

Section 12

Independent Expert’s report

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16 October 2003

The Directors
AMP Limited
Level 34
33 Alfred Street
SYDNEY NSW 2000

Dear Directors

Independent Expert's Report on Demerger Proposal

1. Introduction

1.1. The Demerger

AMP Limited ("AMP") is a leading Australian-based financial services company with significant life insurance and wealth management businesses in Australia, New Zealand and the UK. AMP's three main businesses are:

- AMP Financial Services ("AFS"), which includes Australia and New Zealand's largest life insurer and financial planning network;
- UK Life Services, comprising the UK life insurance companies, Pearl, London Life, National Provident Life and NPI; and
- Henderson Global Investors ("HGI"), a fund manager with significant operations in the UK, Europe and Australia.

AMP also owns the Towry Law financial planning group in the UK as well as a number of businesses which can be considered non-core. These include Cobalt and the closed reinsurance and commercial insurance portfolios (principally Gordian and TGI), as well as Virgin Money (a 50:50 joint venture with the Virgin group).

On 1 May 2003 AMP announced a proposal to separate its existing business in Australia and New Zealand from its existing business in the United Kingdom (the "Demerger").

The Australian-based company will retain the "AMP" name after the Demerger and will comprise AFS, HGI's Australian and New Zealand operations, and Cobalt / Gordian. AMP will continue to be listed on the Australian and New Zealand stock exchanges.

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The UK-based company will be called HHG plc ("HHG") after the Demerger and will comprise UK Life Services, HGI's northern hemisphere businesses (primarily in the United Kingdom and Europe) ("Henderson"), Towry Law and AMP's 50% interest in Virgin Money. The listing of HHG is being sought on both the London and Australian stock exchanges.

For the purposes of this report "AMP" is used to describe the AMP group as it exists both before and after the Demerger; "HHG" is similarly used to describe the UK-based group.

1.2. Capital cancellation and scheme of arrangement

The Demerger will be executed through a capital cancellation and a scheme of arrangement. Further details on the mechanics of the capital cancellation and scheme are set out in the Explanatory Memorandum.

Immediately after the Demerger, existing AMP shareholders (except certain ineligible overseas shareholders) will hold the same broad economic interests in AMP's assets as they do currently, but these will be held in two separately listed companies, AMP and HHG. They will actually hold the same number of shares in AMP and in HHG as they hold in AMP before the Demerger. The market value of an AMP share after the Demerger is expected to be below its current level as a result of the transfer of HHG from AMP to AMP shareholders.

1.3. Financial restructuring of the AMP group

A financial restructuring of the AMP group will be implemented as part of the Demerger. Immediately after the Demerger:

- AMP will have external corporate debt of around \$2.6 billion and own 15% of HHG's issued ordinary share capital;
- AMP intends to redeem all the Reset Preferred Securities ("RPS") on issue at their face value of \$100, to be financed by an underwritten \$1.2 billion rights offer of new AMP ordinary shares (the "AMP Rights Offer");
- HHG will have around £59 million (\$148 million) in external corporate debt, its prior liabilities to AMP having been settled, and the balance of its prior external corporate debt having been assumed, by AMP;
- HHG intends to conduct an equity capital raising by 30 June 2004 to raise at least £100 million with interim support from an investment bank (the "Bank") provided by way of an issue of convertible loan notes; the principal purpose of this is for HHG to move to a controlling interest in AMP Invest, the parent company of Henderson, with the balance continuing to be held by the Pearl shareholders' fund; in the event that there is a material adverse change to the business of HHG, the Bank will be able to terminate the agreement and AMP has provided a standby commitment to acquire the convertible loan; and
- all material intra-group guarantees between HHG and AMP will be extinguished.

2. Purpose of the Report

The AMP Board has asked N M Rothschild & Sons (Australia) Limited ("Rothschild") to prepare an Independent Expert's Report to provide the following opinions:

- whether the Demerger is in the best interests of AMP shareholders and the reasons for that opinion;
- as the Demerger includes a capital cancellation, whether the Demerger is fair and reasonable to shareholders as a whole;
- whether the capital cancellation materially prejudices the ability of AMP to pay its creditors;
- whether the methodology of the adjustment to the exercise price of options issued under the AMP executive and employee option plans is fair and reasonable to AMP ordinary shareholders, and to comment on the effect of the adjustment; and

- whether the cancellation of the preference shares ("RPS Preference Shares") which were issued by AMP as part of the RPS structure ("RPS Preference Shares Cancellation") is fair and reasonable to shareholders as a whole.

This letter is a summary of our full report and addresses principally the impact of the Demerger on AMP shareholders. The rationale for our opinions in relation to the ability of AMP to pay its creditors as a result of the capital cancellation, in relation to the adjustment to the exercise prices of options and in relation to the cancellation of preference shares is set out in our full report.

Rothschild is independent of AMP and its remuneration for preparing this report does not depend upon the Demerger or the RPS Preference Share Cancellation being approved.

3. Summary of Rothschild Opinion on the Demerger

The proposal before AMP shareholders is either to vote in favour of the Demerger, as recommended by the Board, or to continue with the current group structure by voting against the Demerger.

It is our view that the Demerger will provide two key benefits which will outweigh the costs and disadvantages. First, we believe that implementation of the Demerger should help to arrest any further decline in the value of AMP arising specifically from the problems faced by AMP's UK Life Services business. As a result of these problems in the UK, AMP has experienced a decline in the perception of its brand in Australia which has caused commercial damage. In the event the Demerger does not proceed, we believe that this brand contagion could continue to have an adverse impact on the value of AMP's shares over time.

Secondly, AMP has a number of businesses attractive to third parties, of which the Australian businesses would be the most prized assets. However, the ability to realise full value for these assets through a takeover of AMP is constrained by its exposure, under the current group structure, to the risks and vulnerabilities of UK Life Services. AMP's attraction to a potential acquiror is therefore likely to be increased by the Demerger which will distance AMP from these risks and vulnerabilities. The Chief Executive of National Australia Bank, which increased its holding in AMP at the end of August 2003, has explicitly confirmed this by commenting that National Australia Bank "has no interest in acquiring AMP while AMP owns its UK business".

There is, in addition, a long-term strategic argument which favours separating the UK business from AMP's Australasian businesses. This argument is based on the fact that the market positions of the Australasian and UK businesses are substantially different. On the one hand, AMP is one of the leading life insurance and wealth management groups in Australia and New Zealand, whilst on the other hand, Henderson is a mid-market player in funds management and UK Life Services is closed to new business. The risk/ reward profiles of AMP and HHG are consequently different and there is little or no economic value in having them both grouped under one corporate structure. The Demerger will allow investors to choose whichever profile suits them, by enabling them to hold shares in either or both of AMP and HHG.

Finally, the basic economic rationale behind demergers is that the combined market value of the two parts will be greater than that of the whole. In the case of AMP, we are of the view that, once the Demerger documentation becomes publicly available, the two key benefits of the Demerger outlined above will then largely be reflected in its share price. This has already risen substantially since August 2003 and is now reflecting the greater degree of certainty associated with the Demerger structure and process. As a consequence (and in the absence of new information being released to the stock market), we do not expect the combined market capitalisations of AMP and HHG immediately after the Demerger to stand at a substantial premium to AMP's market capitalisation following publication of the Demerger documentation (unless AMP becomes immediately subject to a takeover offer, in which case a control premium would be expected to arise). Further, if the Demerger were not to be implemented as a result of shareholders voting against the proposal, it is

our view that the share price of AMP would fall after the vote (assuming the current share price were to be maintained until then).

Our opinion is predicated on the basis that at the date of this report no offer has been made to acquire HHG (in whole or in part) on terms which can be considered preferable to the Demerger proposal. In the event that such an offer is made, Rothschild reserves the right to reconsider its opinion. Subject to this, it is our opinion that the proposed Demerger is in the best interests of AMP shareholders as a whole.

4. Context of the Demerger Proposal

The proposed Demerger represents a significant change in strategic direction for AMP. It is, therefore, important to address the background and rationale for the change in strategy as well as the specific benefits and disadvantages of the Demerger proposal.

4.1. *The international expansion of AMP*

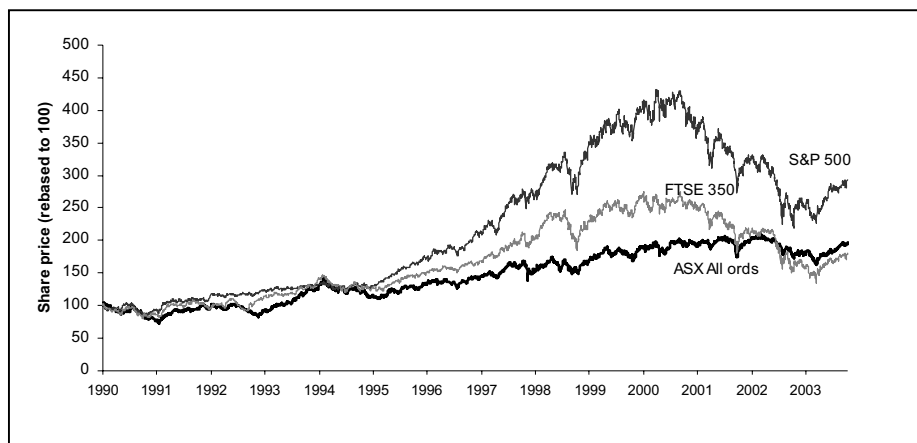
The businesses which today constitute AMP are a product of the former management's strategy during the last fifteen years to expand the group internationally. In the latter half of the 1980s, AMP was the leading life insurance and wealth management business in Australia with few overseas interests. Following the stock market crash in 1987, the then management decided to increase substantially the scale of their small UK business with a view to capitalising on the perceived growth opportunities in the UK life and savings market. As a consequence AMP acquired London Life in 1989 and Pearl the following year, both UK life insurance businesses.

