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Part One: AMP 2003 Annual General Meeting

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AMP Limited
Level 24, 33 Alfred Street
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15 May 2003

AMP 2003 Annual General Meeting

AMP's Chairman Peter Willcox today told shareholders at the company's Annual General Meeting that the demerger proposal announced on 1 May 2003 was the best solution to the deep-seated structural problems that had developed in the UK over the past ten years.

Mr Willcox said that booming share markets through the 1990s disguised the industry-wide problem, which became apparent when the UK market dropped by almost half over the past two and a half years.

"This was not an AMP-specific problem or a problem of an Australian company going offshore," Mr Willcox told shareholders.

"This was a systemic industry problem that has caught most in the UK life insurance industry off guard. Few people expected the UK share market to go down so far or stay there so long."

Mr Willcox told the meeting that ultimately Boards are accountable for the strategic direction of companies.

"That is why this Board has accepted that accountability and taken action to fix these long-standing structural problems, despite the short-term pain our solution involves. We are taking action to make sure this problem does not re-occur," he said.

Mr Willcox also told shareholders that they had made their frustrations very clear to him.

"You have every right to be disappointed, as I am, about the loss of value that has taken place in this company over the past few years," he said.

Both Mr Willcox and the Chief Executive Officer Andrew Mohl addressed concerns about the disclosure of the demerger proposal and the attendant capital raising and writedowns.

"We know the timing of the disclosure has been the subject of much debate," Mr Mohl said.

"This ranges from those who argue that we should have disclosed our broad thinking a lot earlier to those who argue we should have disclosed much greater detail a lot later.

"We made full disclosure as soon as we had made our decision.

"Both the writedowns and the equity capital raising we have announced are direct consequences of our change in strategy."

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Mr Mohl said that it was important to understand that the writedowns had no impact on AMP's regulatory solvency in either Australia or the UK.

He said that annual insurance returns filed with the Financial Services Authority in the UK confirm that all AMP's UK life companies met regulatory solvency requirements at 31 December 2002, and continue to meet these requirements today. AMP plans to make these returns available on its website.

Mr Mohl told shareholders that sustained harsh market conditions were continuing to impact the company's underlying earnings.

Overall, underlying earnings in the first quarter of 2003 were A$146 million or around A$600 million per annum. This compares with A$883 million in 2002.

He said that this earnings reduction had underpinned the pricing of the institutional part of the capital raising.

Mr Mohl concluded: "When I look back at what has been done in this period, I know we have taken the right action. The situation we are facing was inevitable and had to be resolved, sooner or later.

"I am acutely aware of the impact of our decisions on shareholders, large and small.

"It would have been easy to do nothing and hope for the best. I know some of our investors would have preferred this.

"But doing nothing would have been the worst thing to do - it was likely to lead to a continuing and probably increasing erosion of value and shareholders would have remained exposed to the ongoing and unpredictable volatility in UK markets."

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Address by AMP Chairman Peter Willcox to the 2003 Annual General Meeting

Introduction

I have been advised by the Company Secretary that a quorum is present and so I will now formally open the 2003 Annual General Meeting of the shareholders of AMP Limited, and welcome you here today.

The purpose of this meeting is to provide a forum for the shareholders of AMP to ask questions and make comments on the accounts and reports for 2002, to elect Directors and to approve or reject a number of other resolutions as set out in the Notice of Meeting.

I would also like it to be an opportunity for you as owners of the company to express your views to the Board and management and through me to question us.

I would like to conduct the meeting in much the same way as I conduct Board meetings and that is to encourage a free discussion and expression of views as long as it is relevant to the affairs of your company and it respects the views of others

I would like to give as many people as possible and who want to, the opportunity to speak. To do that will take some discipline on my part and on yours, and I ask you for that favour.

I appreciate the time and effort many of you made already to give me your views, through your letters, emails, faxes and phone calls. I do read and listen to all of your concerns and I reflect your views when we are making decisions in the Board.

Our agenda today looks like this. Firstly, there will be a review given by myself and Andrew of how we got to where we are and what we are doing about it. Then we'll come to the items of business. Item 1 is the Financial Statements and Reports. Item 2 will be the election of directors and the last item will be amendments to the constitution.

