	–	<b>29,544</b>
19/02/2000	19/02/2003 – 18/02/2010	\$9.91	30,000	–	–	–	<b>30,000</b>
21/03/2001	21/03/2004 – 20/03/2011	\$14.19	39,791	–	–	–	<b>39,791</b>
21/07/2001	21/07/2004 – 20/07/2011	\$14.75	58,500	–	–	49,500	<b>9,000</b>
15/12/2001	15/12/2004 – 14/12/2011	\$12.89	4,040	–	–	4,040	–
23/03/2002	23/03/2005 – 22/03/2012	\$13.80	100,000	–	–	100,000	–
<b>Employee Option Plan</b>							
26/06/1999	26/06/2002 – 25/06/2009	\$11.44	526,070	–	–	2,000	<b>524,070</b>
28/08/1999	20/08/2002 – 25/06/2009	\$11.17	13,624	–	–	–	<b>13,624</b>
01/01/2000	01/01/2003 – 31/12/2009	\$11.90	217,432	–	–	–	<b>217,432</b>
30/06/2000	30/06/2003 – 29/06/2010	\$11.57	1,362,060	–	–	–	<b>1,362,060</b>
28/10/2000	28/10/2003 – 27/10/2010	\$12.29	31,406	–	–	–	<b>31,406</b>
09/12/2000	09/12/2003 – 08/12/2010	\$13.65	10,000	–	–	–	<b>10,000</b>
21/07/2001	21/07/2004 – 20/07/2011	\$14.75	748,205	–	–	–	<b>748,205</b>
15/12/2001	15/12/2004 – 14/12/2011	\$12.89	1,294	–	–	–	<b>1,294</b>
<b>Total</b>			<b>4,226,716</b>	–	–	<b>165,540</b>	<b>4,061,176</b>

Footnote:

- The exercise prices shown in this column became effective on 17 May 2007. To compensate for the impact of the 2007 capital return of 40 cents per share the exercise prices of outstanding options were reduced by 40 cents per share in accordance with ASX listing rules.
- The weighted average remaining contractual life of options outstanding at the end of the period is 2.3 years.

Since the end of the financial year and up to the date of the report, 100,000 executive options granted on 26/06/2002 and 40,000 executive options granted on 18/12/2002 have lapsed and no options have been exercised. The total number of options on issue at the date of the report is 3,921,176.

### 2005, 2006 and 2007 capital return

In accordance with the ASX listing rules and the rules of the plan, the exercise prices of outstanding options were reduced by 40 cents per option following the 2005, 2006 and 2007 capital returns of 40 cents per share to shareholders. The terms and conditions of the options were not altered as a result of the capital returns as the reduction in exercise prices occurred under their original terms.

## Notes to the financial statements continued

for the year ended 31 December 2007

### 28. Group controlled entity holdings

Details of investments in controlled entities are as follows:

Name of entity	Country of incorporation	Share type	Footnote	% Holdings	
				2007	2006
1 York Street Holdings Pty Ltd	Australia	Ord		100	100
140 St Georges Terrace Pty Limited	Australia	Ord		100	100
255 George Street Investment A Pty Ltd	Australia	Ord		100	100
255 George Street Investment B Pty Ltd	Australia	Ord		100	100
35 Ocean Keys Pty Limited	Australia	Ord		100	100
A.C.N. 086 091 643 Pty Limited	Australia	Ord		100	100
Abbey Capital Real Estate Pty Limited	Australia	Ord		100	100
ABN 43 102 756 990 Limited [formerly Magnify Financial Planners Limited]	Australia	Ord	2	–	100
ACPP Industrial Pty Ltd	Australia	Ord		100	100
ACPP Office Pty Ltd	Australia	Ord		100	100
ACPP Retail Pty Ltd	Australia	Ord		100	100
AG Australia Holdings Limited	Australia	Ord	4	100	100
Allmarg Corporation Limited	NZ	Ord, Pref		100	100
AMP (UK) Finance Services Plc	UK	Ord		100	100
AMP ASAL Pty Ltd	Australia	Ord		100	100
AMP Australia Nominees Pty Limited	Australia	Ord	3	100	100
AMP Australian Financial Services Holdings Limited	Australia	Ord		100	100
AMP Bank Limited	Australia	Ord		100	100
AMP Capital Bayfair Pty Limited	Australia	Ord		100	100
AMP Capital Finance Limited	Australia	Ord	1	100	–
AMP Capital Global Property Securities Pty Limited	Australia	Ord		100	100
AMP Capital Holdings Limited	Australia	Ord		100	100
AMP Capital Investments Limited	NZ	Ord A & B, Pref		100	100
AMP Capital Investments No. 2 Limited	NZ	Ord A & B, Pref		100	100
AMP Capital Investments No. 4 Limited	NZ	Ord A & B, Pref	2	–	100
AMP Capital Investments No. 8 Limited	NZ	Ord A & B, Pref		100	100
AMP Capital Investments No. 11 Limited	NZ	Ord A & B		100	100
AMP Capital Investments No. 14 Limited	NZ	Ord A & B		100	100
AMP Capital Investments No. 15 Limited	NZ	Ord	2	–	100
AMP Capital Investors Advisory (Beijing) Limited	Republic of China	Ord	1	100	–
AMP Capital Investors (C.I.) Limited	Jersey	Ord		100	100
AMP Capital Investors (New Zealand) Limited	NZ	Ord		100	100
AMP Capital Investors (Property Funds Management Jersey) Limited	Jersey	Ord		100	100
AMP Capital Investors (Singapore) Pte Ltd	Singapore	Ord		100	100
AMP Capital Investors (Singapore) REIT Management Limited	Singapore	Ord	1	100	–
AMP Capital Investors (UK) Limited	UK	Ord		100	100
AMP Capital Investors International Holdings Limited	Australia	Ord		100	100
AMP Capital Investors Japan KK	Japan	Ord	1	100	–
AMP Capital Investors Limited	Australia	Ord		100	100
AMP Capital Lifestyle Limited	Australia	Ord	1	100	–
AMP Capital Office and Industrial Pty Limited	Australia	Ord		100	100
AMP Capital Office and Industrial (Singapore) Pte Limited	Singapore	Ord	1	100	–
AMP Capital Palm Pty Limited	Australia	Ord	1	100	–
AMP Capital Property Nominees Ltd	Australia	Ord		100	100
AMP Capital Research (India) Private Limited	India	Ord		100	100
AMP Capital Retirement Properties Limited (formerly AMP NZ Retirement Properties Limited)	NZ	Ord		99	100
AMP Capital Shopping Centre Pty Limited	Australia	Ord		100	100
AMP CMBS No. 1 Pty Limited	Australia	Ord		100	100
AMP CMBS No. 2 Pty Limited	Australia	Ord		100	100
AMP Crossroads Pty Limited	Australia	Ord		100	100
AMP Custodial Investments No. 1 Limited	NZ	Ord A & B, Pref		100	100
AMP Custodian Services (NZ) Limited	NZ	Ord		100	100
AMP Davidson Road Pty Limited	Australia	Ord		100	100
AMP Finance Limited	Australia	Ord		100	100
AMP Finance Services Limited	Australia	Ord		100	100
AMP Financial Investment Group Holdings Limited	Australia	Ord		100	100
AMP Financial Planning Pty Limited	Australia	Ord		100	100
AMP Financial Services (Asia) Pte Ltd	Singapore	Ord	2	–	100
AMP Financial Services Holdings Limited	Australia	Ord		100	100
AMP GBS Limited	Australia	Fixed		100	100
AMP GDPF Pty Limited	Australia	Ord		100	100
AMP General Insurance Holdings Limited	Australia	Ord	4	100	100
AMP General Insurance Limited	Australia	Ord	4	100	100