Following the announcement in 1997 of the intention to demutualise, the Board continued its international expansion and acquired Henderson, National Provident and Towry Law over the next four years. The net effect of this international expansion strategy was that in recent years AMP's UK businesses accounted for around half of AMP's total capital employed.

4.2. *Life insurance and equity markets*

Favourable investment market conditions through the majority of the 1990s together with an ageing demographic profile increased the demand for life insurance and wealth management products, both in Australia and the UK. The operating profitability of life insurance companies was heavily geared to the performance of equity markets and AMP enjoyed substantial growth during the 1990s as the demand for its products was accompanied by rising equity markets.

The chart below illustrates the performance of equity markets since 1990, showing the strong performance experienced by the US and the UK markets during the 1990s, and the decline from 2000 until earlier this year. It is clear that the Australian equity market did not rise as steeply as the UK or the US markets, but its decline has not been as severe.



Source: Bloomberg

4.3. *Effect of deteriorating equity markets on AMP*

Life companies rely on investment income for a significant proportion of their profitability and on asset values for meeting regulatory capital requirements. During the 1990s UK life companies enjoyed the benefits of strong growth in the equity markets and built up considerable levels of surplus funds (“free assets”) over and above those needed to satisfy policyholder liabilities and regulatory requirements. In many cases these funds were augmented by “inherited estates”, which were derived principally from the retention of surpluses from previous years. High levels of free assets encouraged life companies to invest heavily in equities in an attempt to increase returns and provided capital for companies such as AMP to fund acquisitions. During this period AMP invested a considerable amount of Pearl’s capital by acquiring, inter alia, Henderson and National Provident.

As the equity market declined and interest rates fell, many life companies experienced a reduction in their financial strength. Life funds, such as Pearl, experienced the greatest strain as a result of guarantees payable to with-profits policyholders and many required capital support from their parent company or raised capital themselves. A number of life funds closed to new businesses. Pearl itself became unable to meet its required minimum margin during 2002 and AMP injected around \$1.4 billion in additional capital into its UK businesses that year.

4.4. *Change in UK strategy*

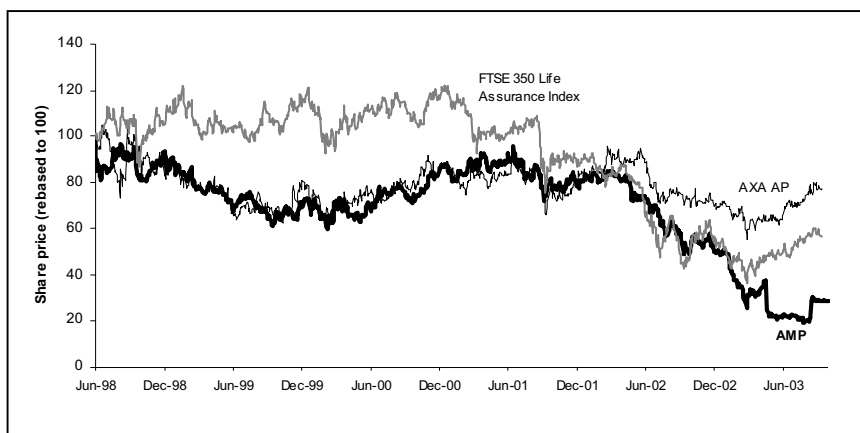
Following the appointment of the current Chief Executive Officer in September 2002, AMP announced a strategic review and a management restructuring. This review resulted in the separation of its UK life insurance operations into two businesses – life funds closed to new business and contemporary businesses which continued to sell products – as well as the sale of the manufacturing of non-Australian banking products. The strategic review had a significant financial impact: AMP incurred a \$1.6 billion charge, in the form of write-downs in the market value of (mainly) UK subsidiaries and provisions for transformation costs, in the accounts for the year to 31 December 2002.

As the equity market in the UK continued to fall, the new management team at AMP was faced with the challenge of managing the deteriorating capital position of AMP’s UK life funds and addressing the continuing adverse impact upon the AMP brand in Australia. Management responded by limiting the downside through reducing the life funds’ equity positions and by extending the equity derivatives program, while at the same time exploring longer-term strategic options for AMP. As a result, the Board of AMP announced in May 2003:

- the proposed Demerger;
- further write-downs totalling \$2.6 billion in connection with the reduction in value of the UK operations and restructuring provisions; and
- an equity capital raising to facilitate the Demerger through the elimination of financial links between the UK and Australian businesses and the reduction of external debt; this capital raising brought in a total of \$1.7 billion from institutional investors and some retail shareholders.

5. AMP’s share price performance

The development of AMP since its listing on the ASX in June 1998 is reflected in its share price as shown below.



Source: Iress, Bloomberg

The share price of AMP and its closest Australian listed comparator, AXA Asia-Pacific, show strong correlation over the period from AMP's listing to early 2002. Over that period AMP's share price underperformed the FTSE Life Index in the UK despite the fact that it had more capital invested in the UK than in Australia. From early 2002, however, AMP's share price tracked the FTSE Life Index down, reflecting the equity markets' concern surrounding the capital position of AMP's UK business. In other words, AMP's share price did not reflect the benefits of positive market conditions in the UK in the three years following listing but once the effects of the market downturn on the capital positions of UK life insurers became clear, AMP took on the negative characteristics of a UK life company. More recently, the AMP share price has moved strongly upwards from its low of \$4.35 on 7 August 2003 as a result of National Australia Bank expressing an interest in acquiring AMP after the Demerger.

6. Assessment of the Demerger

6.1. Introduction

In forming an opinion on whether the Demerger proposal is in the best interests of AMP shareholders as at the date of this report, Rothschild needs to assess whether the Demerger proposal is the strategic option most likely to deliver maximum value to AMP shareholders over time. In forming an opinion as to whether the capital cancellation is fair and reasonable to AMP shareholders as a whole, Rothschild considers that the same analysis should be used since the Demerger is to be effected by an interdependent capital cancellation and scheme of arrangement.

We have reviewed the strategic options considered by the Board and in our view the three realistic options open to AMP are:

- a sale of HHG, in whole or in part;
- the retention of the current group structure; and
- a demerger.

Since the announcement of the proposed Demerger in May 2003, AMP has received conditional proposals from a number of parties to acquire all or part of HHG. We believe that a trade sale of HHG (in whole or in part) could deliver value to shareholders. As at the date of this report none of these conditional proposals is so advanced or so certain in its terms that it can be considered preferable to the Demerger proposal. However, it is possible that the Board of AMP could reach agreement with one of the parties on mutually acceptable terms following the date of this report. In those circumstances the Board of AMP would have to reconsider its recommendation of the Demerger and advise shareholders accordingly.

In the absence of any concrete offer to acquire HHG, we assess below whether there is greater ability to maximise the value of AMP's assets under the existing group structure or under the Demerger proposal. Our assessment is structured as follows:

- key benefits;
- other benefits;
- costs and consequences;
- other disadvantages;
- risks;
- implications of the Demerger not being implemented;
- valuation considerations; and
- conclusions.

6.2. Key benefits

6.2.1. Commercial rationale for decoupling the UK business

The underlying commercial rationale for decoupling the UK business from the Australian-based business is driven by the following:

- the potential further damage to the AMP brand in Australia and New Zealand caused by the ongoing challenges in the UK life business;
- the insulation of AMP in Australia and New Zealand from any continuing demands for capital from HHG;
- the operational synergies being along geographic rather than business lines;
- the benefits of senior management focus;
- the different strategic positions of AMP and HHG in their respective markets; and
- the differences between the UK and Australian wealth management markets.

In our view, it is the potential damage to the AMP brand in Australia and New Zealand which is the most critical commercial reason for decoupling the UK business.

6.2.2. Brand damage

Critical to any decision by an investor as to where to place funds will be investment performance, pricing, service levels and the brand. The relative importance of these factors will vary from time to time and from individual to individual, but the strength of the brand can be expected to be a significant influence in decision-making.

Market research and empirical data demonstrate that the AMP brand has suffered serious damage since the start of 2002 as financial planners and retail customers have lost confidence and trust in AMP and that the reason behind this lies principally in the problems faced by AMP in the UK. As a result, commercial and financial damage to the business in Australia has been felt, but it has not been as severe to date as it might have been. However, what the data cannot show is the opportunity cost associated with AMP's recent difficulties ie. the additional business which AMP might have gained if the UK problems had not arisen. More critical still is the lasting commercial damage that could be caused by any continuing instability deriving from the UK, which is not out of the question given the weak regulatory capital position of UK Life Services.

The Demerger should help to protect AMP from further value erosion arising from brand damage.

6.2.3. Removal of structural impediments to a takeover of AMP

The rise in the AMP share price at the end of August 2003 (resulting from National Australia Bank announcing its interest in AMP's Australian businesses and acquiring shares in AMP) has highlighted the fact that AMP has a number of businesses which are attractive to third parties. However, the ability to realise full value from a takeover of AMP under its current structure is constrained, in particular, by its exposure to the risks and vulnerabilities of its UK Life Services division.

For AMP, its decoupling from these UK risks is likely to increase its appeal to a potential acquirer. This has already been demonstrated by a statement from National Australia Bank's Chief Executive that it "has no interest in acquiring AMP while AMP owns its UK business". AMP's strong market position in Australia and New Zealand could also be attractive to one of the other major banks in Australia which could well see advantage in merging AMP with its own wealth management business to create Australia's premier banking and wealth management group. Similarly, overseas life insurance companies and overseas banks are more likely to be interested in acquiring AMP after the Demerger rather than under its current structure.

