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# Demerger proposal

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# Overview



# Today's announcement

## There are three key elements to AMP's proposal

- Reducing equity risk in UK Life Services
- Demerging the Group to create two new regionally focused listed companies
- Raising new equity capital to facilitate the demerger (A\$1.0b institutional placement and A\$500m share purchase plan)

# The background to today's announcement

**This is the culmination of a strategic review of AMP's portfolio of businesses initiated six months ago by the new CEO and endorsed by the Board**

- Initial stages of review considered individual business units and results announced November/December 2002
- Broader review then focused on AMP Ltd as a whole and optimal configuration and structure for the AMP Group

**The proposed changes are significant but separating the businesses along regional lines is in the best interests of our shareholders, customers, planners and employees**

# Aim of strategic restructuring

## AMP's restructuring and risk reduction will:

- establish solid platforms for growth for Australian Financial Services and Henderson
- provide a sustainable solution to the equity market risks in our UK life and pensions business
- protect and enhance our quality businesses in the Australian and UK markets
- optimise the value from AMP's existing portfolio of assets
- provide investors with a clear investment choice

# Key strategic decisions

- Take action to resolve equity market risk in UKLS business by reducing equity exposure of its life funds
  - Changed investment approach for investment portfolio supporting with-profits fund protects policyholders and shareholders
- Establish two new companies by demerging the Group
  - Split by geography in line with strategic linkages
  - Split HGI geographically to retain synergies with regional sister wealth management businesses (not complex as HGI already two separate legal entities)
- Facilitate demerger by raising capital to repay debt and eliminate financial inter-dependencies between Australian and UK businesses
  - Establish appropriate standalone capital bases for both businesses

# Demerger rationale for AMP Group

**There is no compelling benefit in keeping AMP's businesses together, but powerful reasons to separate them**

- 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
- Simpler, more transparent corporate structures will appeal to broader group of investors

# Demerger rationale for Henderson

## *Strategically best value option for shareholders*

- Highly regarded brand in UK and well positioned for shareholders to benefit from future industry consolidation
- Greater linkages with sister wealth management companies by regional market than within HGI internationally
  - In Australia, AFS accounts for 64% of AMP Henderson's AUM
  - In the UK, UKLS accounts for 49% of Henderson's UK AUM
- Enables each part of Henderson to pursue separate regional business strategies
- Ensures shareholders retain an interest in both parts of Henderson as long term outlook for asset management remains positive
  - Historically, earnings split has been 40:60 Australia:UK; currently 60:40

# Risk reduction in UKLS

## Overriding need to protect policyholder benefits and reduce unacceptable risk for shareholders

- Derivative strategy provided protection for policyholders and shareholders but:
  - potentially expensive
  - short term
  - requires extensive ongoing management
- AMP reluctant to invest more capital because highly skewed nature of shareholder exposure\*
  - Upside shared 90/10 with policyholders
  - In the absence of significant policyholder surplus (orphan estate), shareholders bear up to 100% of downside
- This makes it a high risk, low return use of shareholder capital
- The orphan estate is now almost entirely earmarked to support with-profits guarantees

\* **Note:** In the past, this asymmetrical risk has been balanced by large orphan estate

# Financial impacts of changes

- Writedowns associated with 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)
  - provisioning for potential future losses arising from a range of operating risks within UK Life Services £200 million (A\$520 million)
- Writedowns associated with restructuring:
  - writing off most of Towry Law and NPI/Service Company goodwill in response to AMP's new strategy £400 million (A\$1,050 million)
  - provisioning for UK restructuring and transaction costs £100 million (A\$260 million)
- Reduction in UKLS embedded value to £1.54b (A\$4.05b) from £1.98b (A\$5.21b)
- No impact on regulatory solvency or cashflow (except for £100m provisioning)

**These actions significantly reduce uncertainty and volatility in the future earnings capacity of the UK business and enable capital release to shareholders from 2005/6**