Let me make some brief remarks about Item 3 of the Notice of Meeting which set out proposed resolutions relating to the equity components of Andrew Mohl's and Roger Yates' remuneration packages.

As we recently announced, the Board is no longer seeking shareholder approval at this meeting for those proposed resolutions as we no longer believe it is appropriate to do so in light of the demerger proposal, which Andrew and I will talk more about later.

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Accordingly, when we reach Item 3 of today's agenda, I expect that the meeting will allow those proposed resolutions to lapse. If necessary, formal motions will be moved to proceed to Item 4. Therefore, there will be no discussion on Item 3 at that time.

However, I am aware that some of you may nevertheless wish to make comments on executive remuneration and I will give you that opportunity during today's first item of business. I also plan to use this item for more general discussion of the company's affairs or the conduct of the Board or of management.

I must stress that we are not meeting today to approve or reject the proposal to demerge AMP's businesses. We will hold another meeting of shareholders to do that later this year, after you have all received much more detailed information about the proposal and have had a proper opportunity to consider its merits.

However, again in Item 1, we will answer questions you have at this time about this proposal.

I have been Chairman of AMP for 11 weeks, after joining the Board last September. I have spent much of that time talking to and listening to the owners of this business, large and small. Throughout these discussions, your frustrations have been made very clear to me.

Understandably, you are upset and in many cases angry about

- the substantial fall in the share price over the past 18 months
- about the payouts made to former CEOs and management
- about being held hostage to the UK stock market
- and about the writedown announced in December and followed again last week by our foreshadowing further writedowns and a capital raising.

You have every right to be disappointed, as I am, about the loss of value that has taken place in this company over the past few years.

Background

Before taking you through what we have done and we are proposing to do about it, let me answer the questions I've been asked most often.

Firstly, what went wrong? Secondly, why wasn't it fixed and who's responsible? And, as of last week, why is this restructuring with further writedowns and capital raising needed?

First, what went wrong?

This is possibly the most important thing I have to say today because it helps set up the rationale for the restructuring.

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From your reaction last week, we need to do a better job of explaining that. This is not surprising, as it took the Board many weeks and meetings to understand what was needed and why. Then we had to disclose this decision straight away. It was a lot to digest in one hit.

The issue of what went wrong is very complex and I will try to explain it as plainly as I can. As you will see, put simply, AMP had too much of your money in the wrong business, at the wrong time, in the wrong place.

About 10 years ago AMP entered a market that had hidden structural flaws, with a much higher risk:reward skew than was ever appreciated. What do I mean by that?

Well, all of us have a picture in our mind of AMP – for more than 150 years, an Australian company that could be trusted to take care of the savings of Australians and New Zealanders.

It is still that company but starting with the London Life merger in 1989 and the acquisition of Pearl in the UK in 1990, it started to be another sort of company as well – effectively a British life insurance company.

By the end of the 20th century three years ago, following other acquisitions like National Provident Institution (NPI) in 2000, it was actually more a British life insurance company than an Australian one. Because twice as much of AMP's capital was in the UK compared with Australia.

For many years that was alright because being a UK life insurance company was a very good business. Basically, AMP received money from policyholders and in return guaranteed to make payments to those policyholders over many years into the future.

These capital guaranteed products were not priced to cover the risk of those guarantees. Instead, those risks were covered by the huge surplus capital that had been built up in our UK life funds over the years, particularly in boom share markets.

For many years that was fine – in fact, a great business because the UK stock market boomed through the '90s, tripling in value. As markets were booming, life companies were writing large volumes of business and earnings were looking impressive. This was all contributing to the accumulated surpluses in our funds.

It was a great business because the earnings on that surplus - which was not AMP's capital - went 90% to the policyholders in bonuses and 10% to AMP, the shareholder, in profits.

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Underlying this great business however was an unanswered question and a risk – what would happen if stock markets fell dramatically?

Well, even then, as long as adequate surpluses remained, any loss in earnings was also taken 90% by the policyholder and 10% by AMP. A significant fall in the market would temporarily reduce earnings but would not be critical unless the surpluses fell below the required minimum level.