For HHG, its separate listing will permit those parties who tabled a bid in the lead-up to the Demerger to revisit the situation and make a formal approach to take over the newly listed company if they feel so inclined. The UK Life Services division is only likely to be of interest to a small number of parties who have experience in managing the run-off of closed life books. On the other hand, Henderson is a respected brand name in the UK market and would be attractive, if Henderson were separately available, to many players in the investment management industry who are seeking to build scale in funds under management with a view to achieving operating efficiencies and greater brand awareness.

We are of the view that the removal of these structural impediments to a takeover of AMP is another key benefit of the Demerger.

6.3. Other benefits of the Demerger

6.3.1. Access to new sources of capital

Following the Demerger, the shares of HHG are intended to be separately listed in London. This would enable that company to access directly the UK capital markets for both equity and debt. It could also provide acquisition currency should the Board of HHG decide to pursue a growth strategy.

6.3.2. Realignment of investor base

The proposed Demerger will allow AMP's shareholders to choose to invest either in AMP or HHG or, indeed, both. In addition, the expected inclusion of HHG in the FTSE250 Index in the UK can be expected to encourage new index-tracker and other funds on to its share register.

6.3.3. Greater transparency for investors

In addition to allowing investors greater choice in their investment exposure to the AMP group, the separation and UK listing of HHG should promote a more transparent valuation of the businesses. In particular, the context of HHG in the wider UK financial services market can be expected to be better understood by UK analysts and investors than it is currently as part of AMP. Financial reporting on the basis of UK GAAP will also facilitate the comparison with similar listed companies in the UK.

6.3.4. Employee incentivisation

Separate compensation plans for AMP and HHG employees will enable incentivisation benefits to be structured around the operating and share price performance of the two listed entities. This will facilitate the better alignment of shareholder and employee interests.

6.3.5. Crystallisation of tax losses

For tax purposes, the Demerger will result in AMP disposing of HHG to its shareholders. This disposal is expected to give rise to a substantial capital loss for AMP. The ability of AMP to take advantage of this after the Demerger will, however, depend upon its ability to generate capital gains in the future.

Removal of the greater proportion of HHG's debt should also increase the likelihood of HHG utilising substantial tax losses incurred in the UK.

6.4. The costs and consequences of the Demerger proposal

While the rationale for the proposed Demerger is strong, there have been and will be a number of costs and consequences.

6.4.1. Impact on the capital structure

As a result of the Demerger, a number of AMP's existing capital securities will lose part or all of their eligibility as regulatory capital under APRA's guidelines. Most importantly, AMP will not be entitled to treat all of the RPS as Tier 1 regulatory capital. To address this, AMP intends that the RPS will be redeemed at their face value for cash, funded by the proceeds from the AMP Rights Offer. If the AMP Rights Offer does not occur, AMP will explore other alternatives to redeem the RPS. If an alternative cannot be found, AMP may be required, under APRA guidelines, to convert the RPS into AMP ordinary shares.

Additionally, some of AMP's subordinated debt will not be allowable as Tier 2 regulatory capital. AMP intends to pay down \$600 million of outstanding subordinated and senior debt prior to 31 December 2003, subject to appropriate pricing and liquidity levels.

6.4.2. The costs of raising new equity capital

In the May 2003 announcement of the proposed Demerger it was stated that no further equity capital raising was required to facilitate the Demerger (other than the capital raising accompanying the announcement). However, the AMP Rights Offer will be an equity capital raising, the purpose of which is to fund the cash redemption of the RPS. While this only represents a change in the mix of AMP's capital base, it may be perceived by some investors and market commentators as standing in contradiction to the May statement and may therefore reflect on management credibility.

Additionally, HHG intends to conduct an equity capital raising by 30 June 2004 to raise at least £100 million with support to be provided in the interim by way of an issue of convertible loan notes to an investment bank. If this capital raising does not occur, for example as a result of a material adverse change to HHG's business, AMP will be required to acquire the HHG loan notes. In these circumstances, AMP may be required by APRA to conduct an equity capital raising itself. The HHG capital raising and the contingent capital raising by AMP may be regarded in the same light as the AMP Rights Offer and similarly reflect on management credibility.

The equity capital raisings will also have a number of direct costs such as underwriting and professional fees. For example, the AMP Rights Offer will cost around \$18 million (before tax).

6.4.3. Ongoing links between AMP and HHG

Although one of the purposes of the Demerger is to decouple HHG from AMP, there will be a number of ongoing links between the two companies:

- AMP will still retain a 15% shareholding in HHG at least until the release of HHG's financial results for the six months to 30 June 2004; this could have a depressant effect on the share price performance of HHG, as AMP will not be regarded by the market as a long-term shareholder;
- AMP may be required to acquire the convertible loan notes in HHG if a material adverse change to the business of HHG occurs; if AMP holds the loan notes to maturity, it may elect to convert the notes into HHG ordinary or preference shares;
- there will be two directors common to both boards; and
- there will be other linkages which will continue after the Demerger (eg. certain indemnities).

6.4.4. Potential loss of value in UK Life Services

When life insurance companies close to new business or announce significant corporate change, they generally experience an increase in the number of policies surrendered (known as the lapse rate).

UK Life Services has experienced materially higher lapse rates in 2003 than historically. The loss of policyholders can have a detrimental effect on the value of UK Life Services, but the loss can be mitigated in some cases by a release of regulatory capital previously required to support policyholder liabilities. However, UK Life Services is experiencing an increase in the number of policies surrendered, in particular those without market value adjuster clauses, which deprives UK Life Services of the opportunity of any capital release and impacts on financial strength on a realistic basis.

There are a number of inter-related reasons for this increase in lapse rates and the increase in surrenders. These include the announcement of the closure of Pearl's direct sales force last year, the closure to new business in mid 2003, policyholders' reaction to the lower equity backing ratios and action by IFAs to transfer client funds out of UK Life Services. The announcement of the Demerger and the attendant publicity may have heightened awareness of these issues and contributed to a loss of value in UK Life Services.

6.4.5. Dividend-paying capacity of HHG

Going forward, it is the intention of the HHG board to pay dividends to the extent that they can be funded by surplus cash earnings from the operating subsidiaries and/ or transfers from the life companies. As a result of a number of factors, including the uncertainty surrounding the impact of the anticipated future regulatory capital requirements of the life companies, it is not envisaged that there will be sufficient cash earnings or transfers arising at the holding company level to facilitate the payment of a dividend in the short term. Specifically, any material releases of capital from UK Life Services are unlikely to be made for a number of years. The absence of a meaningful dividend is likely to affect adversely HHG's market value.

6.4.6. Costs of the Demerger

The preparation and implementation of the Demerger proposal will involve costs estimated to amount to approximately \$214 million (before tax), of which it is expected that \$106 million will have been incurred by the time of the shareholder meetings.

AMP expects that cost savings from the simplification and greater transparency of the new corporate structures will be approximately equal to the additional costs from operating two separately listed companies. In our view, some of these cost savings could have been made in the absence of the proposed Demerger.

In addition to these Demerger costs, AMP will incur around \$57 million (before tax) in restructuring costs relating to redundancies, void space, key staff retention and business continuity payments.

6.5. Other disadvantages of the Demerger

6.5.1. Taxation of Australian shareholders

Some Australian resident shareholders could be liable for capital gains tax on the cancellation of their AMP shares – but only if they have a tax cost base lower than the volume weighted average price of AMP shares for the ten business days prior to 9 December 2003. The deemed cost base for Australian tax resident shareholders who were issued AMP shares upon demutualisation was \$10.43, which is significantly higher than the prevailing market price at the date of this report.

6.5.2. Loss on Demerger

The Demerger will result in a capital loss of around \$2.5 billion for AMP on a consolidated basis which will mean that AMP will require APRA's approval for future dividend payments until all accumulated losses have been recovered. However, dividends are declared by AMP and paid out of its own retained earnings rather than consolidated earnings. After allowing for the loss on

Demerger, AMP will still have around \$1.4 billion in retained earnings on an entity basis from which future dividends can be paid.

6.6. Risks of the Demerger

There are a number of risks associated with the proposed Demerger.

6.6.1. Regulatory risk

APRA will be the regulatory body supervising AMP, while the FSA will be the regulator for HHG. Both these organisations have the power to intervene in the management of those businesses, including the ability to influence the dividend distributions and capital requirements of both companies. This is particularly relevant for HHG.

The prudential guidelines of UK life insurance companies are undergoing a period of change, which could increase this capital requirement. The Consulting Actuary's realistic balance sheet assessment indicates that UK Life Services has little free capital after satisfying its risk capital margin, being the excess assets required to support the business in adverse conditions.

APRA and the FSA have given their approval in principle to the Demerger and related restructuring steps set out in the Explanatory Memorandum.

6.6.2. Listing of HHG on the London and Australian stock exchanges

The application for a listing of HHG shares in the UK and Australia is subject to a number of risks and uncertainties, and is still to be approved by the relevant authorities.

6.6.3. Possible failure to insulate AMP from HHG

In the event that HHG were in the future to be the subject of a legal action eg. from policyholders or regulators, there exists a risk that AMP, as its former parent, may be joined in that legal action. In addition to any actual liability, AMP could suffer further brand damage from being involved in any such legal action.

6.7. Implications of the Demerger not being implemented

Should the Demerger not be implemented as a result of the shareholder vote, the Board of AMP has proposed that the corporate structure envisaged by the Demerger be retained. If shareholders do not vote in favour of the Demerger proposal:

- AMP shareholders will not receive shares in HHG;
- costs of around \$108 million in relation to the Demerger will not be incurred;
- the RPS will remain outstanding, the tax benefit of the RPS structure will not be able to be fully utilised and the AMP Rights Offer will not proceed; and
- the \$1.7 billion raised in mid 2003 will continue to be primarily used to reduce the financial interdependence between AMP and HHG and reduce external corporate debt.

