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The AMP Demerger

Address by AMP Chairman Peter Willcox to AMP's Extraordinary
General Meeting 9 December 2003

THE AMP DEMERGER

**ADDRESS BY AMP CHAIRMAN PETER WILLCOX
TO AMP'S EXTRAORDINARY GENERAL MEETING
9 DECEMBER 2003**

In essence, the proposal we are presenting to you today is a simple one.

We are recommending that the AMP Group separate into two regional companies – one called AMP which will house the Australian and New Zealand operations, and one called HHG which will house our UK operations.

We believe the key benefit of this proposal is that it will unlock the underlying value of AMP and HHG. We believe this value is more likely to be fully reflected in the share prices of the two companies than in the share price of AMP under the current structure.

Our aim is to create two strong, viable companies that will have better opportunities as separate businesses than they would have if they continued to be managed together.

In this way, we believe that we will be able to deliver better long-term value to shareholders.

As I said, the proposal itself is simple.

For every AMP share you hold on the Record Date – which is 19 December - you will receive one HHG share. So that, for example, if you hold 100 AMP shares on the Record Date, then after the demerger, you will hold 100 AMP shares and 100 HHG shares.

How we go about implementing that is more complicated – which is why we were legally obliged to develop and distribute that large Explanatory Memorandum.

Rather than go over the information that is covered so thoroughly in that EM, what I plan to do this morning is explain how we got to this point – of recommending the regional separation of this Group – answer the most frequently asked questions I've had about the proposal and outline what will happen next, if you approve the demerger.

Now, in talking about how we got to this point, I'm really talking about the answers to two different but connected questions.

First, what has happened at AMP since it listed? And second, why is the demerger now the best way forward for AMP?

To answer the first question, I need to take you back about five years, to the time AMP was demutualised and floated as a public company.

AMP was then a wealthy company, with billions of dollars of surplus capital and an under-gearred balance sheet – it was carrying relatively little debt.

Strategy at AMP in those days was largely about using that surplus capital.

In 1998 and 1999, AMP made three acquisitions:

- Henderson, a UK asset manager, which was bought for around A\$1 billion
- GIO, an Australian general insurer, which was ultimately bought for over A\$3 billion and
- NPI, a UK life insurer, which was a complex transaction and would ultimately require capital commitments by AMP of over A\$4 billion.

History has shown that while Henderson was a good investment, GIO and NPI were anything but.

Both those investments involved large outlays in an attempt to increase AMP's position in two markets - Australian general insurance and UK life insurance.

What the NPI acquisition did, of course, was to increase significantly AMP's exposure to the UK market.

In that market it was standard practice for life products to be sold with capital guarantees, with the majority of the funds then invested in equities and properties.

While equity markets boomed this was a highly profitable strategy. The shareholder took 10 per cent of the profits and the strength of the funds arising from the largely unrealised capital gains on equities meant that the downside risk to the shareholder appeared to be minimal.

As the UK share market collapsed however, this process went into reverse and as the surplus in the funds began to evaporate the shareholder increasingly faced a nightmare situation where 100 per cent of the losses were to its account but only 10 per cent of the gains.

The combination of a more than 50% fall in equity markets and acquisitions of businesses at the top of the market has indeed proved very painful for all of us as shareholders.

AMP was not unique in this regard – virtually all the UK life insurers suffered a similar fate.

As I summarised at the May Annual General Meeting “AMP had too much of your shareholder money in the wrong business, at the wrong time, in the wrong place.”

Unpalatable as those facts were, they had to be faced and dealt with – and that is what we've done.

Your new Board of Directors viewed the task as not just to manage a short term crisis that the company faced, but just as importantly, to find a way forward.

When we looked at where we were earlier this year and the challenges we had to manage, it became clear that many of our issues were structural.

Managing the Australian and UK businesses within the one corporate group was not benefiting either business and was, in fact, harming both.

UK market and capital issues were impacting the Australian business, and that in turn was feeding uncertainty about our commitment to the UK back into our businesses there.

The Board examined a range of options before settling on the demerger proposal as the best way forward.