However, there seemed little likelihood of that since the surplus built up over the boom years was so large. It would have taken a 50% fall in the UK stock market to do that.

Unfortunately, that's exactly what the UK stock market did - not all in one go, but over a period of two years.

When markets fell, those surpluses shrunk to the point where shareholders were required to top them up. AMP had to put more shareholder capital in to get back above the required minimum level – £500 million or about A$1.4 billion of shareholder capital.

What made the situation worse was the risk:reward pay off. If the market goes up, shareholders get only 10% of the benefit, while policyholders get 90%. That makes it a high risk, low return use of shareholder capital.

So, to come to the second question, why wasn't something done as the market fell? I believe because through year after year of a booming share market the risks were not obvious and there was no incentive and apparently little need to interfere in a successful business in a competitive industry where this was the norm.

As the market fell, there would have been the temptation to agree with the 'experts' that the market would bounce back as it appeared to do again and again.

Also, as you saw from our announcement last week, changing strategy is very painful and in the short term can make you very unpopular.

Falling markets led to lower profits for UK life insurance companies and falling share prices for UK life insurers. This chart shows the AMP share price behaviour compared with two typical large UK life insurers – Prudential and Aviva (which is the combination of Norwich Union and Commercial Union). We and they saw 60% of our share price disappear over this period.

So this was not an AMP specific problem or a problem of an Australian company going offshore. This was a systemic industry problem that has caught most of the UK life insurance industry off guard. Few people expected the UK share market to go down so far or stay there so long.

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Which is why I said AMP had too much money in the wrong business at the wrong time in the wrong place.

So who was responsible?

Ultimately, Boards are accountable for the strategic direction of companies. That is why this Board has accepted that accountability and taken action to fix these long-standing structural problems, despite the short term pain our solution involves. We are taking action to make sure this problem does not re-occur.

Initial actions
So what have we done?

As I mentioned, I joined the Board last September and Andrew become CEO shortly afterwards. At that time, the Board agreed with Andrew that there was an urgent need for him to assess our situation, particularly in the UK and take action as quickly as possible to protect the value of our businesses.

In spite of the complexity of that task, just eight weeks after becoming CEO Andrew delivered his initial report, on December 4, looking at our business units and functional areas.

That initial assessment was extremely serious, particularly as it included writedowns on the goodwill of our UK businesses of about $1.2 billion. This in turn led to the full year loss of $896 million reported in the accounts.

The steps Andrew and his team took then were the right ones.

- To separate our new UK businesses which did not contain guarantees from the old business which did
- To stop taking any new customers into the old guaranteed business
- To put protection in place against further falls in the UK stock market
- To close the international division
- To restructure the Australian business, including the bank
- To reduce the size of the corporate office by about a third.

These actions had to be taken quickly and decisively. And they were.

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New Board
At the end of February this year, after this initial assessment and action, I was asked to take over the Chairmanship of the Board. At the same time it was decided to build a new Board.

We needed new Directors so that we could take a fresh look at our circumstances, and to work with the management team on their strategic review of the Group.

We also needed to balance the injection of fresh thinking with the relevant experience and understanding of AMP that existing Directors held, which is why I asked a number of those Directors to remain and I appreciate their agreement to do so through a very difficult period.

We set new ground rules for the performance and remuneration of the AMP Board. These steps included the abolition of retirement allowances for new directors and seeking approval at today's meeting for an effective nine year time limit on tenure. I will talk a little more about these changes later on.

Payout to former CEO
The Board had some fires to put out as well. In our first weeks, we took action to settle a number of outstanding issues, including the termination payout to the former CEO. We made a decision we believe is in the interests of our shareholders and we are standing firm on that decision.

We have paid Mr Batchelor what we considered to be a fair amount in lieu of notice. Since Mr Batchelor does not agree that the payment was fair, he may initiate court proceedings although he has not done so as yet.

In this, as in all matters, we are determined to defend your interests vigorously.
Some shareholders have questioned the need for any payment at all in the circumstances. We are required to honour our legal obligations to our employees, which we believe we have done in this case.

Demerger proposal
While the Board was tackling these issues, Andrew and his team began a broader and deeper review of the company to position it to avoid a repeat of our problems. They were looking at how our businesses worked together to create value and they were consulting with us along the way.