A vote against the Demerger could have the following consequences:

- in the short term, the share price of AMP could fall from its current levels;
- AMP could still be exposed to the adverse financial consequences of a further deterioration in brand image, associated with the problems in the UK;
- the AMP Board could decide to reopen discussions with parties who previously expressed an interest in acquiring HHG (in whole or in part);
- AMP's credit rating could change;
- the morale of senior management within both AMP and HHG could be adversely affected; and
- a vote against the Demerger could be viewed as a vote of no confidence in the Board of AMP.

6.8. *Valuation considerations*

It is our view that the particular circumstances of this Demerger are better suited to a qualitative assessment, rather than a quantitative valuation, of the two listed entities after the Demerger. However, we do set out in our full report the key factors which are likely to influence the market capitalisations of AMP and HHG when separately listed. Underlying this qualitative approach is our view that any meaningful valuation of the two businesses should be carried out by reference to the price at which the underlying shares might trade immediately upon listing. This trading value will, however, be subject to a number of special factors specific to this Demerger, in particular, the various influences on the HHG share price once it is listed. These factors and other general considerations affecting valuation are discussed in detail in Section 9 of our full report.

7. **Conclusions**

- We have concluded that the Demerger is the strategic option most likely to deliver maximum value to AMP shareholders over time, based on our assessment of the benefits, costs, disadvantages and risks inherent in the Demerger. This conclusion is predicated on the basis that as at the date of this report no offer has been made to acquire HHG (in whole or in part) on terms which can be considered preferable to the Demerger proposal. In the event that such an offer is made, Rothschild reserves the right to reconsider its opinion.
- Subject to this, it is our opinion that the proposed Demerger is in the best interests of AMP shareholders as a whole.
- It is our opinion that the ordinary share capital cancellation is fair and reasonable to shareholders as a whole.
- It is our opinion that the share capital cancellation does not materially prejudice AMP's ability to pay its creditors.
- In relation to the proposed adjustments to the exercise price of the options issued under AMP's executive and employee option plans, it is our opinion that the methodology of the adjustment is fair and reasonable to AMP ordinary shareholders.
- It is our opinion that the RPS Preference Share Cancellation is fair and reasonable to AMP shareholders as a whole.

* * *

Voting for or against the Demerger or the RPS Preference Share Cancellation is a matter for individual shareholders. Shareholders who are in doubt as to the action that they should take in relation to the Demerger or the RPS Preference Share Cancellation should consult their own investment or professional adviser.

This letter is a summary of Rothschild's opinion. The full report from which this summary has been taken is attached and should be read in conjunction with this letter. This opinion is given as at the date of this letter and reflects the circumstances at this time.

Yours sincerely,



Tony Ferguson
Head of Investment Banking



Tony Stuart
Managing Director

Independent Expert's Report on the Demerger Proposal

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1 INTRODUCTION

1.1 Overview of the Demerger proposal

AMP Limited (“AMP”) is a leading Australian-based financial services company with significant life insurance and wealth management businesses in Australia, New Zealand and the UK. AMP’s three main businesses are:

- AMP Financial Services (“AFS”), which includes Australia and New Zealand’s largest life insurer and financial planning network;
- UK Life Services, comprising the UK life insurance companies, Pearl, London Life, National Provident Life and NPI; and
- Henderson Global Investors (“HGI”), a fund manager with significant operations in the UK, Europe and Australia.

AMP also owns the Towry Law financial planning group in the UK as well as a number of businesses which can be considered non-core. These include Cobalt and the closed reinsurance and commercial insurance portfolios (principally Gordian and TGI), and Virgin Money (a 50:50 joint venture with the Virgin group).

On 1 May 2003 AMP announced a proposal to separate its existing businesses in Australia and New Zealand from its existing businesses in the United Kingdom (the “Demerger”).

The Australian-based company will retain the “AMP” name and will comprise AFS, HGI’s Australian and New Zealand operations, and Cobalt/Gordian. The HGI operations in Australia and New Zealand will be renamed AMP Capital Investors (“ACI”). AMP will focus on leveraging its position as a leader in life insurance and wealth management in Australia and New Zealand and will continue to be listed on the Australian Stock Exchange (“ASX”) and the New Zealand Exchange.

The UK-based company will be called HHG plc (“HHG”) and will comprise UK Life Services, HGI’s northern hemisphere businesses (primarily in the United Kingdom and Europe) (“Henderson”), Towry Law and AMP’s 50% interest in Virgin Money. HHG will be a wealth management business focussed on maximising the value from running off the life businesses within UK Life Services, as well as furthering Henderson’s position as a substantial European fund manager. Listing of HHG is being sought on both the Australian and London stock exchanges.

For the purposes of this report the term “AMP” is used to describe the AMP group as it exists both before and after the Demerger; “HHG” is similarly used to describe the UK-based group.

1.2 Capital cancellation and scheme of arrangement

The Demerger will be executed through a capital cancellation and conversion (or share split) (“Capital Adjustment”) in conjunction with a scheme of arrangement (“Scheme”). Further details on the mechanics of the Capital Adjustment and Scheme are set out in the Explanatory Memorandum.

Immediately after the Demerger, existing AMP shareholders (except certain ineligible overseas shareholders) will hold the same broad economic interests in AMP’s assets as they do currently, but these will be held in two separately listed companies, AMP and HHG. They will actually hold the same number of shares in each of AMP and HHG as they currently hold in AMP. The market value of an AMP share after the Demerger is expected to be below its current level as a result of the transfer of HHG from AMP to AMP shareholders.

Shares in HHG which would otherwise have been transferred to certain ineligible overseas shareholders (mainly shareholders outside Australia, New Zealand, the UK and the US) will be sold on market, and

these shareholders will receive the proceeds in cash. Details on which overseas shareholders are affected are set out in the Explanatory Memorandum.

1.3 Restructuring of the AMP group

1.3.1 Financial restructuring

A financial restructuring of the AMP group will be implemented as part of the Demerger. As a result:

- AMP will have external corporate debt of around \$2.6 billion, and own 15% of HHG's issued ordinary share capital which it will be required to hold at least until the date of the release of HHG's financial results for the six months to 30 June 2004;
- HHG will have around £59 million (\$148 million) in external corporate debt, its prior liabilities to AMP having been settled, and the balance of its prior external debt having been assumed, by AMP; HHG will increase its direct interest in Henderson to become the majority shareholder, with the balance continuing to be held by the Pearl shareholders' fund;
- the Reset Preferred Securities ("RPS") will be redeemed by AMP out of the proceeds of a rights offer (see below);
- HHG will undertake a £100 million capital raising (see below); and
- all material intra-group guarantees between HHG and AMP will be extinguished.

1.3.2 Redemption of Reset Preferred Securities

If AMP shareholders approve the Demerger proposal, AMP intends that all the Reset Preferred Securities ("RPS") on issue will be redeemed at their face value of \$100 per RPS. AMP will undertake an underwritten non-renounceable rights offer of shares in AMP (the "AMP Rights Offer") to fund the cash redemption of the RPS. The proceeds expected from the AMP Rights Offer are approximately \$1.2 billion, but this may be reduced in certain circumstances. Further information on the AMP Rights Offer will be set out in the prospectus to be sent to eligible AMP shareholders in late October or November 2003.

If the AMP Rights Offer does not occur, AMP will explore other alternatives to redeem the RPS. If an alternative cannot be found, AMP may be required, under APRA guidelines, to convert the RPS into AMP ordinary shares.

AMP has on issue 11,500,000 preference shares ("RPS Preference Shares") which were issued as part of the RPS structure. The RPS are exchangeable into RPS Preference Shares in certain circumstances. If the RPS are redeemed, there is no longer any reason for the RPS Preference Shares to remain outstanding. AMP is therefore proposing to cancel the RPS Preference Shares for nil consideration, which requires the approval of AMP shareholders ("RPS Preference Share Cancellation"). Implementation of the Demerger proposal is not, however, conditional on the RPS Preference Share Cancellation proceeding.

1.3.3 HHG £100 million capital raising

HHG intends to undertake an issue of ordinary shares prior to 30 June 2004 to raise a net amount of at least £100m to complete the recapitalisation of HHG. This may coincide with the listing of HHG on the London Stock Exchange in December 2003 or occur in the first half of 2004. The principal purpose of the capital raising is to move to a majority interest in AMP Invest, the parent company of Henderson.

Support for this fundraising is being arranged with an investment bank ("Bank"). Under the proposed arrangements, the Bank has entered into a commitment with HHG and AMP to subscribe for up to £100 million of convertible loan notes ("CLNs") in HHG. The CLNs will have a yield of 5.5% pa and a maturity of 364 days. It is intended that the CLNs be listed on the London Stock Exchange. On Demerger, the Bank will subscribe for £50 million. If the proposed equity raising is completed prior to 30 June 2004 the £50 million will be repaid and the CLNs cancelled.

HHG has the right to redeem some or all of the CLNs at face value plus accrued interest for cash at any time up to maturity.

If the proposed equity raising has not been completed by 30 June 2004, the Bank will subscribe for the remaining £50m of CLNs. Any CLNs still outstanding at 30 June 2004 (and in limited circumstances before then) can be converted without restriction at the lower of a 5% discount to the prevailing HHG share price or at a price which equals the average of HHG's trading price over its first 20 days of trading. If the CLNs have not been redeemed or converted by the end of the 364-day term, they will be convertible into HHG ordinary shares at a 30% discount to the prevailing market price of HHG shares over the 20 trading days prior to maturity.