## 28. Group controlled entity holdings continued

Name of entity	Country of incorporation	Share type	Footnote	% Holdings	
				2007	2006
AMP GI Distribution Pty Limited	Australia	Ord		100	100
AMP Global Property Investments Pty Ltd	Australia	Ord		100	100
AMP Group Finance Services Limited	Australia	Ord		100	100
AMP Group Holdings Limited	Australia	Ord		100	100
AMP Group Services Limited	Australia	Ord		100	100
AMP Guardians Pty Limited	Australia	Ord		100	100
AMP Holdings Limited	Australia	Ord A, Ord B, Red Pref B Class		100	100
AMP Insurance Investment Holdings Pty Limited	Australia	Ord		100	100
AMP Investment Management (NZ) Limited	NZ	Ord		100	100
AMP Investment Services No. 2 Pty Limited	Australia	Ord		100	100
AMP Investment Services Pty Limited	Australia	Ord		100	100
AMP Investments Chile Limitada	Chile	Ord		100	100
AMP Lending Services Limited	Australia	Ord		100	100
AMP Life Limited	Australia	Ord		100	100
AMP Macquarie Holding Pty Limited	Australia	Ord		100	100
AMP Macquarie Pty Limited	Australia	Ord		100	100
AMP NZ Retirement Properties Limited	NZ	Ord		100	100
AMP Pacific Fair Pty Limited	Australia	Ord		100	100
AMP Papamoa Beach Gardens Limited	NZ	Ord	2	–	100
AMP Personal Investment Services Limited	Australia	Ord		100	100
AMP Private Advice Limited	Australia	Ord	2	–	100
AMP Private Capital Funds Holdings Limited	NZ	Ord, Pref		100	100
AMP Private Capital New Zealand Limited	NZ	Ord		100	100
AMP Private Capital No. 2 Pty Limited	Australia	Ord		100	100
AMP Private Capital Pty Limited	Australia	Ord		100	100
AMP Private Investments Pty Limited	Australia	Ord		100	100
AMP Property Investments (Qld) Pty. Ltd.	Australia	Ord		100	100
AMP Real Estate Pty Ltd	Australia	Ord		100	100
AMP Remuneration Reward Plans Nominees Pty. Limited	Australia	Ord		100	100
AMP Riverside Plaza Pty Limited	Australia	Ord		100	100
AMP Royal Randwick Pty Limited	Australia	Ord		100	100
AMP Services (NZ) Limited	NZ	Ord		100	100
AMP Services Holdings Limited	Australia	Ord		100	100
AMP Services Limited	Australia	Ord		100	100
AMP Superannuation (NZ) Limited	NZ	Ord		100	100
AMP Superannuation Limited	Australia	Ord		100	100
AMP Warringah Mall Pty Ltd	Australia	Ord		100	100
AMP/ERGO Mortgage and Savings Limited	NZ	Ord		100	100
AMPG (1992) Ltd	Australia	Ord	4	100	100
Arrive Wealth Management Limited	Australia	Ord		100	100
Arthur Ellis & Co. Limited	NZ	Ord		100	100
Arthur Ellis Limited	NZ	Ord		100	100
Auburn Mega Mall Pty Limited	Australia	Ord		100	100
Australian Mutual Provident Society Pty Limited	Australia	Ord		100	100
Australian Securities Administration Limited	Australia	Ord		100	100
AWOF New Zealand Office Pty Limited	Australia	Ord		100	100
Balclutha Holdings Limited	NZ	Ord, Pref	2	–	100
Cobalt Solutions Australia Limited	Australia	Ord	4	100	100
Cobalt Solutions Services Limited	Australia	Ord	1	100	–
Collins Place No. 2 Pty Ltd	Australia	Ord		100	100
Collins Place Pty Limited	Australia	Ord		100	100
Donaghys Australia Pty Limited	NZ	Ord		75	75
Donaghys Industries Limited	NZ	Ord		75	75
Donaghys International Limited	NZ	Ord		75	75
Donaghys Limited	NZ	Ord, Pref		75	75
Donaghys Sarlon Pty Limited	NZ	Ord		75	75
ERGO Personal Financial Services Limited	NZ	Ord		100	100
Genlis Pty Limited	Australia	Ord	2	–	100
Glendenning Pty Limited	Australia	Ord	1	100	–
Gordian RunOff (UK) Limited	UK	Ord	4	100	100
Gordian RunOff Limited	Australia	Ord	4	100	100
Hillross Financial Services Limited	Australia	Ord		100	100
Honeysuckle 231 Pty Limited	Australia	Ord		60	60
INSSA Pty Limited	Australia	Ord		100	100
Inversiones Mineras Los Andes Limitada	Chile	Ord		100	100
Investment Services Nominees Pty Limited	Australia	Ord		100	100

