Tax report for the year ended 31 December 2014

Contents

Gordon Lefevre

AMP Limited ABN 49 079 354 519
All amounts are in Australian dollars.

1. Message from the Chief Financial Officer

AMP is immensely proud of its history in Australia and New Zealand. Since its founding 166 years ago, AMP has helped build Australia by investing in many major infrastructure projects. Every day we help millions of Australians and New Zealanders own tomorrow through financial security.

We are also proud of the contribution we make to the public finances of the countries in which we operate.

Our approach to paying tax is predicated on integrity and transparency, which is why we are proud to prepare and present this report. It details taxes we paid in 2014, our effective 2014 tax rate and the three years prior. It describes our approach to tax: one that seeks to ensure our tax strategy is executed in the spirit of contributing appropriately to the communities in which we operate.

Gordon Lefevre
Chief Financial Officer

2. Introduction

AMP makes a wide range of tax-related payments to governments in various jurisdictions in which it operates.

This report provides information on AMP, the tax payments the company makes, and its tax strategy and governance.

The vast majority of AMP's tax liability is payable in Australia. Income tax is levied on profits attributable to AMP shareholders and, for some investment structures, the investment returns generated for its customers. AMP is also subject to payroll, property, goods and services tax (GST) stamp duty and other taxes. AMP also collects and pays 'pay as you go' (PAYG) taxes on behalf of employees, withholding tax on behalf of shareholders and investors, and contributions tax on customers' superannuation investments. The payment of Australian income tax by AMP generally results in the generation of imputation credits which are passed to shareholders on payment of dividends; where a shareholder is an Australian taxpayer, they obtain the credits for the tax already paid by AMP.

The information in this report is additional to information already published in Notes to the statutory financial statements prepared applying the recognition, measurement and disclosure requirements of international financial reporting standards.

3. AMP group

AMP is Australia and New Zealand's leading independent wealth management company, with an expanding international investment management business and a growing retail banking business in Australia.

The holding company of the group, AMP Limited, is listed on the ASX and NZX.

AMP business operations are carried on by a number of controlled entities including an Australian bank and two Australian registered life insurers. Each of AMP's business units is wholly owned by AMP Limited, except for the AMP Capital business unit which is 85% owned by AMP Limited and 15% owned by Mitsubishi UFJ Trust and Banking Corporation, domiciled in Japan.

The majority of AMP profits are earned from financial services operations in Australia. Other profits are earned from financial services operations in New Zealand, as well as a number of mainly investment management operations in other national jurisdictions in Asia and elsewhere.

AMP comprises the following business units:

- **Australian Wealth Management (WM)** – The activities of the WM business unit include financial planning services (through aligned and owned advice businesses), platform administration (including SMSF), unit-linked superannuation, retirement income and managed investment products businesses. The superannuation products include personal and employer sponsored plans.
- **AMP Bank** – AMP Bank is an Australian retail bank offering residential mortgages, deposits, transaction banking and SMSF products. It also has a portfolio of practice finance loans. The AMP Bank distributes through brokers, AMP advisers and direct to retail customers via phone and internet banking.
- **Australian Wealth Protection (WP)** – WP offers personal and group term, disability and income protection insurance products. These products can be bundled with a superannuation product or held independently of superannuation.
- **Australian Mature (Mature)** – The Mature business unit comprises products which are mainly in run-off. These products include whole of life, endowment, investment linked, investment account, Retirement Savings Account and Eligible Rollover Fund products, as well as annuities, insurance bonds, personal superannuation and guaranteed savings accounts.
- **New Zealand financial services** – This is a risk insurance business and mature book (traditional participating business), with a growing wealth management business driven by KiwiSaver.
- **AMP Capital** – AMP Capital is a diversified investment manager with a growing international presence, providing investment services for domestic and international customers. AMP Capital manages investments across major asset classes including equities, fixed interest, property, infrastructure and multi-manager and multi-asset funds. AMP Capital also provides commercial, industrial and retail property management services.

AMP's life insurance entities conduct a wealth management business through separate life statutory funds. For the purpose of preparing AMP Limited's consolidated financial report, income, expenses, assets and liabilities attributable to policyholders within the life statutory funds are consolidated into the AMP group financial statements, along with those attributable to the shareholders of the parent entity.

The business of AMP's life insurance activities relates to the provision of wealth management and life insurance products to investors, referred to as policyholders. The nature of the savings element of this business is that AMP receives premiums and other contributions from policyholders and then invests those funds on behalf of the policyholders. Australian tax law generally taxes at different rates policyholder returns and superannuation contributions in the hands of the life insurer.

In addition to the above business units, AMP has a group office function which provides centralised services and performs treasury activities.