The arrangements with the Bank are subject to certain termination provisions, for example, if there is a material adverse change to HHG or certain regulatory clearances are not obtained. To cover this contingency, AMP will provide a standby commitment to subscribe for the CLNs or purchase any outstanding CLNs on issue from the Bank at their face value plus accrued interest. In these circumstances, the restrictions on AMP's ability to sell its shareholding in HHG will lapse. If AMP holds the CLNs to maturity it may elect to convert the CLNs into HHG ordinary or preference shares. The conversion of the CLNs into HHG ordinary shares by either the Bank or AMP should not require any offer to be made to other HHG shareholders.

If these arrangements are terminated and the standby is called, it is possible that (depending upon AMP's overall financial resources at the time, the outcome of asset sales being conducted by AMP and the state of domestic and international financial markets) APRA could require AMP to undertake an equity capital raising to finance this commitment. It is expected that such an equity capital raising would only be required in the event of a series of significantly different outcomes from those currently anticipated.

AMP will meet all costs of the CLNs. HHG will meet the interest charges on the CLNs.

1.4 Important note

The Demerger and the related restructuring are complex and the description of them in this section is a summary only. AMP shareholders should read the Explanatory Memorandum in its entirety before making a decision in relation to the Demerger.

2 SCOPE OF THE REPORT

2.1 Purpose of Report

The Demerger proposal requires the approval of AMP shareholders, as it is being implemented by means of an equal reduction of capital under sections 256B and 256C of the Corporations Act (“Capital Adjustment”) and a members’ scheme of arrangement (“Scheme”) under section 411 of the Corporations Act. The RPS Preference Share Cancellation also requires the approval of AMP shareholders, as it is being implemented by means of a selective reduction of capital under sections 256B and 256C of the Corporations Act.

Sections 256B and 256C do not require that an independent expert's report be prepared in respect of a reduction of capital, although they do require that the capital reduction is fair and reasonable to shareholders as a whole and that it does not materially prejudice the company's ability to pay its creditors (except that this latter requirement does not apply where the reduction involves the cancellation of a share for no consideration, as is the case for the RPS Preference Share Cancellation). Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in respect of a members' scheme of arrangement under section 411. Where there is a common director between the company the subject of the scheme and any other company which is a party to the scheme, this information must include an independent expert's report. The report must state whether the scheme of arrangement is in the best interests of the shareholders of the company that is the subject of the scheme and set out the reasons for the opinion.

Mr Andrew Mohl and Mr Roger (Pat) Handley are common directors between AMP and HHG. Accordingly, the AMP Board has engaged N M Rothschild & Sons (Australia) Limited (“Rothschild”) to provide its opinion as to whether the Demerger is in the best interests of AMP shareholders, and the reasons for that opinion. The AMP Board has also asked Rothschild to provide an opinion as to whether the Capital Adjustment is fair and reasonable to AMP shareholders as a whole, whether it materially prejudices AMP's ability to pay its creditors and as to whether the RPS Preference Share Cancellation is fair and reasonable to AMP shareholders as a whole. Rothschild has also been requested to report on whether the methodology of the adjustment to the exercise price of options issued under the AMP executive and employee option plans is fair and reasonable to AMP ordinary shareholders (“Adjustment Methodology”), and to comment on the effect of the adjustment.

Rothschild has prepared this independent expert's report (“IER”) solely for the benefit of AMP shareholders in order to assist them in considering the Demerger proposal and the RPS Preference Share Cancellation. The only purpose of this IER is to set out Rothschild's opinion, and the underlying reasons, as to whether the Demerger proposal is in the best interests of AMP shareholders, whether the Capital Adjustment is fair and reasonable to AMP shareholders, whether the Capital Adjustment materially prejudices AMP's ability to pay its creditors, whether the Adjustment Methodology in relation to the exercise price of options is fair and reasonable to AMP ordinary shareholders, and whether the RPS Preference Share Cancellation is fair and reasonable to AMP shareholders. Rothschild is independent of, and not associated with, AMP and its remuneration for preparing this report is not contingent upon the outcome of the vote on either the Demerger or the RPS Preference Share Cancellation.

This IER should not be considered as a recommendation to individual AMP shareholders to vote in favour of the Demerger proposal or the RPS Preference Share Cancellation. AMP shareholders should make their decision on how to vote in respect of the Demerger proposal or the RPS Preference Share Cancellation having regard to their own particular circumstances, including risk preferences, tax circumstances and investment strategy. AMP shareholders who are unsure of the course of action they should take in relation to the Demerger or the RPS Preference Share Cancellation should seek their own investment or other professional advice.

This report forms part of the Explanatory Memorandum to be dated 16 October 2003, which is prepared by the Board of AMP. Details of the Demerger proposal and the RPS Preference Share Cancellation are more fully set out in the Explanatory Memorandum (“Explanatory Memorandum”). AMP shareholders

should read the Explanatory Memorandum in its entirety before making their decision in relation to the Demerger and the RPS Preference Share Cancellation.

2.2 Basis of evaluation

The expression “best interests of shareholders” is not defined in the Corporations Act for the purposes of an independent expert's report on a scheme of arrangement. A scheme of arrangement is a flexible mechanism to implement a wide range of corporate reconstructions. The phrase “best interests of shareholders” has, therefore, a wide meaning and should be interpreted having regard to the circumstances of the scheme under consideration.

In considering whether a demerger proposal is in the best interests of shareholders, the independent expert should consider the main advantages, disadvantages and risks of the scheme in arriving at a balanced view on whether shareholders are likely to be better off over time if the proposal is implemented. This evaluation includes an assessment of the key alternatives to the demerger proposal available as at the date of the opinion. The overall assessment is essentially a commercial judgement by the expert of the effect of the demerger proposal on shareholders, the context in which the demerger is proposed and the practical alternatives available as at the date of the opinion.

Some limited guidance on the meaning of “best interests of shareholders” may be obtained from Policy Statement 75 (“PS75”) issued by the Australian Securities and Investments Commission (“ASIC”) which comments on the meaning of “fair and reasonable”. PS75 does not provide a definition of “best interests of shareholders” but implies that it is similar to “fair and reasonable”, which is a concept used in independent expert's reports in the context of takeover offers. PS75 states that “[an] offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer”, and that as “[an] offer is ‘reasonable’ if it is fair. It may also be ‘reasonable’ if, despite not being ‘fair’ but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer”.

The guidance which PS75 provides needs to be read in the context of a demerger, where, unlike a takeover, there is no offer price by a third party to acquire an interest in the company.

In forming our opinion as to whether the Capital Adjustment is fair and reasonable to AMP shareholders as a whole, we have relied upon our analysis as to whether the Demerger is in the best interests of AMP shareholders on the basis of:

- the pronouncements of ASIC set out above;
- the fact that the Capital Adjustment and the Scheme are interdependent elements to effect the Demerger; and
- the fact that the relative ownership interests of AMP shareholders immediately after implementation of the Demerger will be the same as their relative ownership interests immediately before the Demerger (except for certain ineligible overseas shareholders who, for regulatory reasons, are to receive cash rather than shares in HHG).

In forming our opinion as to whether the RPS Preference Share Cancellation is fair and reasonable to AMP shareholders as a whole, we have had regard to the circumstances surrounding the RPS Preference Share Cancellation and its effect on AMP shareholders as a whole, including that:

- the RPS Preference Shares were issued, and remain, unpaid;
- the RPS Preference Share Cancellation is to be for no consideration; and
- the RPS Preference Share Cancellation is conditional on the RPS being redeemed, in which event there is no reason for the RPS Preference Shares to remain outstanding.

The RPS Preference Shares were issued to the trustee of the AMP Reset Preferred Securities Trust as part of the RPS structure to hold on trust for holders of the RPS in the event that the RPS were required, under their terms of issue, to be exchanged into RPS Preference Shares. The holder of the RPS

Preference Shares is a "member" and "shareholder" of AMP and therefore in forming our opinions as to whether the Demerger proposal is in the best interests of AMP shareholders, and whether the Capital Adjustment is fair and reasonable to AMP shareholders as a whole and whether the RPS Preference Share Cancellation is fair and reasonable to AMP shareholders as a whole, we have had regard to the holder of the RPS Preference Shares. If the RPS Preference Shares are cancelled as contemplated by the Explanatory Memorandum, then these opinions will have no practical relevance to the holder of the RPS Preference Shares as the RPS Preference Shares will cease to exist. However, as the cancellation of the RPS Preference Shares is not a condition precedent to the Demerger proposal, the possibility exists that the Demerger proposal will be implemented but the cancellation of the RPS Preference Shares will not take effect.

In forming our opinion as to whether the Adjustment Methodology is fair and reasonable to AMP shareholders, we have had regard to the circumstances surrounding the Adjustment Methodology, and its effect on AMP shareholders as a whole in order to determine whether the Adjustment Methodology confers a material incremental benefit to holders of options to the detriment of AMP shareholders. In forming this opinion, we have been required to have regard to the holders of AMP ordinary shares only.

2.3 Sources of information

Rothschild has reviewed and relied upon the following information in the preparation of this IER:

- contents of the final draft Explanatory Memorandum;
- drafts of HHG listing particulars;
- discussions with AMP management and its advisers and consultants;
- board papers of AMP and certain of its subsidiaries;
- other strategic, commercial and financial papers prepared by AMP and its advisers;
- correspondence and other documents between AMP and regulatory bodies including the Australian Prudential Regulation Authority ("APRA"), the Financial Services Authority ("FSA"), and ASIC;
- annual reports and Investor Reports for AMP for the 12 months to 31 December 2000, 2001 and 2002;
- half yearly reports and Investor Reports for AMP for the six months 30 June 2001, 2002 and 2003;
- Financial Condition Report for 31 December 2002 in relation to AMP Life;
- the AMP Group Actuary's Report as at 30 June 2003;
- strategic plans for AMP and HHG;
- industry data and reports;
- recent press articles on AMP and its industry;
- broker reports on AMP, the life insurance and wealth management industry in Australia and overseas, listed companies in Australia and overseas which are comparable to AMP and HHG; and
- the other expert's reports commissioned by AMP and contained in the Explanatory Memorandum.