## Notes to the financial statements continued

for the year ended 31 December 2007

### 28. Group controlled entity holdings continued

Name of entity	Country of incorporation	Share type	Footnote	% Holdings	
				2007	2006
Jeminex Pty Ltd	Australia	Ord	1,3	<b>52</b>	–
Kent Street Pty Limited	Australia	Ord		<b>100</b>	100
Knox City Shopping Centre Investments (No. 2) Pty Limited	Australia	Ord		<b>100</b>	100
Maritime Insurance Agency Pty Ltd	Australia	Ord	2	–	100
Marrickville Metro Shopping Centre Pty Limited	Australia	Ord		<b>100</b>	100
Mowla Pty. Ltd.	Australia	Ord		<b>100</b>	100
Omega (Australia) Pty Limited	Australia	Ord		<b>100</b>	100
PHF No. 1 Management Pty Limited	Australia	Ord		<b>100</b>	100
PHF No. 1 Pty Limited	Australia	Ord		<b>100</b>	100
PHFT Finance Pty Limited	Australia	Ord		<b>100</b>	100
PremierOne Mortgage Advice Pty Limited	Australia	Ord		<b>100</b>	85
Principal Healthcare Finance No. 2 Pty Limited	Australia	Ord		<b>100</b>	100
Principal Healthcare Finance Pty Limited	Australia	Ord		<b>100</b>	100
Principal Healthcare Holdings Pty Limited	Australia	Ord		<b>100</b>	100
Priority One Agency Services Pty Ltd	Australia	Ord		<b>100</b>	100
Priority One Financial Services Limited	Australia	Ord		<b>100</b>	100
Quay Asset Management (Asia) Sdn Bhd	Malaysia	Ord	2	–	100
Quay Asset Management Limited	Australia	Ord		<b>100</b>	100
Quay Mining (No. 2) Limited [formerly AMP (Bermuda) Limited]	Bermuda	Ord, Red Pref		<b>100</b>	100
Quay Mining Pty Limited	Australia	Ord		<b>100</b>	100
Roost 2007	NZ	Ord	1	<b>100</b>	–
SADS Pty Limited	Australia	Ord		<b>100</b>	100
SAPM Limited	Australia	Ord, Red Pref		<b>100</b>	100
Scrabster Bay Pty Limited	Australia	Ord		<b>100</b>	100
Shanghai AMP Property Co Ltd	Republic of China	Ord	3	<b>81</b>	81
South Pacific Agricultural Company Pty Limited	Australia	Ord	2	–	100
SPP No. 1 (Alexandra Canal) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Coves) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (H) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Mona Vale) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Mornington) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Newcastle) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (North Melbourne) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Pakenham) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Point Cook) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Q Stores) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Rosebery) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 Holdings Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Hawthorn) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Mt. Waverley Financing) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Mt. Waverley) Pty Limited	Australia	Ord		<b>86</b>	86
SPP No. 1 (Port Melbourne) Pty Limited	Australia	Ord		<b>86</b>	86
Sugarland Shopping Centre Pty Limited	Australia	Ord		<b>100</b>	100
Summerset Services Limited	NZ	Ord	1	<b>100</b>	–
Sunshine West Development Pty Limited	Australia	Ord		<b>75</b>	75
Sunshine West Income Pty Limited	Australia	Ord		<b>100</b>	100
TGI Australia Limited	Australia	Ord	4	<b>100</b>	100
The India Infrastructure Fund LLC	Mauritius	Red Pref		<b>100</b>	100
TOA Pty Ltd	Australia	Ord		<b>100</b>	100
Victoria Avenue Nominees Limited	Australia	Ord		<b>100</b>	100
Waterfront Place (No. 2) Pty. Ltd.	Australia	Ord		<b>100</b>	100
Waterfront Place (No. 3) Pty. Ltd.	Australia	Ord		<b>100</b>	100

#### Footnote:

- 1 Companies acquired in 2007.
- 2 Companies disposed in 2007.
- 3 Not audited by Ernst & Young.
- 4 Companies forming part of the discontinued operations held for sale.

## 28. Group controlled entity holdings continued

Details of investments in controlled trusts are as follows:

Trusts and other entities Name of entity	Country of registration	Footnote	2007	% Holdings 2006
ACPP Holding Trust	Australia		100	100
ACPP Industrial Trust	Australia		100	100
ACPP Office Trust	Australia		100	100
ACPP Retail Trust	Australia		100	100
Active Quant Share Fund	Australia		66	68
AHGI Martineau Fund	Australia		100	100
AHGI Martineau Galleries Fund	Australia		100	100
AMP Balanced Enhanced Equity	Australia		97	98
AMP Capital Asia ex-Japan Fund	Australia		97	96
AMP Capital Business Space REIT	Singapore	1	100	–
AMP Capital Commodities C Class	Australia	1	100	–
AMP Capital Credit Strategies	Australia		100	96
AMP Capital Diversified TAA	Australia		100	100
AMP Capital Global Listed Infrastructure Fund	Australia	1	60	–
AMP Capital Investors Australian Equity Long Short Fund	Australia		100	95
AMP Capital Investors Infrastructure Fund 1	Australia		100	100
AMP Capital Lifestyle Trust	Australia	1	100	–
AMP Capital New Balanced Conservative Fund	Australia	1	100	–
AMP Capital Mature Life Fund A	Australia		100	100
AMP Capital Mature Life Fund B	Australia		100	100
AMP Conservative Enhanced Equity Fund	Australia		92	86
AMP Infrastructure Fund 1	Australia		100	100
AMP Investments Asia Pacific Power Fund	Australia		100	100
AMP Investments Australian Pacific Airports Fund	Australia		70	72
AMP Liverpool Trust X	Australia		78	78
AMP Macquarie Holdings Trust	Australia		90	90
AMP Macquarie Trust	Australia		90	90
AMP Pacific Fair Trust	Australia		90	100
AMP Private Capital Trust No.4	Australia		100	100
AMP Private Capital Trust No.9	Australia		100	100
AMP Private Equity Fund IIIA	Australia		83	85
AMP Private Equity Fund IIIB	Australia		83	85
AMP Property Securities Fund	NZ		60	60
AMP UK Shopping Centre Fund	Australia		100	89
AMP US Property Trust	Australia	2	–	100
AMP Wholesale Office Fund	Australia		67	67
AMP Shopping Centre Fund	Australia		78	78
AMP Wholesale Shopping Centre Trust No. 2	Australia		90	90
Australian Share Ex AMP Fund	Australia	2	–	100
Bayfair Trust (NZ)	NZ		78	100
Casey Central Trust	Australia		78	100
Crossroads Trust	Australia		100	100
Davidson Road Trust	Australia		100	100
Enhanced Index International Share Fund	Australia		83	82
Enhanced Index Share Fund	Australia		74	75
External Fund Manager Australian Share Fund 1	Australia		97	96
External Fund Manager Australian Share Fund 2	Australia		99	99
External Fund Manager Australian Share Fund 3	Australia		98	98
External Fund Manager Australian Share Fund 4	Australia		94	94
External Fund Manager Australian Share Fund 5	Australia		96	97
External Fund Manager Australian Share Fund 6	Australia		99	99
External Fund Manager Australian Share Fund 7	Australia		99	99
External Fund Manager Diversified Fund 1	Australia		99	99
External Fund Manager Diversified Fund 2	Australia		97	98
External Fund Manager Diversified Fund 3	Australia		99	99
External Fund Manager Diversified Fund 4	Australia		100	100
External Fund Manager Diversified Fund 5	Australia		99	99
External Fund Manager Diversified Fund 6	Australia	1	93	–
External Fund Manager Fixed Interest Fund 1	Australia		99	99
External Fund Manager Fixed Interest Fund 2	Australia		97	97
External Fund Manager Fixed Interest Fund 3	Australia		98	98
External Fund Manager Fixed Interest Fund 4	Australia		94	94
External Fund Manager International Share Fund 1	Australia		98	99
External Fund Manager International Share Fund 2	Australia		97	97
External Fund Manager International Share Fund 3	Australia		97	97
External Fund Manager International Share Fund 4	Australia		99	99