Under Australian tax law, AMP's Australian corporate entities are organised into two tax consolidated groups, one for AMP Limited and its wholly owned Australian corporate subsidiaries and another for AMP Capital Holdings Limited and its wholly owned Australian corporate subsidiaries. Each of these tax consolidated groups is a group of companies generally treated as a single taxpayer for income tax purposes. A small number of partly owned Australian corporate entities fall outside these tax consolidated groups and are taxed separately on a stand alone basis.

Where AMP operates in foreign jurisdictions, it will generally establish separate legal entities in those jurisdictions and be subject to the local tax regime. In some cases, AMP establishes investment vehicles and/or investment assets across multiple jurisdictions. This is discussed further in section 4.

AMP Capital operates a large number of registered managed investment schemes and other pooled investment vehicles. AMP's life insurance entities are significant investors into these vehicles and in many cases this results in control and consolidation of these investment vehicles in the AMP Limited financial statements. In general, those investment schemes and other pooled investment vehicles do not pay tax but are required to distribute taxable income annually which is then taxed in the hands of the investors.

4. Tax strategy and governance

AMP's tax strategy is focused on integrity in compliance, reporting and enhancing shareholder value.

The strategy is implemented through AMP's tax risk framework. This framework is approved by the AMP Limited Board and supported by governance processes which ensure it is implemented with continued effectiveness. The framework and supporting governance processes include an escalation requirement for key risks that are outside of the parameters approved by the AMP Limited Board.

AMP Limited has entered into an annual compliance arrangement (ACA) in relation to income tax with the Australian Taxation Office (ATO). The primary purpose of the ACA is to formalise a relationship predicated on mutual trust, respect and transparency, and which facilitates interaction and cooperation between the parties. The ATO has acknowledged AMP's continued willingness to maintain a cooperative and open relationship.

In conducting AMP's activities (both in Australia and offshore):

- AMP does not shift and/or accumulate profits in low- or zero-tax jurisdictions
- AMP does not use the secrecy rules of jurisdictions to hide assets or income, and
- AMP pays tax where the underlying economic activity occurs.

AMP Limited's board does not sanction or support any activities which seek to aggressively structure AMP's tax affairs.

As part of managing a global investment portfolio on behalf of domestic and international clients, including Australian superannuation funds, AMP uses a variety of structures and entities to enter into offshore markets. The selection of a particular location requires balancing various commercial, legal, investor and cost (including tax) factors. In that context, AMP manages investments through entities in jurisdictions which have alignment with OECD guidelines on tax transparency (ie information exchange with other tax authorities) and in certain instances lower effective tax rates. AMP's public financial reports clearly disclose any 'differences in overseas tax rates' to highlight the impact of the different tax rates applied in relation to shareholder profit from offshore activities.

5. Tax paid analysis

The below table provides an analysis of the types of taxes paid by the AMP group in the 2014 year to the Australian and New Zealand governments (state and federal). The majority of AMP's operations are in these two countries.

AMP also pays taxes (corporate and withholding tax) to other foreign governments where it conducts economic activity, as well as other taxes (eg property taxes, stamp duty on asset transactions), which have not been included in the table below. The table excludes taxes paid by controlled Australian entities which do not form part of the AMP Limited and AMP Capital Holdings tax consolidated groups.

	Corporate income tax[1] $m	Employer/ payroll taxes[2] $m	Insurance duties[3] $m	Indirect taxes net of recoveries[4] $m	Total taxes borne[5] $m	Employee payroll taxes[6] $m	Customer withholding taxes[7] $m
Australian federal taxes	412.0	4.4	–	38.8	455.2	210.3	54.4
Australian state / territory taxes	–	43.4	56.6	–	100.0	–	–
New Zealand taxes[8]	25.4	0.5	–	5.5	31.4	17.3	–
Total	**437.4**	**48.3**	**56.6**	**44.3**	**586.6**	**227.6**	**54.4**

Footnotes:

1 Tax liability of the AMP Limited and AMP Capital Holdings Limited tax consolidated groups (see further details on page 3) and the New Zealand branches of AMP Life and The National Mutual Life Association of Australasia for the 2013 tax year finalised in 2014. This includes tax of $221m attributable to Australian policyholders.

2 Comprises payroll and employer taxes payable as a result of a company's capacity as an employer (including Australian and New Zealand fringe benefits tax [FBT]). Figures shown represent payroll tax for the year to 30 June 2014, Australian FBT for the year to 31 March 2014 and New Zealand FBT for 2014.

3 Insurance duties remitted by AMP to state and territory governments in 2014.

4 Comprises GST and other taxes that arise which cannot be recovered from governments. Figures shown are GST payments in 2014 for the AMP Life, AMP Services and AMP Capital Investors Australian GST groups, and the New Zealand branches of AMP Life and The National Mutual Life Association of Australasia. The GST under management in these groups totalled $768m in 2014 (comprising both GST remitted to the ATO/New Zealand IRD and GST paid to suppliers).