As more fully explained in the Appendix to this report, Rothschild has not undertaken independent verification of this information.

2.4 Terms used and exchange rate

Unless otherwise stated, capitalised terms and acronyms used in this report have the same meanings as set out in the Explanatory Memorandum.

Historic exchange rates have been used when appropriate; otherwise a current exchange rate of \$2.5 to £1 has been assumed, unless stated otherwise.

3 THE EXISTING AMP GROUP

3.1 Overview

3.1.1 Business description

AMP Limited is a leading Australian-based financial services company with significant life insurance and wealth management businesses in Australia, New Zealand and the UK. AMP's three core businesses are:

- AMP Financial Services ("AFS"), which includes Australia and New Zealand's largest life insurer and financial planning network;
- UK Life Services, comprising the UK life insurance companies, Pearl, London Life, National Provident Life and NPI; and
- Henderson Global Investors ("HGI"), a fund manager with significant operations in the UK, Europe and Australia.

AMP also owns the Towry Law financial planning group in the UK as well as a number of businesses which can be considered non-core (the "Portfolio Businesses").

AMP Financial Services

AFS competes in the market for financial planning, retail managed funds, risk insurance, retail and corporate superannuation, retirement income products and retail banking. It consists of two main operations – the distribution business comprising 2,100 financial planners in Australia and New Zealand, and a product manufacturing business which provides savings, superannuation, retirement income, investment, risk insurance and retail banking products. These products are distributed by the AFS financial planning networks, third party networks and the AFS direct sales force.

As at 30 June 2003, AFS had over 2.3 million customers and over 3,300 employees in Australia and New Zealand (excluding self-employed financial planners).

UK Life Services

UK Life Services provides investment, savings and life insurance products to customers in the UK holding approximately 5 million policies. It employed about 2,100 employees as at 30 June 2003 and has responsibility for the management and long-term run-off of the closed books of products in Pearl, London Life, National Provident Life and NPI.

Henderson Global Investors

HGI is an international funds management company with around \$240 billion in funds under management ("FUM") as at 30 June 2003. It has a leading position in Australia and New Zealand, managing approximately \$70 billion in assets (second largest), and a significant position in the UK and Europe, where it manages around \$170 billion. HGI also provides a range of investment products to clients in Asia and North America.

HGI's main activities include the management of equities, fixed interest, property and private capital asset classes for a range of retail and institutional investors as well as for UK Life Services and AFS. HGI had 1,444 employees as at 30 June 2003.

Portfolio Businesses

The Portfolio Businesses comprise operations which are considered to be outside AMP's core activities. These include Cobalt and the closed reinsurance and commercial insurance portfolios (principally Gordian and TGI) and Virgin Money, AMP's 50:50 joint venture with the Virgin group. AMP also owns Towry Law, the financial planning group.

AMP has divested a number of portfolio businesses since September 2002, realising approximately \$750 million in proceeds. The businesses which have been divested include Cogent (an investment administration company), a residential mortgage portfolio and retail deposits in New Zealand, UK banking, a credit card portfolio and property finance, rural and construction lending portfolios in Australia. AMP is currently reviewing options to realise greater shareholder value from its remaining portfolio businesses.

3.1.2 Development of the AMP group

Australian icon

Since its establishment in 1848, AMP has become an Australian icon. By the 1980s one dollar in every four spent on life insurance in Australia was paid to AMP.

From its beginnings as a mutual society centered on life insurance, AMP has broadened its offering of financial products and services. The increasing popularity of superannuation as an employment benefit in the 1980s was instrumental in AMP's shift away from pure life insurance and it became Australia's largest provider of superannuation products.

AMP's expansion

Having attained a considerable level of success in the Australian and New Zealand markets, AMP decided in the 1980s to broaden its international operations. The UK's life insurance market at that time had a number of similarities with Australia and had the additional attraction of being Europe's largest market for life and pensions, and the third largest market in the world.

Accordingly, in 1989 AMP acquired the insurance mutual London Life. A year later, AMP acquired control of Pearl via a takeover. Pearl, essentially a home service franchise, was a much larger business than London Life with a focus on providing retirement, savings, investment and protection products for lower and middle income customers in the UK. The acquisitions of London Life and Pearl cost over \$2.4 billion and brought in more than two million new policyholder households over a two year period. In 1995 AMP expanded its financial services activities by acquiring a 50% stake in Virgin Direct (now called Virgin Money). Virgin Money has the global rights to the Virgin brand for the manufacturing and distribution of retail financial services products.

In 1997, AMP's board and policyholders voted for the demutualisation of the AMP group as a precursor to its listing on the Australian Stock Exchange ("ASX"), which followed in June 1998. AMP's market capitalisation upon listing was around \$24 billion.

Henderson plc, a funds management company, was acquired in 1998, again via a takeover, for £382 million (\$961 million). The acquisition was made with the aim of strengthening AMP's existing presence in the UK and creating an operation which would be better able to compete by providing a wider range of products and services. At the time, Henderson plc had £14.3 billion (approximately \$41 billion) of funds under management; subsequently, AMP's existing asset management operations in Australia and the UK were integrated with it to form Henderson Global Investors.

In 1999 AMP acquired NPI on its demutualisation, paying approximately £510 million (\$1.4 billion) to NPI policyholders, and providing capital support of £800 million (\$2.2 billion) on commercial terms. NPI was acquired primarily to give AMP a stronger presence in the independent financial adviser ("IFA") sector. As part of the transaction, NPI was closed to new business and a new company, NPI Limited ("NPIL"), was formed to write new business. In 2002 NPI developed a business servicing employee benefits consultants. NPIL has recently been closed to new business.

AMP has been the target of takeover speculation from time to time, particularly during 1999 – 2000, when the Australian wealth management landscape underwent significant consolidation. In March 2000, it was reported that AMP's then Chairman and the CEO had rejected a takeover offer from National Australia Bank in late 1999; the offer was reportedly at a significant premium to the then share price.

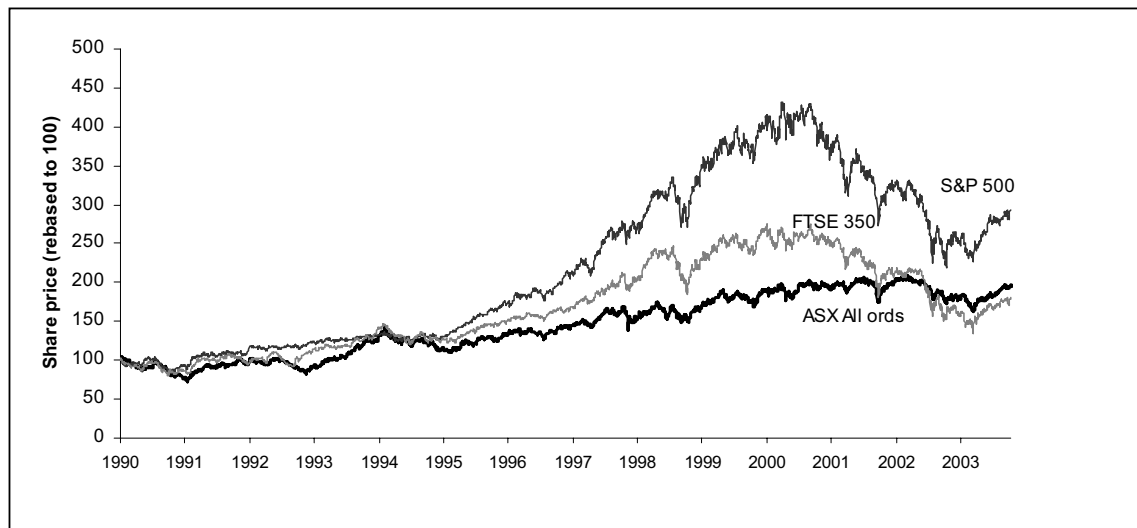
In 2001 AMP acquired Towry Law to further improve the financial planning and distribution capabilities of its UK operations ahead of the anticipated deregulation of distribution in the UK. In the same year, AMP acquired Interactive Investor International to add customers and capability to Ample, the fund supermarket which it had developed in-house.

Whilst expanding the business geographically, AMP also increased its Australian scale and product offering with a hostile off-market takeover of GIO Australia Holdings Limited (“GIO”) in late 1998. AMP initially acquired a 57% shareholding and then bought out the minorities at the end of 1999 for a total cost of \$3.3 billion (including a \$700 million capital injection). GIO’s reinsurance business incurred significant losses during 1999 and AMP closed that business, recording a \$1,208 million abnormal item (consisting of a \$216 million loss and \$992 million writedown) in the 1999 accounts. The GIO and AMP general insurance businesses were subsequently sold to Suncorp Metway Limited in 2001 for \$1.26 billion, with AMP retaining the closed reinsurance and parts of the commercial insurance books of business of GIO and AMP General Insurance (Gordian and TGI).

Life insurance and equity markets

Favourable investment market conditions through the majority of the 1990s together with an ageing demographic profile increased the demand for life insurance and wealth management products, both in Australia and the UK. The operating profitability of life insurance companies was heavily geared to the performance of equity markets and AMP enjoyed substantial growth during the 1990s as the demand for its products was accompanied by rising equity markets.

The chart below illustrates the performance of equity markets since 1990, showing the strong performance experienced by the US and the UK markets during the 1990s, and the decline from 2000 until earlier this year. It is clear that the Australian equity market did not rise as steeply as the UK or US markets, but its decline has not been as severe.