All were measured against 3 key criteria:

- Firstly, maximising the long-term value of your shares
- Secondly, addressing the key challenges faced by AMP
- And thirdly, having a high probability of successful execution.

The only alternative that rated almost as well as the demerger was a trade sale of the UK businesses, if we could have obtained fair value for them. We thoroughly explored the trade sale option while we were working through the complex technical and regulatory issues involved in the demerger proposal.

In the event, we did not receive offers for the UK businesses that we believed either reflected their long-term value or were sufficiently unconditional as to be attractive.

We have therefore, more than seven months after the initial announcement of the demerger proposal, strongly confirmed as a Board of Directors that the demerger is the strategic response that is in the best interests of AMP shareholders.

And that is also confirmed by the Independent Expert in the Explanatory Memorandum.

Now let me answer the six most frequently asked questions that I've received about the demerger proposal.

These questions are:

1. Why are we still intent on a demerger if we've addressed the immediate issues in the UK?
2. Why is AMP keeping a 15% stake in HHG, when we said it was desirable to completely separate the two companies?
3. What happened with National Australia Bank?
4. Why are the costs of the demerger, including retention payments, so high?
5. What will HHG shares be worth after the demerger?
6. And how does the Rights Offer work?

Starting with the first question, it is true that we've reduced the equity market risks in our UK life businesses, recapitalised the businesses there and positioned Henderson well to benefit from the cyclical market upturn.

As a result, we do believe that HHG is a company with excellent potential over the medium to long term.

But we believe that potential is more likely to be realised as a UK listed company with its own identity, culture and Board.

The demerger will give HHG the best chance possible to maximise that growth potential. You, as shareholders, will still have a stake in that growth if you so choose, through your HHG investment.

On the second question: why is 'new' AMP keeping a 15% stake in HHG?

The demerger involves a complex division of assets between the two new companies, with the aim of making each a strong company, attractive to investors in its own right.

On this basis, the best outcome for HHG involved a recapitalisation plan to improve its investment appeal.

AMP could have provided this additional capital and asked for nothing in return. Or it could take some HHG shares in part payment for this capital.

Your board judged the latter option to be the best one and that is what we've done.

The third question is about National Australia Bank's intentions towards AMP - and why didn't we let them look at our books when they asked back in May?

Clearly, I can't comment on behalf of another company. But we did think the demerger proposal would focus people's attention on the inherent value of both our Australian and UK operations as separate entities and we see the National Australia Bank's actions as vindicating this belief.

What happened in May was that the bank asked to see the books on our Australian operations – without any certainty of an attractive offer.

Remember that National Australia Bank is one of our major competitors.

And its Board has a responsibility to NAB shareholders – not to you as AMP shareholders.

We didn't say no in May. We said: make a highly attractive offer, with minimal conditions. That's our responsibility on your behalf. And that's the same response we'd make today to anyone making the same request.

The fourth question: why is the cost of the demerger, including retention payments, so high?

It's because AMP is a complex company and the mechanics of separating the group make this demerger one of the most complex transactions ever undertaken in Australian corporate history, and it has to be done flawlessly.

We've had to use separate financial and legal advisers in Australia and the UK to provide expert advice to both our Australasian and UK operations, to ensure the regional separation is managed properly.

Regarding retention payments, the Board decided that this programme was in your best interests because:

- Firstly, we were making major structural changes to our business, and pursuing potential sales, with all the attendant dislocation and uncertainty that brings.
- Secondly, we were asking many people to work extraordinarily long hours, for many months, in addition to their normal jobs - in the clear knowledge that success could mean either a reduction in their jobs or redundancy.
- And thirdly, we were asking our current CEO and members of his Australian Senior Management Team to forego their existing, legally binding contracts, and accept substantial pay cuts if we succeeded – and, to their credit, they have.

We needed to make sure both that the demerger was achieved and the value of our businesses was preserved during this uncertain and difficult process.

The measure of the success of this programme is that 98% of our targeted list of staff have stayed with AMP during what have been extraordinarily testing times, and they have succeeded in navigating the many difficult steps needed to reach this point, while maintaining the value of the business.

