



ASX Announcement

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Background Information

This document provides additional background to the major strategic initiative announced by AMP on 1 May 2003. Comprehensive details for the demerger are expected to be available in the fourth quarter of 2003.

Overview

AMP commenced a major strategic review of its operations following the appointment of a new Chief Executive Officer, Andrew Mohl, in October 2002.

The review was initially guided by the five point reform agenda announced by Mr Mohl upon his appointment. That reform agenda involved:

- addressing channels and product lines with inadequate returns on capital, including exits and closures, as well as transformation programs to rejuvenate low return areas based on cost cutting and capital initiatives;
- closely managing growth ambitions;
- increasing the transparency and quality of AMP's disclosure;
- tackling the 'sacred cows' and embedded behaviours that inevitably develop in a longstanding company, particularly one with all but four years of its 153 year history as a mutual society; and
- leading AMP with passion, commitment and integrity.

The initial stage of the strategic review considered AMP's individual Business Units and the first set of outcomes was announced late last year. These included:

- separation of UK Financial Services into UK Life and Contemporary Financial Services and closure of the direct salesforce;
- substantial changes to AMP Banking to refocus on mortgages and retail deposits in the key Australian market;
- the closure of AMP International;
- structural changes and operational improvements to Australian Financial Services and Henderson Global Investors; and
- substantially reducing the size of Corporate office.

Since these announcements, the focus of the strategic review has broadened to the optimal configuration and structure for the AMP Group. This has resulted in the significant changes announced today which involve three elements:

- a demerger of AMP's businesses along geographic lines – Australasia and the United Kingdom;
- reducing the equity market risks in the UK Life Services (UKLS) business through the sale of equities, protecting policyholder benefits and shareholder equity in the UK; and
- an equity raising to facilitate the demerger combining a A\$1 billion institutional placement and a A\$500 million share purchase plan for Australian and New Zealand retail shareholders.

As part of the demerger process, and particularly the reduction of risk in UKLS, book writedowns of approximately £1 billion (A\$2.6 billion) are expected. These writedowns have no regulatory solvency impact or impact on cashflow (other than £100 million of expenses).

Rationale for new approach

AMP's new strategy addresses key issues facing the company, which were four-fold:

- establishing solid platforms for growth for Australian Financial Services and Henderson;
- providing a permanent solution to the equity market risks in our UK life and pensions business;
- protecting and enhancing our quality businesses in the Australian and UK markets; and
- optimising the value from AMP's existing portfolio of assets and providing investors with a clear choice about investing in those businesses.

Benefits of demerger

One of the key outcomes of the strategic review was that there was no compelling benefit in keeping AMP's current mix of businesses together, but powerful reasons to separate them along strategic lines. These reasons include:

- demerger creates focused businesses with clear strategic objectives to deliver shareholder value in rapidly transforming markets;
- strongest linkages between the businesses within regional markets, rather than cross-markets; UK and Australian businesses deriving little benefit from Group structure; and
- simpler, more transparent corporate structures will appeal to broader group of investors.

Both companies have future growth potential, but not together (although there will be some possible product alliances between the two and possible service agreements – for example, share registry services).

Following the demerger, AMP shareholders will hold shares in both companies and will then be able to choose which business they want to continue to invest in:

- each company is likely to attract interest from their 'natural' investors – those that appreciate the quality of assets in each business and the market conditions in which those businesses are operating; and
- following the demerger, shareholders will hold shares in both companies. Both companies will be listed on the Australian Stock Exchange, with the possibility of a future listing of Henderson on the London Stock Exchange to broaden its investor base.

Today's announcement is about the company's intention to pursue this strategy. While considerable work has already been done, details of the proposal are still being developed and will be put to shareholders and regulators for approval. The aim is to continue to develop this proposal with regulators and put it to shareholders before the end of this year, with the objective of implementing the demerger by December 2003.

Australian-based business

The Australian-based company will be named AMP and:

- will be a regionally focused wealth management company, with very strong linkages between its wealth management and asset management arms – returning AMP to its roots as a regional business;
- will consist of Australian Financial Services – which includes the Australian and New Zealand financial services businesses, as well as the Indian-based joint venture, AMP Sanmar;
- will also include Henderson's Australian and New Zealand operations and Cobalt/Gordian. This proposal does not change intention to explore options for realising value in Cobalt/Gordian; and

- will be a regionally focused wealth management company. It will be well capitalised, target a strong 'A' financial rating, have strong market positions and robust growth potential centred in the Australasian markets; and
- Peter Willcox will be the Chairman of this business and Andrew Mohl will be the CEO of this business.

UK-based business

The UK-based business will be named Henderson and:

- will consist of Henderson's UK, European and North American operations.
- will also include UK Life Services, UK Contemporary Services and AMP's 50 per cent stake in Virgin Money. This proposal does not change intention to explore options for realising value in Virgin Money;
- will be a focused asset management business, with a run-off life business that will provide assets under management, a source of retail customers and capital for growth in the medium to long term;
- will have minimal external debt, a solid earnings base, target a BBB financial strength rating consistent with its run-off business, and strong growth potential centred on the UK, European and US asset management markets;
- will enable a single management view, headquartered in the UK;
- has a highly regarded brand in UK, well positioned to benefit from future industry consolidation; and
- existing AMP Director Pat Handley will be the Chairman. UK-based Directors will also be sought. CEO will be current AMP Director and Managing Director of Henderson Global Investors, Roger Yates.