Source: Bloomberg.

Effect of deteriorating equity markets on AMP

Life companies rely on investment income for a significant proportion of their profitability and on asset values for meeting regulatory capital requirements. During the 1990s UK life companies enjoyed the benefits of strong growth in the equity markets and built up considerable levels of surplus funds (“free assets”) over and above those needed to satisfy policyholder liabilities and regulatory requirements. In many cases these funds were augmented by “inherited estates”, which were derived principally from the retention of surpluses from previous years. High levels of free assets encouraged life companies to invest heavily in equities in an attempt to increase returns and provided capital, for companies such as AMP, to

fund acquisitions. During this period AMP invested a considerable amount of Pearl's capital by acquiring, inter alia, Henderson and National Provident.

As the equity market declined and interest rates fell, many life companies experienced a reduction in their financial strength. Companies with with-profits funds, such as Pearl, experienced the greatest strain as a result of guarantees payable to with-profits policyholders and many required capital support from their parent company or raised capital themselves. A number of life funds closed to new business. Pearl itself became unable to meet its required minimum margin ("RMM") during 2002 and AMP injected around \$1.4 billion in additional capital into its UK businesses that year.

Change in UK strategy

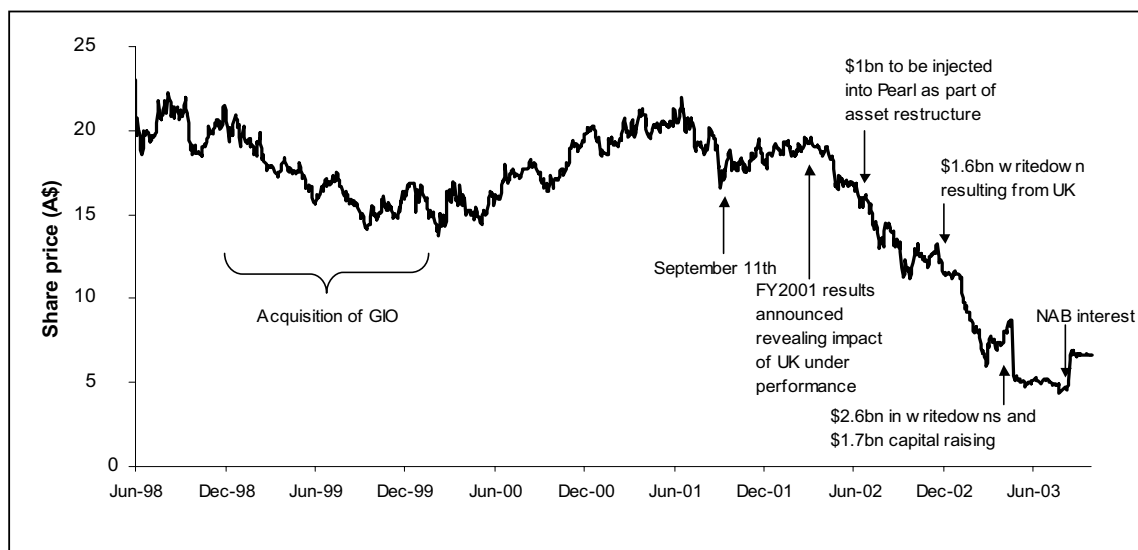
Following the appointment of the current Chief Executive Officer in September 2002, AMP announced a strategic review and a management restructuring. This review resulted in the separation of its UK life insurance operations into two businesses - life funds closed to new business and contemporary businesses which continued to sell products – as well as the sale of the manufacturing of non-Australian banking products. The strategic review had a significant financial impact: AMP incurred a \$1.6 billion charge, in the form of write-downs in the market value of (mainly) UK subsidiaries and provisions for transformation costs, in the accounts for the year to 31 December 2002.

As the equity market in the UK continued to fall, the new management team at AMP was faced with the challenge of managing the deteriorating capital position of AMP's UK life funds and addressing the continuing adverse impact upon the AMP brand in Australia. Management responded by limiting the downside through reducing the life funds' equity positions and by extending the equity derivatives program, while at the same time exploring longer-term strategic options for AMP. As a result, the Board of AMP announced in May 2003:

- the proposed Demerger;
- further write-downs totalling \$2.6 billion in connection with the reduction in value of the UK operations and restructuring provisions; and
- an equity capital raising to facilitate the Demerger through the elimination of financial links between the UK and Australian businesses and the reduction of external debt; this capital raising brought in a total of \$1.7 billion from institutional investors and some retail shareholders.

AMP's share price

The development of AMP's share price since its listing on the ASX in June 1998 is shown below. This reflects the impact of the GIO losses and, from mid 2002 to mid 2003, the significant problems experienced in the UK. AMP's writedowns and losses in relation to GIO and its UK subsidiaries have amounted to approximately \$5 billion. Most recently, AMP's share price has risen as a result of National Australia Bank increasing its corporate shareholding in AMP in late August 2003, and announcing its interest in AMP's Australian and New Zealand operations.



Source: IRESS.

3.2 Historical financial and operating performance

3.2.1 Overview

The table below summarises the key financial and operating performance measures for AMP.

	2000	2001	2002	1H2003
Financial performance				
Net profit after tax (\$m)	1,152	690	(896)	(2,159)
AFS operating margin	346	353	327	172
UKFS operating margin	264	328	211	(18)
HGI operating margin	315	208	192	62
EPS (basic) (\$)	1.05	0.62	(0.79)	(1.75)
Dividends per share ¹ (\$)	0.47	0.51	0.46	0.07
Return on Equity (before other items)	14.3%	7.3%	5.1%	7.2%
Financial position				
Ordinary shareholders' equity (\$m)	8,785	9,520	8,533	7,025
Corporate debt (\$m)	5,278	4,310	3,788	3,347
Debt to equity ratio ²	60%	45%	44%	48%
Interest cover ³ (times)	5.5	4.1	3.5	3.6
Embedded value and value of new business⁴				
Embedded Value (\$m):				
AFS	5,913	6,386	5,270	5,596
UKFS	5,206	4,925	5,658	3,300
Value of new business (\$m):				
AFS	90	188	197	76
UKFS	37	26	37	0

	2000	2001	2002	1H2003
Operating performance				
Total funds under management (\$bn) ⁵	297	301	265	239
Henderson Global Investors – UK/Europe	224.1	226.4	196.3	170.8
Henderson Global Investors – Australia/NZ	76.5	77.0	70.5	70.4
Externally managed	6	9	9	8
Persistency				
AFS	82.0%	83.8%	83.8%	82.5%
UKFS	89%	89%	88%	85.0%
Cost to income ratio	65%	64%	62%	62%

Source: AMP Investor Reports.

Notes:

1. Dividend franking reduced from 100% in 1999 to 15%.
2. Debt to equity defined as Corporate debt (as defined by AMP) divided by ordinary shareholders equity.
3. Interest cover is defined as profit before income tax, other items, interest expense on corporate debt, RPS distribution and depreciation, divided by interest expense on corporate debt before tax.
4. AMP publishes a range of traditional Embedded Values (“EV”) and Values of New Business (“VNB”) based on a range of discount rates. These figures assume a 5% risk discount margin over long term Government bond rates.
5. Funds under management in total do not equal to the sum of UK/Europe and Australia/NZ due to UK/Europe managing some of Australia/NZ's FUM.

3.2.2 Financial performance

The consolidated historical financial performance of AMP is summarised below.

\$m	2000	2001	2002	H1 2003
AFS	346	353	327	172
UKFS	264	328	211	(18)
HGI ¹	315	208	192	62
Total business unit operating margins	949	889	730	216
Discontinuing businesses	34	148	38	30
Corporate office costs	(128)	(102)	(79)	(20)
Total operating margins	831	935	689	226
Underlying investment income	511	506	437	208
Interest expense on corporate debt	(278)	(242)	(230)	(94)
Distribution on RPS	0	0	(13)	(35)
Underlying contribution	1,064	1,199	883	305
Investment income market adjustment ²	106	(532)	(388)	12
Profit after income tax before other items	1,170	667	495	317
Transformation costs & adjustments	3	(8)	(344)	(375)
Asset sales	-	86	234	(54)
Valuation adjustments	-	-	(1,227)	(2,018)
Goodwill amortisation	(21)	(55)	(54)	(29)
NPAT to shareholders	1,152	690	(896)	(2,159)

Source: AMP Investor Reports.

Notes:

2000 includes \$99m non-recurring performance fee from Global Technology range of funds.

This adjusts underlying investment income, from normalised to actual investment income.

In 2001 UK Financial Services and HGI's UK and European operations contributed \$450 million in operating margins (excluding corporate costs), equivalent to around 50% of the total business unit operating margin (excluding corporate costs and Gordian/Cobalt); however, in the first half of 2003 those business units contributed \$2 million, equivalent to less than 1% of the total.

3.2.3 Capital and financial position

Capital resources

AMP's total capital resources as at 30 June 2003 and 31 December 2002 are set out below.

\$m	31 Dec 2002	30 June 2003
Equity attributable to ordinary shareholders		
Share capital	5,001	6,423
Capital reserves	510	510
Foreign currency translation reserve	361	(410)
Retained profits	2,661	502
Total	8,533	7,025
Hybrids (RPS)	1,141	1,140
External corporate debt	3,788	3,347
Total capital resources	13,462	11,512

Source: AMP 1H2003 Investor Report.