As we dug deeper into our situation, we began to realise that while the steps taken in December were right, we needed to go further to protect your interests and create a structure that would be more certain to deliver value over the medium to long term.

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We had three fundamental issues to manage. First, we had to find a permanent solution to share market risks in our UK life and pensions business. Second, we had to protect our quality assets and brands in Australia and the UK. Finally, we had to determine how we could create the best value from our businesses and provide investors with a clear choice about investing in those businesses.

First the UK share market risk. Remember, I said that the profits or losses on any surplus of assets over liabilities were split 90% to the policyholder and 10% to the shareholder. Once that surplus had shrunk the risks moved radically against the shareholder – against us.

You must make sure that you don't fall below the required minimum. To do that, you could choose to:

- be largely out of shares or have other protection in place, so that there is no risk of further falls

or

- the shareholder must put in more capital to bring the assets back up to the required minimum.

  The problem with this is that if you put more capital in and the market falls, for every dollar the shareholder has put in, he or she loses the dollar. But if the market rises, the shareholder only gets 10c on the dollar.

In a game with the dice loaded against you in this way, the arithmetic says that you have to have more than a 90% certainty that the market will rise to justify investing that dollar – otherwise you will make a loss.

Even if markets do rise, you have to know they won't fall again and give you the same exposure. Regardless of your views on where markets are going to go, it would be irresponsible for us not to look at fixing this.

That leaves only the other alternative – get out of shares. In practice that actually means holding only a small amount in shares.

That one decision – to get out and stay out of shares - changes all the assumptions used to value our businesses and even it we did nothing else, this decision alone would trigger a writedown. In other words, it will produce a less risky business, but a lower value one.

That addressed the first issue – how to find a permanent solution to UK share market risks. The other issues were how to protect our assets and brands in Australia and the UK and how to get most value out of these businesses.

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Our review showed us clearly that our businesses were not benefiting by being part of the same Group. In some cases, they were actually being disadvantaged. Our problems in the UK were hurting our Australian business and our problems in Australia were hurting our UK business.

The solution developed by management and the Board was to separate the Australasian and UK businesses into two listed new companies. Under this proposal, AMP shareholders will have shares in both companies and can choose which to hold.

We decided that to attempt to tough out the situation, to do nothing and, as was done in the past, pin our hopes for recovery on share markets improving and never falling again to the same extent was not an acceptable option.

So we canvassed every sensible option we could think of to fix this problem once and for all.

The Board firmly believed we needed to take action to reduce the risks the company faced and to deliver shareholder value over the medium to long term.

This solution did not come without a necessary amount of pain – we needed to raise capital to do it - but a painless solution did not exist. Not if we really wanted to fix this problem rather than leave it smouldering for you.

I know it came as a shock because, as I said previously, it took us many weeks of work to get to this solution. And it was presented to you in one hit.

Disclosure
There have been many questions about the timing of our announcement on May 1. I can tell you that until the conclusion of the Board meeting late the night before we made our announcement, there was no certainty about the course of action we would be taking because we did not want to close out any option until it had been thoroughly examined.

The option finally chosen, although the one that was clearly the best, required a significant number of things to be achieved at the same time.

We announced our decision as soon as we made it.

It was a complex announcement because a major change in strategy has many implications – for example, on the amount of risk we are prepared to bear in the company, the carrying value of our businesses and the amount of capital needed.

But let me be clear on this very important point: it was the fundamental change in our strategy that precipitated both the writedowns and the need to raise new equity capital.

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Capital raising

But on the issue of our capital raising let me say that we have made very strenuous efforts to ensure that the vast majority of our shareholders have or will be given the opportunity to participate in either the institutional placement or share purchase plan. If you do participate, the price you will pay will be at or below the $5.50 paid by institutions.

At the same time as the capital raising, we repriced the Dividend Reinvestment Plan to $5.50 a share. The 340,000 shareholders who participate in the DRP will be receiving additional shares as a result of that repricing.

In summary, the past six months and especially the last six weeks have been very difficult, because we have been confronting deep-seated, structural problems that have been 10 years in the making.