I should point out that, in addition to the remuneration reductions at senior management level, the demerger, if approved, will also trigger reductions in AMP Board remuneration – a 10% reduction in Directors' remuneration and a 23% reduction in the Chairman's remuneration.

The fifth most frequently asked question I get is about the value of HHG shares after the demerger and what impact this will have on the AMP Group results for 2003.

Realistically, I think there will be some volatility in the initial trading of both AMP and HHG, and there is potential for HHG to be undervalued by the market in its early days.

But we firmly believe that the market will come to understand and value HHG appropriately over time.

In terms of the impact the value of HHG will have on the AMP Group results for 2003, the short answer is that we expect it will have considerable negative impact.

Under Australian accounting standards, we must account for the demerger as if we were selling the UK businesses. And the 'sale' price will be the value that the market puts on HHG in its initial trading period, rather than the long-term value that we believe it has.

In the Explanatory Memorandum, your Directors have provided an estimate of the writedown this accounting treatment will produce – about A\$2.5 billion, based on the Directors' valuation of HHG. However, this figure will be higher, if HHG trades initially below our valuation.

This adjustment in valuation will flow through into our final accounts for 2003.

Although we will be reporting a substantial loss for the year, it is important for you to remember that AMP's underlying businesses are making money.

And that, I believe, is the key focus for the future. It will be these operating earnings which will drive dividends and share price gains over the long term.

To the sixth question: how does the AMP Rights Offer work?

There have, of course, been a lot of questions about this offer, largely because it has an innovative structure designed to give all shareholders a benefit, whether or not they participate.

In simple terms, the AMP Rights Offer means you can acquire more shares in the new AMP at a 10% discount to the price set by institutional investors in a bookbuild, or you will receive a cash payment of 8.2c a share in lieu of taking up those rights.

Either way, you as shareholders should benefit.

And today is the last day you can accept the offer. If you want to participate, your acceptance form and payment must be received by 5pm today.

Please note that offers of new AMP Shares are made in, or accompanied by, the Rights Offer prospectus dated 17 October 2003. Any eligible shareholders who wish to acquire new AMP Shares under the Rights Offer will need to complete the entitlement and acceptance form which accompanies that prospectus, and comply with the other requirements described in the prospectus.

I hope I've covered those questions in enough detail for you. If I haven't, don't hesitate to ask me for further information during question time.

Finally, I suppose the other question in your minds is what will happen following this meeting.

The timetable from here looks like this.

If you approve the demerger today, the next step will be to seek court approval of the Scheme of Arrangement, the means by which the demerger is being effected.

We hope to achieve this by 15 December.

On 16 and 17 December, AMP shares will be suspended from trading on the Australian Stock Exchange to allow for the bookbuild that is part of the AMP Rights Offer.

The bookbuild price – that is, the price which institutions will pay for shares in new AMP - will be announced on 17 December.

The next day, AMP shares will begin trading as the new AMP, without entitlement to HHG shares. At that stage, you can expect the share price to be lower than it was on 15 December, because HHG will then have been effectively separated from the group.

HHG shares, in turn, are expected to list on the London and Australian Stock Exchanges on 22 and 23 December respectively.

You should receive your HHG holding statements, along with an information pack, in early January next year.

Around the same time, you should receive either a holding statement for your additional shares in AMP, if you have participated in the Rights Offer, or a cash payment if you have not participated in the Offer.

So if the demerger is approved, that's the broad timetable through to January next year.

Let me sum up by pointing out that, as important as the demerger is, ultimately it's a means to an end, not an end in itself.

It's the mechanism by which we plan to release two good businesses with good growth potential from a structural relationship which is not helping either one – and you can choose whether to keep shares in either or both.

Take the new AMP first.

The business in Australia and New Zealand has spent more than 150 years helping people manage their financial well being. And the demerger will let us focus on doing this even better than we've been able to do it before.

This is the pre-eminent wealth management business in the market. And it's extraordinarily resilient.

The financial results this business delivered in the first half of this year, against the backdrop of appalling industry and corporate conditions, were very promising.

AMP Financial Services recorded a 15% return on invested capital while AMP Capital Investors recorded a 28% return on invested capital.

These returns compare with a cost of capital of around 8%.