# Implementing the strategic restructuring

- Established separate project team to manage process while majority of management and staff focus on business as usual
- Team of external advisers working with project team on all key facets of demerger
- Implementing targeted communications plans for customers, shareholders, planners and intermediaries in Australia, New Zealand and UK
- Held discussions with regulators in both Australia and the UK

# Operational update – first quarter 2003



# First quarter operational update: New business flows

## New business

A\$m	1Q03	1Q02
AFS <sup>(1)</sup>	1,687	2,189
UKCFS	733	859
UKLS <sup>(2)</sup>	299	776
HGI	5,514	7,257
<b>TOTAL</b>	<b>8,233</b>	<b>11,081</b>

New business flows impacted by weaker equity markets and depressed investor sentiment

1. First quarter historically the weakest in the year for AFS
  - Value of new business in AFS down 18% on 1Q02
2. UKLS profile consistent with run-off business

# First quarter operational update: Costs

## Controllable costs

(A\$m)	1Q03	1Q02	% change
AFS*(1)	155	185	(16)
UKFS(2)	193	299	(35)
HGI	145	155	(6)

All BUs have maintained stringent cost control in order to preserve their margins in such difficult markets

1. AFS restructuring efficiencies are on track
2. In the UK costs are lower due to lower project spend and closure of the Direct Sales Force

\* Includes banking

# First quarter operational update: Operating margins

## BU operating margins

A\$m	1Q03	2002 year
AFS <sup>(1)</sup>	79	327
UKCFS <sup>(2)</sup>	(17)	211
UKLS <sup>(2)</sup>	16	
HGI <sup>(3)</sup>	31	192
<b>TOTAL</b>	<b>109</b>	<b>730</b>

1. AFS first quarter margins solid despite seasonally lower volumes, low interest rates and equity markets
2. Reduction in margins in UK businesses driven by loss of Service Company fee from with-profits funds (A\$147m in 2002 year), temporary cost overhang from closure of Direct Sales Force, lower equity markets and actions to reduce equity exposure
3. HGI margins reflect depressed markets and lower assets under management generating lower management fees

# First quarter operational update: RoIC

## RoIC

	1Q03	2002 year
AFS <sup>(1)</sup>	13.1%	13.8%
UKCFS <sup>(2)</sup>	-1.8%	6.5%
UKLS <sup>(2)</sup>	4.2%	
HGI <sup>(3)</sup>	8.8%	10.7%
<b>Group underlying contribution (A\$m)</b>	<b>146</b>	<b>883</b>
<b>Group NPAT (A\$m)<sup>(4)</sup></b>	<b>61</b>	<b>(896)</b>

1. AFS RoIC is solid due to effective capital management initiatives
2. Low operating margins in the UK are impacting RoIC
3. HGI RoIC is below last year due to lower revenues
4. NPAT reflects weak investment markets

# Reducing equity risk in UK Life Services



# What is involved?

**We have made a strategic decision to significantly reduce equities in the UK investment portfolios supporting our with-profits products**

- We are reinvesting in lower risk portfolios with an increased exposure to global fixed interest securities
- These portfolios offer lower volatility, more security and greater protection for policyholders and shareholders
  - Key driver is paramount need to protect policyholder benefits
- While lower bonuses reduce shareholder return and EV, the risk adjusted return is more attractive
- It also creates a more stable asset for the new UK-based company to manage

# Impact of de-risking on Pearl risk profile

	Expected return	Standard deviation	Probability fund losses > £300m*	Comments
Historic asset mix	7.5%	8.8%	12%	50% equities, 15% property no derivative protection
Example asset mix - 5% equity exposure	6.0%	3.7%	1%	5% equities, 10% property

- Equities either sold or derivative protection in place for residual holdings
- Lower risk profile more appropriate given lower available capital resources
- Final investment policy still to be determined, subject to meeting above criteria

\* Free estate value approximately £300m and would absorb losses up to that level