## Notes to the financial statements continued

for the year ended 31 December 2007

### 28. Group controlled entity holdings continued

Trusts and other entities Name of entity	Country of registration	Footnote	% Holdings	
			2007	2006
External Fund Manager International Share Fund 5	Australia		96	97
External Fund Manager International Share Fund 6	Australia		100	100
External Fund Manager Listed Property Fund 1	Australia		96	96
Floating Rate Income Fund [formerly AMP Capital Investors Enhanced Income Fund]	Australia		63	64
Future Direction Australian Bond Fund	Australia		92	92
Future Directions Australian Share Fund	Australia		88	86
Future Directions Australian Share Fund 1	Australia		97	96
Future Directions Australian Share Fund 2	Australia		93	92
Future Directions Australian Share Fund 3	Australia		87	88
Future Directions Australian Small Company Fund	Australia		84	85
Future Directions Balanced Fund	Australia		95	95
Future Directions Conservative Fund	Australia		84	81
Future Directions Core International Fund 2	Australia		54	55
Future Directions Enhanced Index International Share Fund	Australia		92	90
Future Directions Geared Australian Share Fund	Australia		87	86
Future Directions Global Property Securities Fund 1	Australia		91	91
Future Directions Growth Fund	Australia		91	89
Future Directions High Growth Fund	Australia		90	86
Future Directions International Bond Fund	Australia		92	81
Future Directions International Bond Fund 1	Australia		81	81
Future Directions International Bond Fund 2	Australia	2	–	81
Future Directions International Bond Fund 3	Australia		83	83
Future Directions International Bond Fund 4	Australia	2	–	84
Future Directions International Share Fund	Australia		89	88
Future Directions International Share Fund 1	Australia		92	91
Future Directions International Share Fund 2	Australia		84	82
Future Directions International Share Fund 3	Australia		99	99
Future Directions International Share Fund 4	Australia		97	97
Future Directions International Share Fund 5	Australia		98	98
Future Directions Moderate Conservative Fund	Australia		99	88
Future Directions Property Feeder Fund	Australia		90	90
Future Directions Total Return Fund	Australia		94	88
Future Directions Total Return Fund – 1	Australia	1	89	–
Glendenning Trust	Australia	1	100	–
Global Credit Strategies Fund	Australia		90	85
Global Defender Fund	NZ		90	100
Global Growth Opportunities Fund	Australia		93	91
Hedged International Share Fund	Australia		94	88
International Bond Fund	Australia		89	88
International Share Fund	Australia		81	77
International Unlisted Investment Fund	Australia		100	100
Kent Street Investment Trust	Australia		100	100
Kent Street Unit Trust	Australia		100	100
Listed Property Trusts Fund	Australia		56	52
Loftus Street Trust	Australia		67	67
Macquarie Australian Enhanced	Australia	2	–	55
Macquarie Life Capital Stable Fund	Australia	2	–	68
Managed Treasury Fund	Australia		76	77
Merrill Lynch Mercury Balanced Pooled Super Fund	Australia		76	74
Monash House Trust	Australia		100	100
Ocean Keys Holding Trust	Australia		78	100
Ocean Keys Trust	Australia		78	100
Principal Healthcare Holding Trust	Australia		100	100
Progress 1997-1 Trust	Australia	2	–	100
Progress Warehouse Trust No 1	Australia		100	100
Progress Warehouse Trust No 2	Australia		100	100
Progress 2002-1 Trust	Australia		100	100
Progress 2003-1 Trust	Australia		100	100
Progress 2003 E1 Trust	Australia		100	100
Progress 2004 – E1 Trust	Australia		100	100
Progress 2004 – 2 Trust	Australia		100	100
Progress 2005 – 1 Trust	Australia		100	100
Progress 2005 – 2 Trust	Australia		100	100
Progress 2006-1 Trust	Australia		100	100
Progress 2007-1 G	Australia	1	100	–
Responsible Investment Leaders Australian Share Fund	Australia		57	71

## 28. Group controlled entity holdings continued

Trusts and other entities Name of entity	Country of registration	Footnote	2007	% Holdings	2006
Responsible Investment Leaders Balanced Fund A	Australia			<b>51</b>	66
Responsible Investment Leaders Conservative Fund	Australia			<b>89</b>	82
Responsible Investment Leaders Growth Fund	Australia			<b>96</b>	98
Riverside Plaza Trust	Australia			<b>100</b>	100
Royal Randwick Trust	Australia			<b>78</b>	78
Select Property Portfolio No. 1	Australia			<b>86</b>	86
Sustainable Future Australian Share Fund	Australia			<b>54</b>	64
Sydney Cove Trust [formerly Highway Trust]	Australia			<b>100</b>	100
The Pinnacle Fund	Australia			<b>99</b>	99
Warringah Mall Trust	Australia			<b>93</b>	100
Wholesale Australian Bond Fund	Australia			<b>90</b>	83

Footnote:

- 1 Trusts acquired in 2007.
- 2 Trusts disposed in 2007.