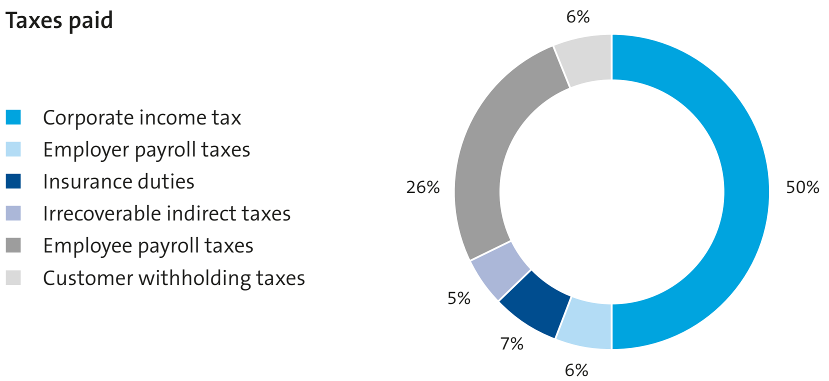
5 Taxes that AMP is obliged to pay to a government on its own behalf (including income tax attributable to policyholders).

6 Employee taxes withheld from employee remuneration and paid to governments in the year to 30 June 2014.

7 Taxes withheld from customer returns and remitted to governments in 2014 (including PAYG and no-TFN withholding tax).

8 Amounts denominated in New Zealand dollars have been converted to Australian dollars at the 2014 average exchange rate of A$1 = NZ$1.0885.

Taxes paid



6. Effective tax rate

'Effective tax rate' is a term used in public discourse, and in this report, to refer to the income tax expense charged as a percentage of total profit before the income tax expense is charged. Income tax expense is an accounting concept and reflects the amount of income tax accrued for accounting purposes. Typically, in any given year, there will be differences between the income tax charge and the amount paid for the period to the Australian Taxation Office, due to timing differences.

For accounting purposes, income tax includes only taxes based on taxable profits and excludes other types of taxes such as GST, stamp duty, superannuation contributions tax, and PAYG tax paid on behalf of superannuation members and employees.

Most of AMP's shareholder income tax responsibilities arise in Australia where tax is levied at the corporate tax rate of 30% of the taxable income of the business. Taxable income is a tax legislation concept and differs from total profit before income tax expense for a number of reasons reflecting government policies applying for each accounting tax year. For example, Australian tax concessions which reduce the effective rate of tax are established government incentives to promote Australian innovation (eg research and development concession [R&D]) and the Australian financial services industry (eg offshore banking unit [OBU] concession).

The effective tax rate is also impacted by the fact that the corporate tax rate applicable to NZ taxable income (28%) is less than the Australian rate.

The total income tax expense disclosed in AMP's financial report consists of both income tax on shareholder profit and also tax on investment returns of policyholders. When making a comparison to the Australian corporate tax rate of 30%, it is appropriate to first deduct the amount of tax attributable to policyholders and then compare the amount of tax attributable to shareholders to the amount of profit after policyholder tax but before shareholder tax.

AMP's total income tax expense attributable to shareholders is 24% (2013: 23%) of the profit after policyholder tax but before shareholder tax.

The following table provides details on the actual amounts and circumstances involved in the AMP income tax applicable to the years of 2011–2014 inclusive.

Relationship between income tax expense and accounting profit

	2014		2013		2012		2011	
	$m	%	$m	%	$m	%	$m	%
Profit before income tax excluding tax charged to policyholders	**1,274**	**100%**	**934**	**100%**	**826**	**100%**	**938**	**100%**
Prima facie tax at the rate of 30%	382	30%	280	30%	248	30%	281	30%
Tax effect of differences between amounts of income and expenses recognised for accounting and the amounts deductible/ taxable in calculating taxable income								
– Research and development concession[1]	(10)		(16)		(14)		(6)	
– Offshore banking unit[2]	(2)		(2)		(2)		(5)	
– Non-taxable income[3]	(11)		(7)		(5)		(16)	
– Non-deductible expenses	7		7		9		30	
– Other items	(13)		3		(7)		14	
Differences in overseas tax rate[4]	(7)		(13)		(10)		(4)	
	(36)	(3%)	(28)	(3%)	(29)	(4%)	13	2%
Prima facie tax adjusted for income and expenses accounting/tax differences and differences in overseas tax rates	**346**	**27%**	**252**	**27%**	**219**	**26%**	**294**	**32%**
Shareholder impact of life-insurance tax treatment[5]	30	2%	(16)	(2%)	22	3%	(24)	(3%)
'One-off' tax expense adjustments recognised relating to transactions or events which occurred in one or more previous financial years								
– (Over) under provided in previous years[6]	(17)		(15)		(83)		33	
– Utilisation of previously unrecognised tax losses[7]	(56)		(3)		(31)		(41)	
	(73)	(5%)	(18)	(2%)	(114)	(14%)	(8)	(1%)
Total income tax expense attributable to shareholders recognised for accounting purposes	**303**	**24%**	**218**	**23%**	**127**	**15%**	**262**	**28%**

Footnotes 1 to 7 can be found on the following page.