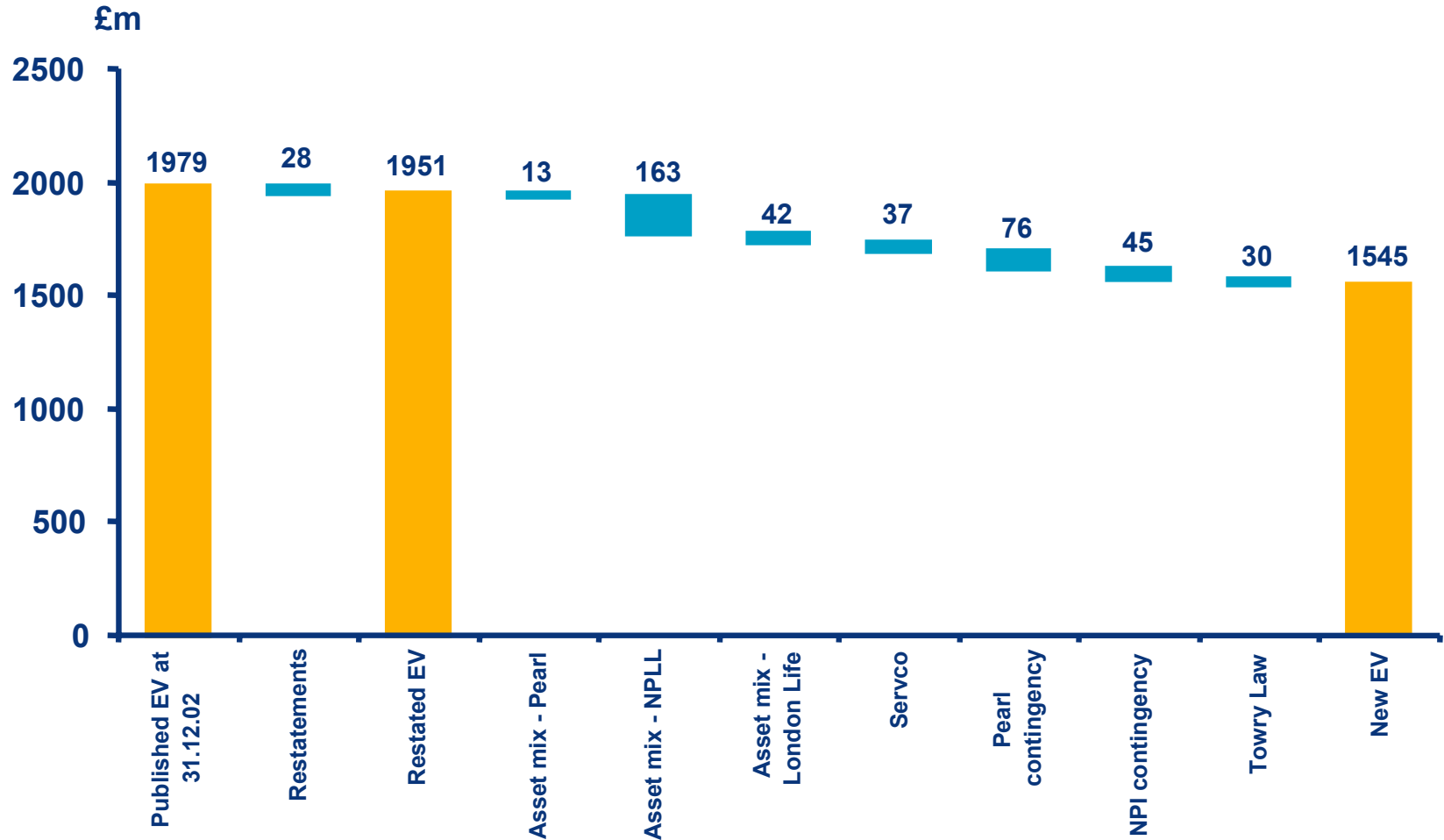
# Impact of de-risking on cashflow

## De-risking will free up capital over time

- Reduced capital required on a risk based capital basis - less risk will require less capital as general principle
- Capital releases will be proportionate to the business run off - from 2005/6 we expect to release capital plus operating margins and investment income
- This will provide capital release to investors over a 15 year period