In terms of UK Contemporary Financial Services (UKCFS), this business has attractive assets, including a specialist pensions business in NPI, which is an increasingly successful player in an expanding market segment. It also includes a market leading IFA in Towry Law and a market-leading, award-winning internet-based business in Ample.

However in light of the changed strategy for the UK businesses, it is no longer appropriate to continue pursuing growth in the UK pensions market. AMP will therefore test the market for interest in NPI and Ample.

Rationale for splitting Henderson Global Investors

Structurally, Henderson UK sits within the AMP UK group of entities. While examining options to change this structure, AMP also reviewed the strategic importance to Henderson of its Australian and New Zealand business, and its connections to its sister wealth management companies in the UK and Australasia.

Overall this review found that the linkages were greater between Henderson and its sister AMP wealth management companies by regional market, than within Henderson internationally:

- Henderson's Australian and New Zealand operations are closely linked to the Australian Financial Services business (which represents about 64 per cent of AMP Henderson's current assets under management); and
- in the UK, Henderson has close linkages with UK Life Services (which represents about 49 per cent of Henderson's current UK AUM).

Historically, the earnings split has been 40:60 Australia:UK. This is currently at 60:40.

The split enables each part of Henderson to pursue separate regional growth strategies more aggressively.

This approach enables shareholders to retain an interest in both parts of Henderson as the long term outlook for asset management remains positive.

Therefore strategically, structurally and operationally, separating Henderson's business along geographic lines is considered to be the best outcome for the new entities.

Elements of the split are yet to be determined including where the Singaporean assets and Private Capital businesses will be positioned in the new structure.

Capital raising

To facilitate the demerger, AMP is undertaking a A\$1.5 billion capital raising, comprising a A\$1 billion institutional placement and a A\$500 million Share Purchase Plan for Australian and New Zealand retail investors. The capital raising has been fully underwritten by UBS Warburg.

The capital raised will be used to:

- repay internal debt between the de-merged entities and reduce the level of external debt. This will eliminate the financial inter-dependencies between the Australian and UK businesses;
- establish the UK-based business on a standalone basis, consistent with a BBB rating; and
- establish the Australian-based business on a standalone basis, consistent with a strong A rating.

No further equity capital raising is required to facilitate the demerger.

To facilitate the bookbuild, on Thursday 1 May 2003 AMP requested a voluntary halt in the trading of its shares, Reset Preferred Securities and Income Securities to enable the capital raising to take place. All securities are expected to recommence trading on Monday 5 May 2003, following the announcement of the outcome of the capital raising.

This is a normal request for an institutional capital raising of this nature and ensures that there is no uninformed trading in AMP shares.

A Share Purchase Plan (SPP) will allow AMP's Australian and New Zealand retail shareholders to participate in the capital raising, providing them the opportunity to subscribe for up to A\$5,000 of shares in AMP. The SPP will be priced at the lower of:

- the institutional placement price; or
- a 5 per cent discount to the average market price during a 15 day period after the close of the offer.

The offer period is expected to commence 21 May and will close 13 June 2003. The record date will be Monday 5 May 2003. Further details on the SPP will be sent to shareholders.

In addition, the Board has resolved that shares that were allocated to participants and institutional sub-underwriters under the Dividend Reinvestment Plan (DRP) on 28 April 2003 will be repriced at the lower of the DRP pricing and the institutional bookbuild price. Any adjustment will be made through the issue of additional DRP shares to participating shareholders.

Operational update

On 26 February 2003 AMP said that if global markets, particularly in the UK, weakened further or remained at current levels, the group's profitability would be adversely affected.

While markets have recovered in recent weeks, equity markets ended the first quarter of 2003 at lower levels than the final quarter of 2002. Market volatility also continues to impact investor sentiment.

These two factors, combined with traditional first quarter seasonal weakness in Australia, have contributed to lower year-to-date results for all business units.

Business Unit operating margins in the 2003 first quarter totalled A\$109 million. Results for UK Life and UK Contemporary Financial Services were particularly hard hit in the quarter by a combination of factors, including the loss of Service Company fee from with-profits funds (A\$147 million in 2002 year), temporary cost overhang from the closure of the Direct Sales Force, lower equity markets and actions to reduce equity exposure.

While tough markets are impacting AMP, both the AFS and Henderson businesses remain strong, resilient businesses that will benefit from an improvement in market conditions. AMP continues to manage its business closely to reflect difficult market conditions.

Reducing the equity risk in UK Life Services

Another outcome of the strategic review was to seek a solution to the protection of long-term policyholder benefits and shareholder capital in the UK by permanently reducing the equity market risks in the UK Life Services (UKLS) businesses.

While the derivative strategy put in place continues to provide protection from market volatility, this does not provide a long-term solution. Derivative collars could continue to be used, but this could eventually result in forced sales at lower FTSE levels than present. A longer-term solution was required.