## Notes to the financial statements continued

for the year ended 31 December 2007

### 29. Investments in associated entities

Details of investments in associated companies are as follows:

Companies <sup>1</sup> Name of company	Principal activity <sup>2</sup>	Ownership interest		Carrying amount	
		2007 %	2006 %	2007 \$m	2006 \$m
<b>Held by life insurers</b>					
AMP Pencarrow Private Capital	Private equity manager	<b>34%</b>	34%	<b>38</b>	14
Gove Aluminium Finance	Aluminium smelting	<b>30%</b>	30%	<b>200</b>	200
Orphan Holdings Pty Ltd	Pharmaceuticals	<b>38%</b>	40%	<b>40</b>	31
Others (each less than \$20m)			Various	<b>101</b>	93
<b>Total investments in associated entities</b>				<b>379</b>	<b>338</b>

Footnote:

- 1 The balance date for all significant associated companies is 31 December.
- 2 In the course of normal operating investment activities, the life statutory funds hold investments in various operating businesses. Investments in associated entities reflect investments where the life statutory funds hold between a 20% and 50% equity interest.

Details of investments in associated unit trusts are as follows:

Unit Trusts <sup>1</sup> Name of trust	Principal activity	Footnote	Ownership interest		Carrying amount	
			2007 %	2006 %	2007 \$m	2006 \$m
<b>Held by life insurers</b>						
AMP China Growth Fund	Investment trusts	2	<b>34%</b>	—	<b>151</b>	—
AMP Equity Trust	Investment trusts		<b>34%</b>	33%	<b>300</b>	310
AMP Investments World Index Fund	Investment trusts		<b>36%</b>	35%	<b>134</b>	142
AMP Hendersons Structure High Yield Fund	Investment trusts		—	21%	—	128
AMP NZ Property Fund	Investment trusts		<b>34%</b>	41%	<b>342</b>	312
AMP Small Companies Trust	Investment trusts	2	<b>24%</b>	—	<b>86</b>	—
Bourke Place Unit Trust	Investment trusts		<b>50%</b>	50%	<b>202</b>	182
Darling Park Property Trust	Investment trusts		<b>50%</b>	50%	<b>245</b>	210
International Share Fund	Investment trusts		<b>37%</b>	30%	<b>50</b>	42
Global Property Securities Fund	Investment trusts		<b>23%</b>	37%	<b>251</b>	633
Infrastructure Equity Fund	Investment trusts		<b>30%</b>	26%	<b>144</b>	142
Macquarie Balanced Growth	Investment trusts	3	—	38%	—	121
Marrickville Metro Trust	Investment trusts		<b>50%</b>	50%	<b>86</b>	79
Property Income Fund A	Investment trusts	2	<b>29%</b>	—	<b>245</b>	—
Southland Trust	Investment trusts		<b>50%</b>	50%	<b>529</b>	482
Strategic Infrastructure Trust Europe 1	Investment trusts		<b>48%</b>	48%	<b>62</b>	79
Strategic Infrastructure Trust Europe 2	Investment trusts		<b>48%</b>	48%	<b>62</b>	79
Sugarland Shopping Centre Trust	Investment trusts		<b>50%</b>	50%	<b>54</b>	54
Tea Tree Plaza Trust	Investment trusts		<b>50%</b>	50%	<b>255</b>	238
Others (each less than \$50m)	Investment trusts			Various	<b>399</b>	116
Investment in associated unit trusts					<b>3,598</b>	3,349
Balance of non-associated unit trust investments					<b>16,967</b>	10,276
<b>Total investment in unit trusts</b>					<b>20,565</b>	<b>13,625</b>

Footnote:

- 1 The balance date for all significant associated trusts is 31 December.
- 2 Trust became an associate during 2007.
- 3 Trust became a controlled entity during 2007.

### 30. Forward investments, leasing and other commitments

	Consolidated		Parent	
	2007 \$m	2006 \$m	2007 \$m	2006 \$m
<b>Commitments to provide credit</b>	<b>766</b>	654	–	–
<b>Forward investment – due within one year</b>				
Balance outstanding under contracts for the purchase of freehold and leasehold properties and/or erection of buildings thereon	–	17	–	–
<b>Total forward investment</b>	<b>–</b>	17	–	–
<b>Operating lease commitments (non cancellable)</b>				
Due within one year	<b>17</b>	21	–	–
Due within one year to five years	<b>32</b>	47	–	–
Due later than five years	<b>6</b>	11	–	–
<b>Total operating lease commitments</b>	<b>56</b>	80	–	–

### 31. Contingent liabilities

The following matters are not recognised in the Balance sheet:

- In the course of normal business operations AMP is exposed to legal issues, which involve litigation.
- Contingent liabilities considered to be covered under an insurance policy, but where indemnity has not been granted yet, are not reported here, to avoid making an admission which prejudices the insurer's rights.
- In the normal course of business, the AMP group enters into various types of investment contracts that can give rise to contingent liabilities. These include foreign exchange contracts, financial futures, interest rate derivatives and exchange traded options. These contracts are entered into in the normal management of the investment portfolio.
- AMP Limited has entered into a deed to provide capital maintenance and liquidity support to AMP Bank Limited.
- In the normal course of business, AMP enters into various types of business contracts that give rise to contingent liabilities. These include guarantees for performance obligations and undertakings for financial support to controlled entities in the AMP group.

(f) Other items	Consolidated	
	2007 \$m	2006 \$m
Uncalled capital on shares in relation to: <sup>1</sup>		
– associated entities	<b>48</b>	53
– other entities	<b>147</b>	115
Uncalled capital on units in relation to: <sup>1</sup>		
– associated unit trusts	–	50
– other unit trusts	<b>19</b>	8
Estimated maximum liabilities under legal actions pending	–	–
Bank guarantees and other contingent liabilities	<b>250</b>	250

Footnote:

- Uncalled capital represents a commitment to make further capital contributions for shares, unit trusts and certain private capital investments.

for the year ended 31 December 2007

**32. Related-party disclosures****(a) Key management personnel details**

AASB 124 *Related Party Disclosures* defines key management personnel as including all non-executive directors (NEDs), the Chief Executive Officer (CEO) and other persons having authority and responsibility for planning, directing and controlling the activities of the entity (group executives). The following non-executive directors, CEO and group executives of AMP Limited held office during the year:

Name	Position
John Astbury	Non-executive director (retired 31 October 2007)
David Clarke	Non-executive director
Richard Grellman	Non-executive director
Meredith Hellicar	Non-executive director
Peter Mason	Chairman
John Palmer	Non-executive director (appointed 24 July 2007)
Nora Scheinkestel	Non-executive director
Lee Barnett	Chief Information Officer
David Cohen	General Counsel
Craig Dunn	Managing Director & Chief Executive Officer, AMP Financial Services (appointed Chief Executive Officer 1 January 2008)
Stephen Dunne	Managing Director, AMP Capital Investors
Peter Hodgett	General Manager, Human Resources & Strategy (retired 31 December 2007)
Paul Leaming	Chief Financial Officer
Craig Meller	Managing Director, AMP Financial Services
Andrew Mohl	Chief Executive Officer (retired 31 December 2007)
Matthew Percival	General Manager, Public Affairs

**(b) Performance rights and options holdings of key management personnel**

The following table summarises the holdings of performance rights and options granted to the key management personnel.