# Impact of strategic restructuring on UK embedded value

## Analysis of EV movement: 5% discount margin



# Impact of restructuring on UK embedded value

March 03 £m	Shareholder capital	EV @ 5% rdm	Risk	Comments
Shareholder funds	482	482	L	Extreme economic conditions eg Japan Extreme regulatory impacts
Shareholder interest in 0:100 funds	666	*322	↑	{ Major mortality improvements Sustained FTSE falls (UL business) Sustained very low interest rates
Value of 0:100 profit margins		71		
Pacific fund	564	*368		
Goodwill in subsidiaries	⌘3	38		Operational risks and business performance
Shareholder interest in 90:10 funds	188	*139	↓	{ Sustained low interest rates Legacy issues Mortality and persistency Credit Risk, property values
Value of 90:10 profit margins		125		
<b>TOTAL</b>	<b>1,903</b>	<b>1,545</b>		
<b>TOTAL as at 31 Dec 02</b>	<b>2,777</b>	<b>1,979</b>		

\* Reduced to reflect lock in cost    ⌘ Includes -£45m -ve EMVONA for NPIL

# Creation of two new regionally focused businesses



# 'New' AMP

## Profile

A broad-based, Australasian-focused wealth management company

## Businesses:

- Australian Financial Services  
(Australia, NZ & India)
- HGI Australia and New Zealand
- Gordian and Cobalt (under review)

**Chairman** Peter Willcox

**CEO** Andrew Mohl

Listed on ASX

- Strong linkages between its asset gathering and asset management arms
- Ready to capitalise on significant growth opportunities in regional markets
- Well capitalised, targeting a strong A financial strength rating
- Strong market positions and growth potential

# 'New' Henderson

## Profile

A UK wealth management business, with a disciplined run-off Life business focused on cost management and future capital releases

### Businesses:

- Henderson UK (incl Nth America)
- UK Life Services
- UKCFS & Virgin Money (under review)

**Chairman** Pat Handley

**CEO** Roger Yates

Listed on ASX; future listing in UK

- Appropriate balance sheet, solid earnings base, targeting a BBB financial strength rating consistent with its run-off business
- UK assets under single management control for the first time
- Highly regarded brand in UK and well positioned for shareholders to benefit from future industry consolidation
- Potential new market opportunities for Henderson products to UKLS customers
- Currently testing market interest in key UKCFS assets

# Indicative proforma financial and valuation metrics

## 'New' AMP

	A\$m
AUM	71,000
Total shareholder capital resources (1)	4,500
External debt/Hybrids	3,000
AFS embedded value	5,700
Operating margin (2) (4)	470
NPAT (2) (3) (4)	430
ROE	29%
RoIC	13%
Targeted dividend payout ratio	60%

### NOTE:

Information based on 31 March 2003 unaudited management information after impact of writedowns and capital raising

1. Includes external debt/hybrids
2. Underlying results assuming long term investment assumptions (3.5% net) for both operating margins and investment income
3. Difference between margins and NPAT equals investment income, debt expenses and corporate costs
4. Includes contribution from Gordian in event not sold by 31 December 2003

**All numbers based on steady state structure and current market levels**

# Indicative proforma financial and valuation metrics

## 'New' Henderson

	A\$m
AUM	164,000
Total shareholder capital resources	5,300
UKLS embedded value	4,300
Operating margin (1)	140
NPAT (1) (2)	270
ROE (3)	5%
RoIC (3)	5%

**NOTE:**

Information based on 31 March 2003 unaudited management information after impact of writedowns and capital raising

1. Underlying results assuming long term investment assumptions (3.5% net) for both operating margins and investment income
2. Difference between margins and NPAT equals investment income and corporate costs
3. Prior to benefit of capital release from UK Life Services