We need to solve those problems and do our best to make sure they never happen again. That's what our restructuring proposal is about.

When you strip away all the noise, the facts about our company today are:

- we have a quality wealth management business in Australian Financial Services, with the largest planner force in Australia, a valuable brand and a strong customer franchise . We deal with about 1 in 5 adults in Australia

- we have a resilient asset management business in Henderson, with about $250 billion in assets under management

- we have a UK wealth management business that has some attractive assets and the ability to release substantial capital over the medium to long term – especially now that we have reduced the share market risks in that business.

This is what we need to protect and build on and this is what our restructuring proposal will do.

Board changes

Before we move on to the formal items of business, let me recap some key points about the Board and the changes we have made.

As I have said, when I became Chairman at the end of February there was a general recognition that we needed to renew the Board, bringing fresh views in while balancing that with the need to retain corporate memory and experience in AMP and to allow an orderly transition.

To facilitate this, the Board gave me as new Chairman the mandate to build a new Board. Five out of seven non-executive directors elected to retire over a period of six months.

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Stan Wallis, Tricia Cross and Paul Mazoudier have already retired. Ian Renard and Sir Malcolm Bates will retire in August.

I asked two directors to remain as we built a new Board. I asked Richard Grellman since he chairs the audit committee and as events have shown, experience and expertise in this highly complex area was and still is critical to us.

Richard has been criticised because we've had to write down the value of our businesses. I have demonstrated in my earlier discussion that Richard did not cause the writedowns. He and his committee did the job diligently in assessing and reporting on the balance sheet impact of our decisions. I also asked Lord Killearn to stay because he is UK-based and chairs Henderson.

With the demerger proposal, of course, we will be looking for additional directors who have the qualities needed to serve on the boards of the two new companies.

We will construct the best boards possible for these new companies and details of those boards will be included in the information to be provided to shareholders later in the year as part of the approval process.
In the interim, we have some very important and complex work to do in finalising all the proposal details. In particular, we will need to deconstruct our current balance sheet and develop two new balance sheets for the new companies.

We also have some intricate issues in the UK to resolve to establish the new UK based company. That is why I have asked both Richard Grellman and Lord Killearn to stay on the AMP board through this very challenging period and I am grateful that both agreed.

In choosing new Board members I was concerned to find people who had:

- first, experience in some part of the financial services industry; and
- second, experience of being senior executives of substantial businesses.

I believe we were very fortunate in finding Meredith Hellicar and Pat Handley, both of whom possessed all of those qualities. Equally important, both Meredith and Pat have had experience in the sort of turnaround situations we are working on at AMP.

They were appointed within five weeks of my appointment for two reasons:

- we wanted the benefit of their advice
- and we wanted shareholders to vote on their appointment at this AGM rather than wait a year.

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As I have outlined in the annual report, we have also set new ground rules for the performance and remuneration of the AMP Board.

These steps include:

- abolishing retirement allowances for new non-executive directors. Directors will receive only their fees and they will be required to sacrifice one third of these fees to purchase AMP shares which they must hold until their retirement. We believe this will give directors a strong alignment with the long-term interests of shareholders.

- seeking shareholder approval at today's meeting to amend AMP's Constitution so that no director will be able to serve longer than 9 years unless he or she stands for election each year. A term longer than 9 years would be recommended to you only in extraordinary circumstances.

- designing a rigorous performance appraisal system for individual directors and for the Board as a whole.

- and simplifying the Board structure.

The Board now comprises nine members and will be reduced to seven members in August. All seven of these directors are standing for election by you today and will be dealt with under item 2 of our items of business.

One of those standing for election today, of course, is me. I know there are some concerns about the fact that I chair both this Board and the Board of Mayne.

When I became chairman of AMP, I removed myself from all other Boards except Mayne, so that I now serve on only two boards. I do not intend to go on to any other Boards while I hold these two Chairs.

I would not offer myself for election today if I did not believe I was able to do the job in your best interests.

In addition to the new Directors standing for election and the Directors retiring and standing for re-election, Stephen Mayne has nominated himself for election.