There was a clear decision to be made – either improve the ability of UKLS to manage the equity market risks of its business by increasing its capital base, or reduce the market risk itself by minimising its exposure to equities and more closely matching asset and liability profiles.

A key driver of this decision was the obligation to ensure that the financial health of the life funds and the associated policyholder benefits are protected.

Another driver of the decision was the fact that the risk for shareholders of providing capital so the with-profits fund can stay in equities is unacceptably weighted to the downside. In the absence of a significant policyholder surplus, if equity markets fall, shareholders bear a high proportion of the fall (up to 100 per cent). If equity markets rise, shareholders receive a return that is disproportionately small compared with the risk they are bearing, because a large proportion of the rise goes to policyholders. This makes further investment a high risk, low return use of shareholder capital.

AMP has been progressively selling equities for some time. A strategic decision has now been made to permanently reduce the size of the equity component of the UK investment portfolios supporting with-profits funds. Funds will be reinvested in lower risk portfolios, with corresponding lower volatility and more security for policyholders and shareholders.

AMP will review the role of property within the with-profits funds and the alternative ways in which property investment can be structured.

In the past, this asymmetrical risk for shareholders has been balanced by a number of factors. Life funds have had large orphan estate surpluses, and policy guarantees have been low relative to policyholder assets. These factors have immunised the shareholder against the impact of market falls. This buffer has been reduced by market falls over the past three years and the orphan estate is now almost entirely earmarked to support with-profits guarantees.

Overall, this reduction in equity market risks is a prudent move to protect the long-term interests of both policyholders and shareholders.

Importantly, the changes also create a more stable asset for the new UK-based company, which will release significant amounts of capital over the medium to long term.

Writedowns

As a result of the strategic initiatives and reduction of risk in UKLS, writedowns of approximately £1 billion (A\$2.6 billion) are expected, subject to audit and actuarial review. The writedowns were a result of two factors:

- risk reduction initiatives:
 - reducing equity exposure in with-profits funds, leading to writeoff of contingent loans to London Life and National Provident Life (£300 million/A\$800 million); and
 - provisioning for potential future losses arising from a range of operating risks within UKLS (£200 million/A\$520 million).
- strategic initiatives:
 - writing off most of Towry Law and NPI/Service Company goodwill in response to AMP's new strategy (£400 million/A\$1,050 million); and
 - provisioning for UK restructuring and transaction costs (£100 million/A\$260 million).

These writedowns eliminate essentially all of the goodwill/intangibles relating to the UK Life business and provide a robust balance sheet going forward.

The embedded value of the UK Life and Contemporary Financial Services business has been revalued post the strategic restructuring and writedowns at around £1.54 billion. The corresponding figure at the end of 2002 was £1.97 billion.

Impact on customers

The demerger proposal will have little impact on Australian and New Zealand customers. AFS remains a well-capitalised, strong and successful business.

In the UK, the decision to reduce the equity risk in the UK life funds will impact with-profits policyholders. These impacts will include:

- improved security for policyholder capital and contractual benefits;
- less volatility in underlying investment earnings; and
- a revised bonus philosophy and practice. In general terms, future bonus rates will reflect the returns generated by lower risk investment portfolios. This is likely to mean stable returns that may or may not be higher than equity market returns, depending on the volatility of these markets.

For Henderson clients the proposal will mean the creation of two strong, regionally-focused new companies, which will be able to pursue regional growth in asset management more aggressively. There will be no impact on existing

products and Henderson will continue to concentrate on delivering strong investment results and excellent client services.

Impact on employees

As a service company, employees are one of AMP's most valuable assets. Retention of key employees and continuity will be important to the success of both companies in the future.

As details of the demerger proposal are yet to be finalised, it is premature to speculate about possible retrenchments. However in broad terms:

- while a reduction in roles is likely following the demerger, there is also a strong likelihood that new roles will be created.
- in Australia, it is business as usual and there will be no immediate impact on jobs. As the demerger details are finalised towards the end of 2003, some changes will need to be made in key areas of the AMP Group but it is too early to provide details.
- in the UK, Contemporary Financial Services will be impacted by the changes in that business, which are yet to be determined. These changes could also impact UKLS, which provides a number of service functions to its sister business. The relevant union is being briefed and full consultation process will occur as required.

Implementing the demerger

Until the proposal is put to shareholders and the demerger complete, AMP will continue to be managed as one company. It will be business as usual, with a small, dedicated team working on the demerger proposal and transition issues. For the majority of management and staff, the focus will be on business as usual.

Communications plans for key stakeholders including shareholders, customers, planners and intermediaries across all markets will be implemented in the months ahead.

The key steps in 2003 include:

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| 1 May | - Market announcement
- Capital raising underway/shares in trading halt |
| 2 May | - Announce allocations for institutional placement |
| 5 May | - Trading in AMP shares re-commences
- Dividend Reinvestment Plan settlement at lower of placement prices or April DRP price
- Share Purchase Plan record date |
| 15 May | - AMP Annual General Meeting |
| 21 May -
13 June | - Share Purchase Plan offer period |
| September -
October | Announcement of separation details |