**All numbers based on steady state structure and current market levels**

# Demerger benefits for the two companies

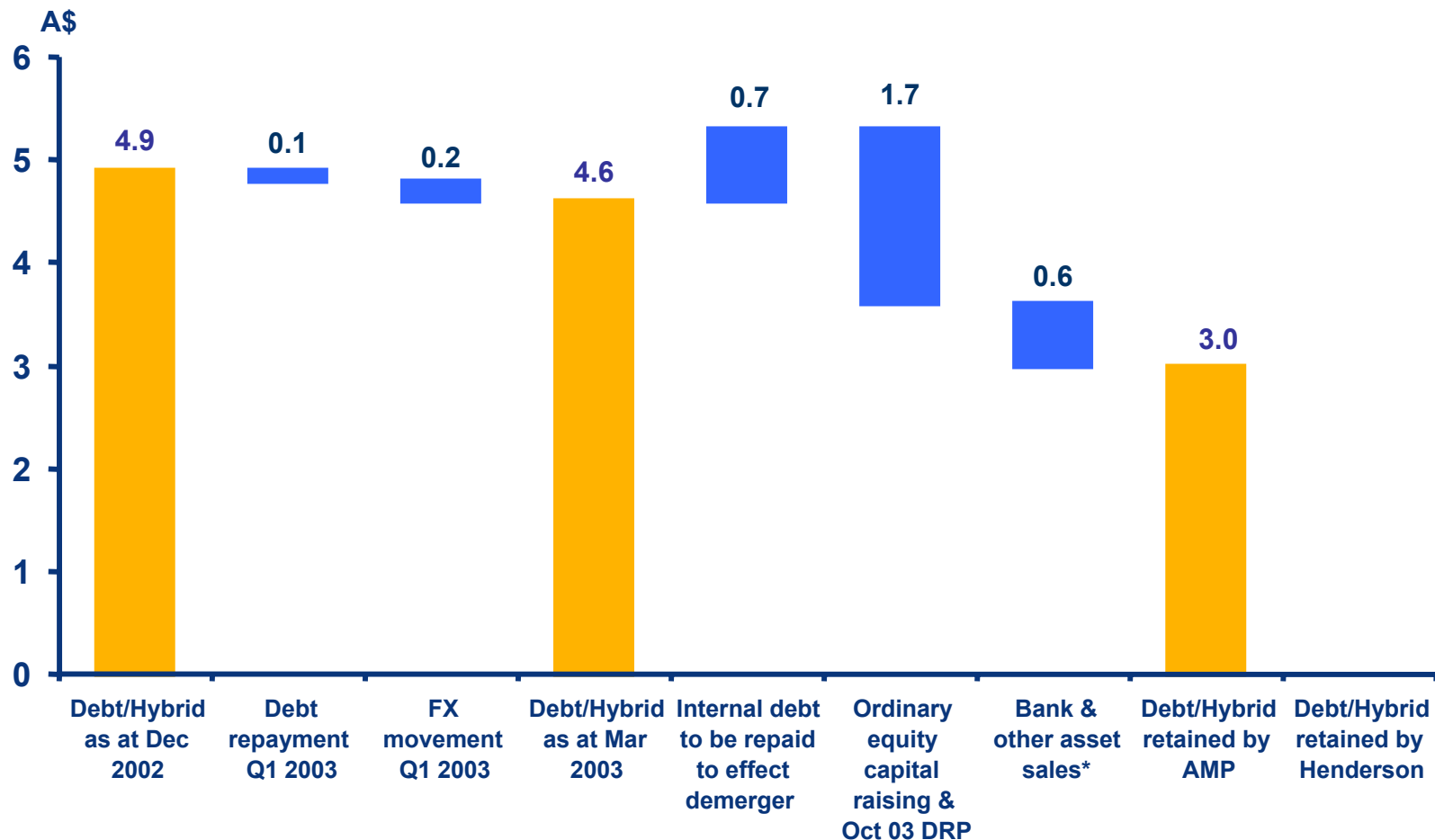
- Simpler, more transparent corporate structures
  - With different business focuses, risk profiles, customer bases and business strategies
- Strong independent Boards and management focused on their regional markets
- Expands investment options available to shareholders
  - AMP shareholders will have shares in both companies at demerger and then will have choice about investment weighting
- Each company will attract interest from their 'natural' investors