Name	Holding at 1 Jan 07	Granted	Exercised	Lapsed	Holding at 31 Dec 07	Vested and exercisable at 31 Dec 07
<b>Performance rights</b>						
Andrew Mohl	1,186,797	553,940	340,337	—	<b>1,400,400</b>	—
Craig Dunn	442,264	238,298	122,522	—	<b>558,040</b>	—
Craig Meller	202,255	141,619	58,824	—	<b>285,050</b>	—
Stephen Dunne	324,199	139,265	121,581	—	<b>341,883</b>	—
Paul Leaming	340,190	154,739	103,236	—	<b>391,693</b>	—
Peter Hodgett	258,593	111,219	74,005	—	<b>295,807</b>	—
David Cohen	251,607	112,186	74,874	—	<b>288,919</b>	—
Matthew Percival	212,183	88,008	62,320	—	<b>237,871</b>	—
Lee Barnett	189,402	110,252	49,580	—	<b>250,074</b>	—
<b>Options</b>						
Andrew Mohl <sup>1</sup>	100,000	—	—	—	<b>100,000</b>	—
Craig Dunn	130,000	—	—	100,000	<b>30,000</b>	—
Stephen Dunne	10,000	—	—	—	<b>10,000</b>	—
Paul Leaming	40,000	—	—	—	<b>40,000</b>	—
Peter Hodgett <sup>1</sup>	40,000	—	—	—	<b>40,000</b>	—
Lee Barnett	20,000	—	—	—	<b>20,000</b>	—

Footnote:

1 Andrew Mohl's and Peter Hodgett's option grants lapsed on 30 January 2008.

### 32. Related-party disclosures continued

#### (c) Shareholdings of key management personnel

The following table summarises the movements in holdings of shares in AMP Limited held by the key management personnel and their personally related entities.

Name	Holding at 1 Jan 07 or appointment	Granted as remuneration during the period	Received on exercise of performance rights or options	Purchased through AMP NEDs Share Plan	Other changes <sup>1</sup>	Holding at 31 Dec 07 or retirement
John Astbury	24,793	—	—	2,857	—	<b>27,650</b>
David Clarke	79,131	—	—	13,969	5,000	<b>98,100</b>
Richard Grellman	27,276	—	—	3,446	—	<b>30,722</b>
Meredith Hellicar	33,035	—	—	3,441	413	<b>36,889</b>
Peter Mason	181,717	—	—	12,697	34,382	<b>228,796</b>
John Palmer	21,579	—	—	868	—	<b>22,447</b>
Nora Scheinkestel	46,504	—	—	3,441	5,137	<b>55,082</b>
Andrew Mohl	1,014,454	—	340,337	—	303,901	<b>1,658,692</b>
Craig Dunn	276,780	42,268	122,522	—	—	<b>441,570</b>
Lee Barnett	—	—	49,580	—	1,165	<b>50,745</b>
David Cohen	132,321	29,150	74,874	—	—	<b>236,345</b>
Stephen Dunne	525	—	121,581	—	—	<b>122,106</b>
Peter Hodgett	277,919	21,539	74,005	—	(92,103)	<b>281,360</b>
Paul Leaming	62,448	32,281	103,236	—	—	<b>197,965</b>
Craig Meller	78,050	19,193	58,824	—	(59,860)	<b>96,207</b>
Matthew Percival	180,340	18,138	62,320	—	(50,545)	<b>210,253</b>

Footnote:

1 Other changes includes the purchases and sales of shares on market by key management personnel and their related parties.

#### (d) Remuneration of key management personnel

The following table provides a total of the remuneration received by the key management personnel. For further details regarding remuneration of key management personnel see the Remuneration Report which forms part of the Directors' Report. The Remuneration Report includes individuals who are required to be disclosed under *Corporations Act 2001* requirements, however do not meet the definition of key management personnel and as such are not included in the following table.

	Short-term benefits \$'000	Post employment benefits \$'000	Share-based payments \$'000	Other long-term benefits \$'000	Termination benefits \$'000	Total \$'000
<b>Non-executive directors<sup>1</sup></b>						
2007 <sup>2</sup>	<b>1,992</b>	<b>181</b>	—	—	—	<b>2,173</b>
2006 <sup>2</sup>	1,848	187	—	—	—	2,035
2006 – as disclosed in 2006 <sup>3</sup>	1,742	157	—	—	—	1,899
<b>Executive directors</b>						
2007 <sup>2</sup>	<b>15,913</b>	<b>1,161</b>	<b>5,836</b>	<b>83</b>	<b>7,669</b>	<b>30,662</b>
2006 <sup>2</sup>	15,333	1,153	4,869	42	—	21,397
2006 – as disclosed in 2006 <sup>3</sup>	14,193	1,032	4,567	42	—	19,834
<b>All key management personnel</b>						
2007 <sup>2</sup>	<b>17,905</b>	<b>1,342</b>	<b>5,836</b>	<b>83</b>	<b>7,669</b>	<b>32,835</b>
2006 <sup>2</sup>	17,181	1,340	4,869	42	—	23,432
2006 – as disclosed in 2006 <sup>3</sup>	15,935	1,189	4,567	42	—	21,733

Footnote:

1 Non-executive directors are not entitled to short-term incentive payments. Short-term benefits only include fees and allowances.

2 These amounts represent the total remuneration paid to the key management personnel listed in Note 32(a) for 2007 and 2006.

3 This represents the amount paid to those individuals considered key management personnel and disclosed as such in the 2006 Financial Report.