On current estimates, the embedded value of our AFS business – that is, the value of its book of policies – is likely to be around \$6.5 billion at year end, before transfers, while the value of new business is likely to be around \$230 million.

Both figures are up strongly on the first half results and reflect the impact of the changes we've made to the business as well as the improvement in market conditions.

Indeed, in the calendar year to September, AMP outperformed all but one of its four major competitors in funds flows, notwithstanding all of the issues we have had to deal with, a remarkable result in the circumstances.

In our asset management business, AMP Capital Investors, where the key driver is investment performance, we are also seeing very encouraging trends

We are now generating above benchmark returns across all listed asset classes and the main AMP Life fund has had an outstanding year.

Post demerger, AMP will have a focus and a franchise in Australia and New Zealand that few pure wealth managers around the world can match.

HHG, too, has both ambitions and potential to grow strongly over the medium to long term.

The core of this company will be the strong Henderson investment management franchise. This will be the growth engine and long-term focus for the HHG group.

Post demerger, Henderson will be a top 10 UK based investment manager with assets under management of almost £70bn. The business is well-diversified by client type and across asset class – and is growing organically.

Investment performance is strong – with some 71% of listed assets under management meeting or exceeding benchmark in the first half of 2003.

Like all investment managers, Henderson has been affected by the adverse market cycle, but we believe it is very well placed to benefit from economic and market recovery.

HHG will also be focusing on unlocking the inherent value in the existing life businesses that are part of its portfolio. The Consulting Actuary in the Explanatory Memorandum has indicated that these businesses have an embedded value of around £900mn.

With the risks now reduced and the life companies closed to new business, that value has been more effectively secured. And there is substantial upside from operational improvements to come.

In conclusion, I have to say that when I was asked to become Chairman of AMP in February this year - to build a new Board, to chair the AGM in May and to support Andrew and his team to create a new AMP - I found the prospect challenging.

I was well aware that there were no easy solutions to AMP's problems and that we were going to have to grasp a number of painful nettles.

I also knew that our actions on your behalf would understandably be viewed and reported critically – no matter how well thought-out or well-intentioned they were.

However, I sincerely believed then and I still believe now that it was a job worth doing.

AMP – spanning three centuries - has been and still is a vital part of the well-being of millions of Australians.

Working to solve its problems, unlock its strengths and create a new and strong AMP is – I believe – a worthy cause.

All of us on the Board have been encouraged by the support we have received as we've set about achieving this – from Government, from regulators, from our employees, from our planners, from our customers and from our shareholders.

And at the risk of embarrassing them, the esteem that AMP is still held in is demonstrated by the willingness of people of the calibre of our four new directors – all of whom regularly turn down less challenging opportunities – to join us at our lowest point to help create a new AMP.

What has been particularly encouraging is the level of support from our shareholders for the demerger proposal. We asked shareholders to make sure they had their say on the future of this company and they have done so in unprecedented numbers.

About three times as many shareholders have lodged proxy votes for today's meetings than at the AGM this year, and, as you can see from this slide, they have been overwhelmingly in favour of the demerger proposal.

Each resolution has received proxy votes amounting to more than 99% of the votes cast, supporting the view of both the Board and the Independent Expert that this proposal is in the best interests of shareholders. And on the demerger approval resolution, over 97% of the number of shareholders voting by proxy have voted in favour.

I will show you the proxy position separately for each resolution after we have had our discussion on each one.

The full Board of Directors is convinced that the proposal to demerge is the best way forward for AMP and we unanimously recommend that you vote in favour of the three resolutions we are putting before you today.

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General & Scheme Meeting

Summary of proxy position at 9.00am on 7 December 2003

	For	Against	Open	% FOR vote*	Required majority
Capital Adjustment Resolution	632,128,800	4,274,546	34,015,987	99.3%	50%
RPS Preference Share Cancellation Resolution	594,241,745	4,732,951	71,830,445	99.2%	75%
<u>Demerger Resolution</u>					
Number of holders	115,735	3,483	23,360	97.3%	50%
Number of votes	635,666,336	4,371,783	31,763,424	99.3%	75%

* Includes open proxies granted in favour of AMP Directors