# Capital implications of strategic initiatives

- Equity from capital raising and asset sales used to retire debt
  - Level of external debt reduced
  - All debt between de-merged entities repaid
- ‘New’ Henderson will be appropriately capitalised, with minimal external debt
- ‘New’ AMP strongly capitalised
  - A\$1.5b in excess of minimum regulatory requirements
  - Improving quality of capital with internal loans repaid
- The capital raising will increase the Group’s financial strength and is positive for all security holders

# Debt levels will decrease

*This includes new equity capital from raising*



\* Bank assets are being progressively sold to American Express, Newcastle Building Society, HSBC, GE Commercial

# Demerger mechanics

- Substantial analysis and advice undertaken to determine appropriate structure and implementation steps
  - Commercial and strategic rationale
  - Legal, accounting and tax
  - External financings and internal cross-ownership holdings
  - No major roadblocks identified
- Documentation for shareholder meeting to approve demerger likely to be provided during fourth quarter 2003
- Demerger process will result in formation of 'new' AMP and 'new' Henderson as two separately ASX-listed companies
- Discussions with regulators and other key stakeholders progressing
- Demerger most likely to be undertaken by way of distribution in specie to all shareholders

# Indicative timetable for demerger

Date	Event
• 1 May 2003	• Initial announcement and capital raising
• September – October 2003	• Announcement of separation details
• November 2003	• Shareholder / court / regulatory approvals
• December 2003	• Separation effected

# Capital raising



# Additional capital required to facilitate demerger

- The A\$1.5b equity raising has been structured to:
  - eliminate the financial inter-dependencies between the Australian and UK businesses and reduce the level of external debt
  - establish the Australian based business on a standalone basis consistent with a strong A rating
  - establish the UK based business on a standalone basis consistent with a BBB rating

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

# Capital raising

## Size

- A fully underwritten raising comprising:
  - A\$1.0 billion institutional placement
  - A\$500 million Share Purchase Plan

## Institutional pricing

- Bookbuild range of A\$4.50–A\$6.50 per share

## Share Purchase Plan

- Offer to AMP's 960,000 retail shareholders to subscribe for up to a maximum of A\$5,000 at lower of institutional placement price or 5% discount to VWAP

## Number of placement shares

- 222 million, fixed

## Dividend Reinvestment Plan

- Board has resolved that the institutional bookbuild price will apply to shares issued to participants and institutional sub-underwriters under the April DRP

# Indicative timetable for capital raising

Date	Event
<ul style="list-style-type: none"><li>• 1 May 2003</li></ul>	<ul style="list-style-type: none"><li>• Trading halt</li><li>• Investor presentation</li><li>• Books open</li></ul>
<ul style="list-style-type: none"><li>• 2 May 2003</li></ul>	<ul style="list-style-type: none"><li>• Books close</li><li>• Allocations, communications to institutions</li></ul>
<ul style="list-style-type: none"><li>• 9 May 2003</li></ul>	<ul style="list-style-type: none"><li>• DVP settlement of institutional offer</li><li>• DRP settlement at lower of placement price or April DRP price</li></ul>
<ul style="list-style-type: none"><li>• 5 May 2003</li><li>• 21 May - 13 June</li></ul>	<ul style="list-style-type: none"><li>• SPP record date</li><li>• SPP offer period</li></ul>

# Questions



# Appendix



# Standalone invested capital – 31 December 2002

## Capital mix invested in business

A\$m	Net tangible assets	Intangibles	Total capital
<b>Australian Financial Services</b>	<b>3,140</b>	<b>495</b>	<b>3,635</b>
AMP Life Statutory funds	3,010		3,010
AMP Life other	130	495	625
<b>UK Financial Services</b>	<b>6,878</b>	<b>1,060</b>	<b>7,938</b>
Pearl	5,021	62	5,083
London Life	1,196		1,196
UKFS other	661	998	1,659
<b>Henderson Global Investors</b>	<b>432</b>	<b>1,199</b>	<b>1,631</b>
<b>AMP Banking</b>	<b>584</b>		<b>584</b>
<b>Virgin Money</b>	<b>370</b>		<b>370</b>
<b>Discontinuing businesses</b>	<b>896</b>		<b>896</b>
<b>Corporate office</b>	<b>400</b>		<b>400</b>
<b>Inter business unit holdings</b>	<b>(1,992)</b>		<b>(1,992)</b>
<b>Total shareholder capital resources</b>	<b>10,708</b>	<b>2,754</b>	<b>13,462</b>