**32. Related-party disclosures continued****(e) Transactions with key management personnel**

During the year, key management personnel and their personally related entities have entered into transactions with the disclosing entity or its subsidiaries. All such transactions have occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect AMP would have adopted if dealing at arm's length with an unrelated individual. These transactions include:

- normal personal banking with AMP Bank Limited including the provision of credit cards
- the purchase of AMP insurance and investment products
- financial investment services.

Information about such transactions does not have the potential to affect adversely decisions about the allocation of scarce resources made by users of this Financial Report, or the discharge of accountability by the specified executives or specified directors.

The following tables provide details of loans made to key management personnel by AMP or any of its subsidiaries.

*All loans to key management personnel*

	Balance 1 Jan 07 \$'000	Written off \$'000	Net advances (repayments) \$'000	Balance at 31 Dec 07 \$'000	Interest charged \$'000	Interest not charged \$'000	Number in group
<b>Key management personnel<sup>1</sup></b>	7,814	–	496	8,310	606	–	5

*Individuals with loans above \$100,000 during reporting period*

	Balance 1 Jan 07 \$'000	Written off \$'000	Net advances (repayments) \$'000	Balance at 31 Dec 07 \$'000	Interest charged \$'000	Interest not charged \$'000	Highest indebtedness in period \$'000
Andrew Mohl	4,455	–	381	4,836	342	–	4,935
Stephen Dunne	950	–	250	1,200	83	–	1,208
Lee Barnett	296	–	469	765	49	–	777
Craig Meller	2,081	–	(594)	1,487	130	–	2,254

## Footnote:

- 1 All loans to key management personnel are on terms no more favourable than those that it is reasonable to expect AMP would have adopted if dealing at arm's length with an unrelated individual. No guarantees are given or received in relation to these loans.

**(f) Other related-party transactions**

AMP controlled entities provide management services to associated unit trusts at normal commercial rates. Shares and other financial securities have been traded between AMP and respective trusts at market value. AMP controlled entities provide management services to operating trusts with fees determined on a cost recovery basis. Interests held in associated entities (including percentage ownership) are set out in Note 29.

### 33. Auditors' remuneration

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Amounts received or due and receivable by Auditors of AMP Limited for:</b>				
<b>Auditing the financial statements of AMP Limited and its controlled entities</b>				
Half year review	500	500	–	–
Full year audit	3,950	3,600	140	140
<b>Total financial statement audits</b>	<b>4,450</b>	4,100	<b>140</b>	140
<b>Other audit services</b>				
Audit of trusts and superannuation funds	3,153	2,274	–	–
Audit of statutory returns	439	242	–	–
Other audit work <sup>1</sup>	1,140	1,736	–	–
<b>Total other audit services</b>	<b>4,732</b>	4,252	–	–
<b>Total audit services</b>	<b>9,182</b>	8,352	<b>140</b>	140
<b>Technical advice</b>				
Technical advice	10	–	–	–
Independent accountant's report	–	–	–	–
Other assurance services <sup>2</sup>	1,209	1,567	–	–
<b>Total assurance related services</b>	<b>1,219</b>	1,567	–	–
<b>Other services</b>				
Transaction support	100	4	–	–
Tax and compliance advice	89	136	–	–
Actuarial assistance	–	–	–	–
Other services	74	124	–	–
<b>Total other services</b>	<b>263</b>	264	–	–
<b>Total non audit services</b>	<b>1,482</b>	1,831	–	–
<b>Total amounts received or due and receivable by Auditors of AMP Limited<sup>3,4</sup></b>	<b>10,664</b>	10,183	<b>140</b>	140

Footnote:

- 1 Other audit work includes fees for reviews of the full year and half year Investor Reports, compliance audits and other audit procedures performed for multiple investment vehicles owned by the life statutory funds.
- 2 Other assurance services includes fees for fund prospectus reviews, AMP Bank securitisation opinions and other procedures performed for multiple investment vehicles owned by the life statutory funds. In the comparative period the amount includes fees attributable to a significant review of investment pricing systems.
- 3 Includes fees paid to Ernst & Young affiliates overseas.
- 4 Periodically, the AMP group gains control of entities whose incumbent auditor is an audit firm other than Ernst & Young. In addition to the audit fees paid to Ernst & Young for auditing the AMP group, immaterial audit fees are also paid to these non-Ernst & Young audit firms in relation to the audits of those periodically controlled entities. The non-Ernst & Young audit firms are also independently contracted to provide other services to other controlled entities of the AMP group, unrelated to their audit work.

### 34. Events occurring after reporting date

At the date of this report, the directors are not aware of any matter or circumstance that has arisen since the end of the period which has significantly affected or may significantly affect the operations of the consolidated entity, the results of its operations or its state of affairs, which is not already reflected in this report other than the following.

#### Dividends

On 14 February 2008, AMP proposed a final dividend on ordinary shares.

## Directors' declaration

for the year ended 31 December 2007

In accordance with a resolution of the directors of AMP Limited, we state for the purposes of Section 295(4) of the *Corporations Act 2001* that, in the opinion of the directors:

- (a) The financial statements and the notes to the financial statements comply with the accounting standards;
- (b) The financial statements and notes give a true and fair view of the financial position and performance of the company and the consolidated entity for the financial year ended 31 December 2007;
- (c) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (d) The financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including Section 296 (compliance with accounting standards) and Section 297 (true and fair view); and
- (e) The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* (Cth).



**Peter Mason**

Chairman

Sydney, 14 February 2008



**Craig Dunn**

Managing Director and Chief Executive Officer

### Independent auditor's report to the members of AMP Limited

We have audited the accompanying financial report of AMP Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), within the Directors' Report as referenced under the heading "Statement on Transfer of Related Party Information" in Section 6 of the Remuneration Report, as permitted by Corporations Regulation 2M.6.04.

#### *Directors' responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, comply with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the Directors' Report.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

#### *Auditor's opinion*

In our opinion:

1. the financial report of AMP Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of AMP Limited and the consolidated entity at 31 December 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.
3. the remuneration disclosures referenced in Section 6 of the Remuneration Report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



Andrew Price

Partner

Sydney, 14 February 2008

Liability limited by a scheme approved under Professional Standards Legislation.

# Shareholder information

## Distribution of shareholdings at 29 February 2008

Range	Number of holders	Units	% of issued capital
1–1000	637,420	254,469,997	13.5728
1,001–5,000	178,495	358,378,331	19.1150
5,001–10,000	15,314	109,254,613	5.8274
10,001–100,000	7,292	151,986,945	8.1066
100,001 and over	274	1,000,763,189	53.3782
Totals	838,795	1,874,853,075	100

The total number of shareholders holding less than a marketable parcel of 63 is 35,533.