While I enjoy the way Stephen holds Boards to account, I do not believe he has the depth of experience or the qualifications we critically need on this Board. For that reason I do not support his election and have stated clearly in the Notice that I will use the undirected proxies I am holding today to vote against his candidacy. You will have the opportunity of hearing from Stephen himself when we get to item 2.

Before we move to the items of business, let me say a few things about how I propose to handle your questions.

I know you have valid concerns and while, in many instances, there are no simple answers, we will do our best to answer them in a clear and concise way.

So that we have the opportunity to hear from as many shareholders as we can today and to be fair to everyone at the meeting, I encourage you to be as succinct as possible in your questions and comments. I will also try to be concise but complete in my answers.

I am prepared to let the meeting run for as long as necessary while the discussion is meaningful and relevant. However, I am also conscious that if we could finish today, it would be good for those shareholders who have travelled long distances to be here and those who might not be available to attend tomorrow.

Irrespective of the proxy outcome, I encourage you to vote on all issues as this is an important way of letting the Board know your views so that we can take them into account.

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CEO's address to AMP shareholders at the 2003 Annual General Meeting

Introduction

I knew when I accepted the Board's offer to take up this role that I had a tough job in front of me. I didn't realise quite how tough it was going to be – but that didn't matter as far as I was concerned.

I wanted to be part of the team that turned this company around and helped it realise its full potential.

I took personal responsibility and accountability for that. And despite everything that has ensued, I don't regret it.

I know my management team feels the same way.

Shortly after I took over as CEO, I made significant changes to the senior executive team. Of the new team of 11, only four were on the team a year ago.

The first priority of this new team was to significantly tighten control of the business. We took quick action to:

- separate the UK business into old and new, so we could clearly understand and manage the risks
- put protection in place for our UK life capital position
- close parts of the business that were unprofitable
- cut costs across the Group
- and restructure the bank to release capital.

As a management team this put us in much better control of the businesses we had inherited.

But we were disappointed in January when we had to announce a UK earnings downgrade for the 2002 year.

We initiated a major review of the Group as a whole and during March and April it started to become clear that we needed to take more radical action.

This led to the development of the strategic pathway that we are recommending to demerge AMP.

It has involved intense strategic planning and interaction with the Board, development of an alternative strategy for UK Life funds, the largest capital raising of its kind, interactions with credit rating agencies and regulators in Australia and UK, all delivered within an extraordinarily tight timetable and without a leak in the process.

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As the Chairman has outlined, AMP's problems have been deep-seated and are essentially about being in the wrong business in the wrong place at the wrong time.

The management team of today that I lead has been doing its utmost to address this on your behalf.

So let me now take you through the details of what we are proposing, tell you how we will manage the business through this process to protect it from disruption and update you on our current business performance.

Demerger

In essence, what we are proposing is the creation of two regionally focused wealth management businesses listed on the Australian Stock Exchange.

The Australian-based company will be the new AMP. In effect we are bringing AMP back home. It will hold all our strong and successful Australian and New Zealand businesses.

If re-elected by you today, the Chairman will be Peter Willcox and I will be CEO.

The UK-based business will be the new Henderson. It will hold the northern hemisphere asset management operations of our highly regarded Henderson business and our various UK life and pensions businesses.

If elected by you today, the Chairman will be current AMP Director Pat Handley and the CEO will be current AMP Director and Henderson Managing Director Roger Yates.

AMP shareholders at the time of the demerger will hold shares in both companies and for the first time you will have a choice about which assets you want to hold.

The decision to demerge was announced as soon as it was made, consistent with our obligations under continuous disclosure law, so we are still working through much of the fine detail of this proposal.

We know the timing of the disclosure has been the subject of much debate. This ranges from those who argue that we should have disclosed our broad thinking a lot earlier to those who argue we should have disclosed much greater detail a lot later.

We made a full disclosure of the Board's decisions on May 1 following a lengthy meeting the night prior.

Even then, the minutes of that Board meeting show the decisions remained conditional on the final terms of the capital raising being resolved, which occurred in the early hours of the following morning.

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Full details of the demerger proposal will be provided to all shareholders in an explanatory memorandum later this year, ahead of a meeting of shareholders to consider and we hope to approve the proposal.