# Standalone invested capital – 31 December 2002

## Capital mix

A\$ million	Net tangible assets	Intangibles	Total capital
Shareholder equity	5,779	2,754	8,533
Hybrid equity	1,141		1,141
<b>Tier 1</b>	<b>6,920</b>	<b>2,754</b>	<b>9,674</b>
Income securities	1,240		1,240
Subordinated debt	840		840
<b>Tier 2</b>	<b>2,080</b>	<b>–</b>	<b>2,080</b>
<b>Total regulatory capital (Tier 1 + Tier 2)</b>	<b>9,000</b>	<b>2,754</b>	<b>11,754</b>
Senior debt	1,708		1,708
<b>Total shareholder capital resources</b>	<b>10,708</b>	<b>2,754</b>	<b>13,462</b>

# Standalone invested capital – 31 March 2003

A\$ million	Net tangible assets	Intangibles	Total capital
Shareholder equity	5,503	2,560	8,063
Hybrid equity	1,150		1,150
<b>Tier 1</b>	<b>6,653</b>	<b>2,560</b>	<b>9,213</b>
Income securities	1,240		1,240
Subordinated debt	768		768
<b>Tier 2</b>	<b>2,008</b>	<b>–</b>	<b>2,008</b>
<b>Total regulatory capital (Tier 1 + Tier 2)</b>	<b>8,661</b>	<b>2,560</b>	<b>11,221</b>
Senior debt	1,472		1,472
<b>Total shareholder capital resources</b>	<b>10,133</b>	<b>2,560</b>	<b>12,693</b>

Note: Pre writedowns, asset sales and capital raising

# Reconciliation of total shareholder capital resources

A\$m	'New' AMP	'New' Henderson	Intercompany elimination	Total
<b>31/12/2002</b>				<b>13,462</b>
Profit				61
Debt repayment				(90)
Foreign currency movement				(739)
31/03/2003				12,694
<b>Allocation to 'New' AMP and 'New' Henderson</b>	<b>5,432</b>	<b>7,930</b>	<b>(668)</b>	<b>12,694</b>
Write-offs	-	(2,630)	-	(2,630)
Capital raising / internal + external debt repayment	-	-	668	668
Asset sales	(932)			(932)
<b>Post asset sales, writeoffs and capital raising</b>	<b>4,500</b>	<b>5,300</b>	<b>-</b>	<b>9,800</b>

# 'New' AMP invested capital – proforma

A\$m	Net tangible assets	Intangibles	Total capital
<b>'New' AMP</b>			
AFS			
- AMP Life Statutory Funds	3,052		3,052
- AMP Life other	110	486	596
HGI	182	168	350
AMP Banking	562		562
Discontinued businesses	687		687
Estimated asset sales	(932)		(932)
Corporate office	185		185
<b>Total AMP Shareholder capital resources</b>	<b>3,846</b>	<b>654</b>	<b>4,500</b>

# 'New' Henderson invested capital – proforma

A\$m	Net tangible assets	Intangibles	Total capital
<b>'New' Henderson</b>			
UKFS			
- Pearl	3,505		3,505
- London Life	707		707
- UKFS other	806		806
HGI	255	940	1,195
Virgin Money	347		347
Corporate office	(153)*		(153)*
<b>Subtotal</b>	<b>5,467</b>	<b>940</b>	<b>6,407</b>
Inter business unit holdings	(1,107)		(1,107)
<b>Total Henderson shareholder capital resources</b>	<b>4,360</b>	<b>940</b>	<b>5,300</b>

\* Includes provision for £100m restructuring costs

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