## Twenty largest shareholdings as at 29 February 2008

Rank	Name and account	Ordinary shares	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	297,033,412	15.84
2	JP Morgan Nominees Australia Limited	259,118,377	13.82
3	National Nominees Limited	134,513,055	7.17
4	Citicorp Nominees Pty Limited	95,535,259	5.09
5	ANZ Nominees Limited <Cash Income A/C>	35,701,576	1.90
6	Cogent Nominees Pty Limited	29,874,381	1.59
7	Queensland Investment Corporation	17,518,517	0.93
8	AMP Life Limited	17,347,852	0.93
9	PSS Board	11,145,082	0.59
10	Australian Foundation Investment Company Limited	9,531,388	0.51
11	ARGO Investments Limited	6,780,954	0.36
12	RBC Global Services Australia Nominees Pty Limited	5,514,359	0.29
13	Merrill Lynch (Australia) Nominees Pty Limited	3,998,382	0.21
14	UBS Private Clients Australia Nominees Pty Ltd	3,903,713	0.21
15	Djerriwarrh Investments Limited	3,245,072	0.17
16	AMP Foundation Limited	2,126,387	0.11
17	Bond Street Custodians Limited	2,011,072	0.11
18	Blackrock Investment Mgt <separately managed accounts>	1,594,342	0.09
19	Carramar Pty Ltd	1,550,000	0.08
20	IAG Nominees Pty Limited	1,503,840	0.08
Totals		939,547,020	50.08

### Substantial shareholders

The Company has received no substantial shareholding notices.

### Total number of holders of ordinary shares and their voting rights

As at 29 February 2008, the share capital of AMP Limited consisted of 1,874,853,075 ordinary shares held by 838,795 holders. The voting rights attaching to the shares are that each registered holder of shares present in person (or by proxy, attorney or representative) at a meeting of shareholders has one vote on a vote taken by a show of hands, and one vote for each fully paid share held on a vote taken on a poll.

### Total number of options over unissued shares and option holders

As at 29 February 2008, AMP Limited had on issue 3,919,176 options over unissued ordinary shares in AMP Limited held by 2,586 option holders.

### Stock exchange listings

AMP Limited is listed on the Australian Stock Exchange and on the New Zealand Stock Exchange.

### Restricted securities

There are no restricted securities on issue.

### Buy-back

There is no current on-market buy-back.

# Glossary

## **Closed book**

A book of business that is not open to new customers.

## **Commutation**

A settlement agreement reached between two or more parties that effectively terminates the obligation under an insurance/reinsurance contract.

## **Contingent liabilities**

A situation existing at balance date, where a potential future claim may occur, but the liability is not sufficiently probable or reliably measurable to warrant recognition in the financial statements at balance date.

## **Controllable costs**

Costs that AMP incurs in running its business. Controllable costs include operational and project costs, but exclude variable distribution costs, investment management fees and interest on group debt.

## **Cost to income ratio**

A measure of the proportion of earnings used to pay AMP's controllable costs.

## **Demerger**

AMP's demerger on 23 December 2003 created separate businesses; AMP in Australasia and HHG (now called Henderson Group) in the United Kingdom.

## **Earnings per share (EPS)**

This represents the profit made by AMP, divided by the number of shares on issue.

## **Embedded value (EV)**

A calculation for the AFS business of the value of the shareholder equity and the future profits expected to emerge from the business currently in-force. The value is expressed in today's dollars.

## **Franked dividends**

Dividends paid which have franking credits attached. The franking credits represent the income tax paid by the company paying the dividend, which can be used as a tax credit by Australian resident shareholders receiving the dividend.

## **Investment performance**

A measure of how well we manage funds on behalf of our customers. The percentage of Australian assets managed by AMP which met or exceeded their respective benchmarks for the year.

## **Long-term incentive**

A long-term incentive is an award usually provided in the form of equity, such as performance rights or restricted shares, to align an executive's interest with long-term company performance. Long-term incentives at AMP are subject to a performance hurdle and/or a service requirement.

## **Mismatch items**

Under accounting standards, accounting mismatches arise because the recognition and measurement rules for certain policyholder assets differ from the recognition and measurement rules for the actual liability to policyholders in respect of the same assets. Mismatch items have no impact on the group's underlying profit, cash flow or value.

## **Operating earnings**

Operating earnings are the profits earned by AMP's operating businesses. Operating earnings exclude investment income on funds held as capital within AMP's operating businesses.

## **Option**

A right to acquire an AMP share at a pre-determined price during an exercise period, subject to meeting performance hurdles. AMP has not offered options under its Employee or Executive Option Plans since 2002.

## **Performance right**

This is a form of executive remuneration designed to reward long-term performance. Performance rights are a contractual promise to deliver a pre-set number of AMP shares at the end of a three-year performance period, as long as a specific performance hurdle is met.

## **Restricted share**

This is a form of remuneration designed to reward long-term performance. A restricted share is an ordinary AMP share that has a holding lock in place until a three-year vesting period ends.

## **Return on invested capital (RoIC)**

Is the return that shareholders have earned on the capital invested in our businesses.

## **Short-term incentive**

A cash payment based on performance during the year against pre-defined business objectives aligned to company strategy.

## **Underlying profit**

Underlying profit (which smoothes out the effect of investment market volatility) is calculated by aggregating operating earnings, corporate costs, interest expense on group debt, earnings from discontinued businesses, recognition of tax losses and underlying investment income. Underlying investment income is based on average long-term rates of return. Actual investment income can be higher or lower than the long-term rate from year to year.

## **Underlying return on equity (RoE)**

A measure of the return a company makes on shareholder equity. Calculated as underlying profit divided by average monthly shareholder equity during the year.

## **Value of new business (VNB)**

A measure for the AFS business of the future profits (expressed in today's dollars) expected to emerge from new business written during the year.

## **Vesting**

Remuneration term defining the point at which any performance hurdles have been met and a financial benefit may be realised by the recipient.



## Need help?

### Contact the AMP Share Registry

**Email** [ampservices@computershare.com.au](mailto:ampservices@computershare.com.au)  
**Internet** [www.amp.com.au/shareholdercentre](http://www.amp.com.au/shareholdercentre)

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Phone 1300 654 442  
Fax 1300 301 721

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AUCKLAND 1142  
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AMP is incorporated and domiciled in Australia  
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