Benefits

We have developed this proposal because fundamentally we believe the two companies will be better than one.

Our strategic review found that there was no compelling benefit in keeping AMP's businesses together, but powerful reasons to separate them.

The strongest linkages between our businesses are within regional markets, rather than cross-markets.

By separating our businesses, we will build more stable and stronger frameworks for both companies. We will also be better positioned to unlock the value currently trapped in our UK Life companies over time.

The two new companies will be focused regional businesses with simpler, more transparent structures that we believe will appeal to a broader group of investors.

All our current shareholders will have, for the first time, a choice about which part of the company they want to stay with.

Consequences

As the Chairman said, this is not a painless solution.

Both the writedowns and the equity capital raising we have announced are direct consequences of our change in strategy.

Let me explain.

As part of our initial review of the businesses at the end of last year, we looked at the value of the businesses we were carrying in our books, particularly our UK businesses.

We bought these businesses when markets were buoyant and their valuations reflected that.

By the end of 2002 we believed we needed to take a more pragmatic view of these valuations in light of the much tougher market environment.

This was largely the driver behind the accounting writedowns of $1.2 billion that were first announced in November 2002 and reconfirmed in the final 2002 accounts announced on February 26. These writedowns were directly responsible for the bottom line loss of $896 million for the year.

So what changed between February 26 and May 1 when we announced further writedowns?

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Our strategy.

On February 26, we were valuing our UK businesses on the basis that we were prepared to invest in and grow them. Valuations were carried out by independent external parties on the basis of a willing buyer in an orderly market. This is normal practice.

The change in strategy meant we no longer viewed a number of these businesses on this basis under our ownership. They are now being valued on the basis of fair market value in the current environment. That had to be reflected in their carrying values in our books.

That accounted for an estimated $1.3 billion of the new writedowns – about half the total.

The other half of these writedowns stemmed directly from our decision to reduce the share market risks in our UK life funds.

While crucial for the long term stability of those funds, this action crystallises some losses. In addition, we have made some provisions for potential future losses in this business.

These writedowns are essentially about taking all the pain upfront and clearing the decks for a more stable, sustainable future. It's important to understand that these writedowns have no negative impact on our regulatory solvency in either Australia or the UK.

They also have minimal impact on our cashflow. The exception is the $260 million in provisions we have set aside to cover the costs of the UK restructuring.

These writedowns are estimates. Final numbers will be known after we see where markets end on 30 June and do the audit and actuarial calculations that are part of our half year accounting processes.

Reducing risks in the UK

The Chairman has talked about the highly skewed risk:reward structure of our UK businesses. I want to go through that with you in a little more detail because it makes it easier to understand why we would take this action regardless of how markets are tracking.

The rewards just aren't worth the risks to shareholders' money.

There were also risks to our policyholders – our customers in the UK.

In fact, the boards of our UK life entities initiated the action to reduce the market risks in this business on behalf of policyholders and we supported them, because of our view of the risk to shareholders.

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The reason we did this was simple.

The almost 50% fall that has occurred in the UK sharemarkets since end 1999 has left our UK life funds with a relatively low margin above the minimum regulatory solvency levels set by the UK regulator, the Financial Services Authority or FSA.

This is because the large surpluses that used to be in these funds have shrunk, as the Chairman mentioned.

This has left shareholders with a 90:10 risk reward ratio biased against them.

Further investment of capital whereby the shareholder earnt 10% of the gains and took 100% of the losses was a very unattractive prospect.

The alternative was to significantly reduce the risk profile of the funds to ensure that the funds continue to meet minimum regulatory solvency levels. This was in the best interests of both policyholders and shareholders - and this is what has been done.

AMP has also recently filed annual insurance returns with the UK regulator like all other UK insurance companies.

These FSA annual returns provide detailed historical information on the regulatory solvency position of AMP's four main UK life companies at 31 December 2002.

The returns confirm that all AMP's UK Life Companies met regulatory solvency requirements at 31 December 2002. And we continue to meet these requirements today.

Capital raising
On February 26 when I released our 2002 results, I said that we had no current need for additional equity capital.

As one consolidated group, this was true. We were comfortable with the credit ratings both at a group and operating subsidiary level and there were no plans for any capital raising. This is what we told the market.