Footnotes:

1 Australian tax law provides a government incentive of a 10% additional deduction for qualifying R&D activities undertaken by corporates.

2 Profit from certain eligible funds management activities undertaken by AMP for non-residents are taxed at a concessional tax rate of 10% under the offshore banking unit regime.

3 This amount includes the impact of imputation credits applying to dividends received on shareholder investments.

4 A relatively small part of AMP's operations are in jurisdictions with tax rates other than 30% (principally New Zealand where the corporate tax rate is 28%).

5 Profit before tax is impacted by the method for allocating to shareholders 20% of the 'after tax' profits of the participating business book, in both Australia and New Zealand, resulting in the prima facie tax expense not equalling the income tax expense for accounting purposes. The factors affecting the difference vary from period to period reflecting variations in investment returns including bond rates, variations in levels of premiums and claims, and tax treatment compared to tax treatment in New Zealand. In addition, New Zealand tax law provides a concessional tax treatment for life insurance business. This concession ceases to apply after 30 June 2015.

6 Over/under provided in previous years relates to the subsequent adjustment of tax estimates made in prior periods. This occurs as a result of data impacting the estimate, changes to expectations of how tax law should be applied to certain transactions and retrospective adjustments to tax legislation. Significant items include:

- 2011 – the recoverability of the additional deductions claimed in 2010 was reassessed in light of developments during 2011 and the deductions were derecognised.
- 2012 – the release of provisions previously held against the tax treatment of amounts for which additional evidence has been obtained and analysis performed during the period supporting the validity of the original tax treatment.

7 Shareholder tax expense is reduced due to the recoupment of tax benefits that AMP or an entity it acquired became entitled to as a result of losses in a previous period but which had not been recognised for accounting purposes at the time the losses occurred. AMP's tax capital losses stem primarily from the acquisition of the GIO insurance business in 2000 and the demerger of the UK operations in 2003. At 31 December 2014, AMP had unutilised tax capital losses carried forward which could result in a future tax benefit of $343m. These tax benefits can only be booked to the extent that it becomes probable that sufficient applicable taxable capital gains will be made to utilise the losses. In addition, at 31 December 2014, AMP has unutilised tax losses on revenue account which could result in a future tax benefit of $109m arising from the acquisition of businesses with carried forward tax losses. These are available to offset against taxable income at a constrained rate (approximately 0.6% of AMP's ordinary class taxable income per annum).

- 2014 – losses utilised in 2014 were impacted by the realisation of capital gains by trusts that AMP invests in.

Building a better working world

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7. Assurance report

Independent Auditor's Report to the Board Audit Committee of AMP Limited

We have audited the extraction of information contained in the 'Relationship between income tax expense and accounting profit' table ("the table") as presented in the accompanying AMP Tax Report of AMP Limited ("the company") on pages 6 to 7 for the years ended 31 December 2011, 2012, 2013 and 2014.

The financial information contained in the table for the years ended 31 December 2011, 2012, 2013 and 2014 ("the respective years") have been extracted from the audited financial information for the respective years of the company for inclusion in the AMP Tax Report. We have audited the financial report of AMP Limited for the respective years in accordance with the *Corporations Act 2001*. Our independent auditors report for the year ended 31 December 2014 can be found on page 131 of the AMP Limited 2014 Annual Report and states that in our opinion, the financial report of AMP Limited at 31 December 2014 gives a true and fair view of AMP Limited's financial position and financial performance for the year ended on that date.

Management's Responsibility for the AMP Tax Report

Management of the company are responsible for the preparation of the AMP Tax Report, inclusive of the table, and have determined that the financial information, as presented within pages 6 to 7 in the AMP Tax Report is appropriate to the needs of financial users. This responsibility includes establishing and maintaining internal controls relevant to the preparation of the AMP Tax Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the extraction of the table based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial information contained in the table for the respective years has been properly extracted, in all material respects, from the audited financial information for the respective years.

The financial information has been extracted from audited financial information for inclusion in the AMP Tax Report for the respective years. We have not performed an audit of the financial information contained in the AMP Tax Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of AMP Limited and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Opinion

In our opinion, the specified financial information contained in the table as presented in the AMP Tax Report for the respective years has been properly extracted, from the audited financial reports of AMP Limited for the respective years and therefore presents fairly the tax position of AMP Limited in all material aspects for the years ended 31 December 2011, 2012, 2013 and 2014.

Ernst & Young

Ernst & Young
Sydney
26 March 2015

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