Subsequent to this, the conclusions of our review process started to emerge and they made it clear a change in strategy was required.

Changing our strategy meant we also changed our capital needs.

We had to raise new equity capital – both to repay around A$700 million of loans between the Australian and UK businesses so that we could separate them cleanly and to establish both new companies with appropriate capitalisation on a standalone basis.

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Without the separation, there is no need to repay those internal loans nor to ensure that the proposed new Henderson entity can be listed with minimal debt.

That's what changed between February and May.

There has been some commentary on the decision to raise capital immediately through an institutional placement and a retail share purchase plan.

The former was completed in 48 hours and raised $1.2 billion. The share purchase plan will commence on May 22 and run until June 13.
The alternative was to raise capital later in the year closer to the time of demerger or to raise capital now through a rights issue.

Both alternatives would have subjected AMP to the mercy of markets and in particular the trading of hedge funds who thrive on uncertainty and fear.

It was our judgement that this could only be damaging to the long term interests of shareholders and create significant doubt over our ability to implement the demerger.

The chosen approach has secured our stability and taken much of the risk and uncertainty out of our demerger proposal.

Despite some comments to the contrary, it has also been fair to retail shareholders, the vast majority of whom will have the right to buy more shares than they would have been entitled to under a rights issue and at the lower of the $5.50 institutional book build price or 5% below the post issue average market price over 15 days.

The pricing of the book build was of course a shock to investors in light of the strong rally in the stock from as low as $5.92 in early March to $8.73 on April 30.

The pricing of the book build had to reflect the lowered earnings outlook for the Group, particularly in the UK, and the dilution associated with the issuing of new shares.

Bear in mind that the wealth management industry is in its fourth year of harsh market conditions.

Selling investments, pensions and superannuation products at a time when share markets are still historically weak and investor confidence is shaky is difficult.

And you are seeing the effect of these difficult conditions in our underlying earnings.

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They impacted our full 2002 results and continue to impact current trading, as our first quarter results indicated.

The first quarter results also show that we have been successful in reducing costs across the board, but new business flows are down in all business units and this is pushing operating margins down lower.

Overall, underlying earnings in the first quarter were $146 million or around $600 million per annum. This compares with $883 million in 2002.

This disclosure of earnings on May 1 has resulted in substantial earnings downgrades for 2003 and later years by analysts and has flowed on to analyst valuations of the Group, which average around $6 currently.

This reduction in earnings underpinned the decision to price the institutional book build in a range of $4.50 to $6.50 a share. The outcome of $5.50 in all the circumstances was a solid result.

Our half-year results, due in August, will show the impacts both of these trading conditions and of the $2.6 billion in writedowns we have announced.

Business as usual

I am very conscious of the need to manage the business tightly through the demerger process. We have to make sure that we do not become distracted from our core business of serving customers.

That's why we have established a relatively small project team to focus on the demerger, while the rest of the management team and staff concentrate on looking after the people that pay the bills – our customers.

We are determined not to take our eye off the main game.

Summary

I was appointed CEO in October last year, just over seven months ago.

I have been addressing the outworking of poor strategic acquisitions and excessive balance sheet risk in our UK operations, against a background of depressed market conditions and intense market scrutiny.

When I look back at what has been done in this period, I know we have taken the right action. The situation we are facing was inevitable and had to be resolved, sooner or later

I am acutely aware of the impact of our decisions on shareholders large and small.

It would have been easy to do nothing and hope for the best. I know some of our investors would have preferred this.

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But doing nothing would have been the worst thing to do - it was likely to lead to a continuing and probably increasing erosion of value and shareholders would have remained exposed to the ongoing and unpredictable volatility in UK markets.

I am convinced that what we are proposing is in the best long term interests of everyone with a stake in this company – our shareholders, our customers, our employees and our planners.

Despite all the pain, AMP remains a valuable company and we have protected that value.

We have taken decisive action to take control of our destiny and secure our future.

We have searched for the best way forward for AMP and have accelerated down that path.

We hope that future historians will say that this was a turning point for AMP which will mark the beginning of a new and prosperous period in the history of this great Australian company.

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