Equity attributable to ordinary shareholders declined between 31 December 2002 and 30 June 2003 as a result of the \$2,159 million half year loss and \$771 million decrease in foreign currency translation reserves (due to the strengthening of the \$ against the £). This weakening of the capital base has been partially offset by a \$1,222 million institutional capital raising (at \$5.50 per share) and \$230 million raised through the dividend reinvestment plan and underwriting of the 2002 final dividend. The retail offering of \$500 million was completed post 30 June 2003 at a price of \$4.82 per share.

As at 30 June 2003, AMP also had \$2,596 million in life funds not specifically attributed to shareholder or policyholder interests. AMP believes it is likely that a significant proportion of the unattributed life funds will be utilised to support future bonus distributions to policyholders consistent with their reasonable expectations.

Capital deployment

The allocation of AMP's capital by major businesses as at 31 December 2002 and 30 June 2003 is set out below. Around half of AMP's total capital is held in the UK operations.

\$m	31 Dec 2002				30 June 2003			
	Tangible Capital Resources	Intangibles	Total Capital	MRR	Tangible Capital Resources	Intangibles	Total Capital	MRR
AFS	3,724	495	4,219	2,066	3,591	735	4,326	1,669
UKFS	6,878	1,060	7,938	5,367	4,886	180	5,066	4,158
Henderson	311	1,028	1,339	268	308	798	1,106	264
ACI	121	171	292	58	161	102	263	75
Virgin	370		370		232		232	-
Discontinuing Businesses	896		896	505	766		766	407
Corporate Office	400		400	34	1,160		1,160	4
Inter BU holdings eliminations	(1,992)		(1,992)		(1,407)		(1,407)	
Total capital resources	10,708	2,754	13,462	8,298	9,697	1,815	11,512	6,577

Source: AMP 1H2003 Investor Report.

Notes:

- AMP Financial Services includes AMP Banking.
- Tangible capital resources comprise total shareholder assets invested in businesses less intangibles, shown gross of any holding in another business unit. Intangibles represent EMVONA for HGI, GIO, Arrive Financial Planning, Towry Law, Interactive Investor and NPIL acquisitions and amortised goodwill from acquisition of Pearl, NPIL, GIO and Schroders Property Funds Management. MRR means minimum regulatory requirements. MRR is defined as shareholder net assets being used to meet the minimum capital requirements of all regulatory bodies after taking into account any other resources (eg policyholder retained profits, unattributed equity).

Regulatory capital

The table below sets out AMP's capital by regulatory class (as described by APRA standards) as at 31 December 2002 and 30 June 2003:

\$m	31 Dec 2002			30 June 2003		
	Net Assets	Intangibles	Total Capital	Net Assets	Intangibles	Total Capital
Tier 1	6,920	2,754	9,674	6,350	1,815	8,165
- Equity attributable to ordinary shareholders	5,779	2,754	8,533	5,210	1,815	7,025
- Hybrid (RPS)	1,141		1,141	1,140		1,140
Tier 2	2,080		2,080	1,963		1,963
- Income securities	1,240		1,240	1,240		1,240
- Subordinated debt	840		840	723		723
Total Regulatory Capital	9,000	2,754	11,754	8,313	1,815	10,128
Senior Debt	1,708		1,708	1,384		1,384
Total capital resources	10,708	2,754	13,462	9,697	1,815	11,512

Source: AMP 1H2003 Investor Report.

Equity attributable to ordinary shareholders has declined between 31 December 2002 and 30 June 2003 largely due to the writedown in AMP's UK subsidiaries.

AMP believes that all of its UK life companies and AFS met their required minimum regulatory requirements as at 30 June 2003. Set out below are AMP's best estimates of the free asset ratio ("FAR") for its UK life companies as at 30 June 2003, which is effectively the surplus above the RMM.

	31 Dec 2002	30 June 2003
Pearl	2.7%	1.8%
London Life	2.6%	1.1%
National Provident Life	1.3%	0.4%
NPI Ltd	1.1%	0.7%

Source: AMP.

Note: AMP states that none of its UK life companies except Pearl has any material equity exposures and that the FAR will not be affected by significant moves in equity markets (both positively or negatively). Pearl's equity backing ratio (including property holdings) at 30 June 2003 was 29% (10% in property and 19% in equities).

3.2.4 Operating performance

AMP's traditional embedded value ("EV") and value of new business ("VNB")

The embedded value ("EV") of a life insurer is an actuarial calculation of the economic value of its shareholder capital and the future profits expected to emerge from its existing policies (often called the business in-force). The value of new business ("VNB") of a life insurer is an actuarial calculation of the future profits expected to emerge from the new business written over a specified period (usually 6 months or 12 months).

AMP's historical EV and VNB for each of AFS (excluding AMP Banking) and UK Life Services are set out in the table below.

\$m	31 Dec 00	31 Dec 01	31 Dec 02	30 Jun 03
Embedded Value (\$m)				
AFS	5,913	6,386	5,270	5,596
UK Life Services	5,206	4,925	5,658	3,300
Value of new business (\$m)				
AFS	90	188	197	76
UK Life Services	37	26	37	0

Source: AMP Investor Reports.

Notes:

- AMP publishes a range of traditional EVs and VNBs based on a range of discount rates. These figures assume a 5% risk discount margin over long term Government bond rates.
- There is some double counting in the above figures arising from AMP (UK) plc preference shares held by AMP Life's statutory funds (\$1,164 million, \$1,231 million, \$453 million and zero as at 31 December 2000, 2001, 2002 and 30 June 2003 respectively).

Investment markets and the resultant corporate restructurings in 2002 and 2003 have had a significant adverse impact on both the EV and VNB of the UK operations, notwithstanding net transfers in of £929 million (\$2,286 million) over 2002 and 2003.

Persistency

Persistency measures the extent to which customers' assets are retained compared to the prior year. A lower persistency ratio means that the business has experienced a higher level of outflow in the form of maturities, surrenders and partial withdrawals. There are a number of reasons for a lower persistency ratio from one year to the next, including lower consumer confidence in investment markets, lower confidence in wealth managers generally, and/or the particular life insurer's ability to meet policyholders' liabilities.

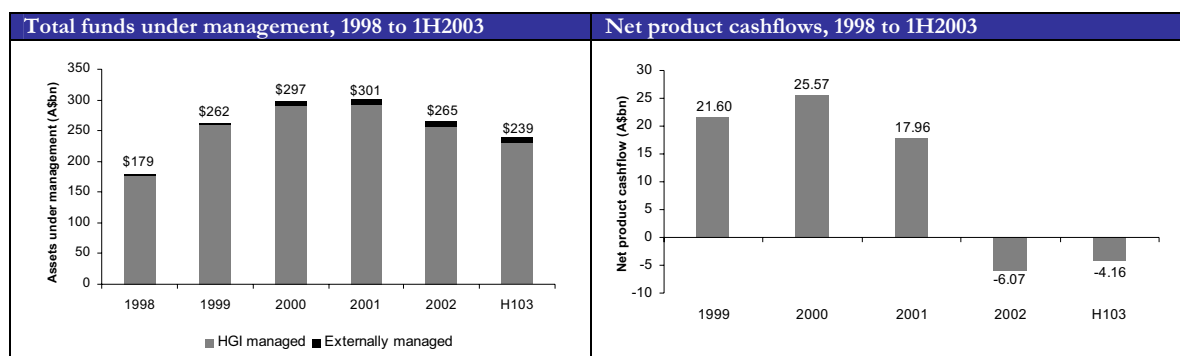
AMP's persistency ratios in Australia and the UK have declined over the last twelve months. It is difficult to separate the reasons for the decline in persistency between AMP specific factors (such as the closure to new business) and general market factors. The persistency ratios are summarised in the table below:

	1999	2000	2001	2002	1H2002	1H2003
Persistency - AFS	84%	82.0%	83.8%	83.8%	84.8%	82.5%
Persistency - UKFS	92%	89%	89%	88%	88.3%	85.0%

Source: AMP (excludes AMP Banking for AFS).

Funds under management ("FUM")

AMP's HGI operations experienced strong growth in FUM over 1998 to 2000, with a cumulative average growth rate ("CAGR") of 29% pa. From the end of 2001 to June 2003, HGI's FUM slowed due to negative market returns and a dramatic slowdown in net inflows. During 2002, redemptions more than offset product inflows.



Source: AMP Investor Reports.

Note: Net product cashflows for India and Japan (2002) have not been included.

Costs

Historic cost to income ratios across each of AMP's business units are set out below.

	2000	2001	2002	1H2003
AFS (exc. AMP Banking)	46%	43%	43%	40%
UKFS	65%	64%	64%	72%
Henderson ¹	70%	68%	69%	83%
ACI	n/a	n/a	n/a	59%
AMP Banking	n/a	105%	99%	98%
Group	65%	64%	62%	62%

Source: AMP Investor Reports

Note: 2000-02 costs for Henderson include Australia/NZ.

Cost to income ratios have declined modestly over the period for AMP as a whole, as management has implemented cost reductions to mitigate revenue declines.

3.3 Capital structure

3.3.1 Fully paid ordinary shares

At 30 June 2003, there were 986,921 holders of AMP's ordinary fully paid securities. The top ten shareholders account for 37.8% of the ordinary shares on issue:

Major registered shareholders at 30 June 2003					
Shareholder				Number of shares	%
1 National Nominees Ltd				114,123,374	8.0%
2 Westpac Custodian Nominees Ltd				113,443,515	8.0%
3 Chase Manhattan Nominees Ltd				91,987,501	6.5%
4 Citicorp Nominees Ltd				65,166,519	4.6%
5 RBC Global Services Australia Nominees Pty Ltd				37,512,703	2.6%
6 Queensland Investment Corporation				30,200,108	2.1%
7 Commonwealth Custodial Services Ltd				24,851,866	1.8%
8 AMP Life Ltd				21,680,667	1.5%
9 ANZ Nominees Pty Ltd				20,805,277	1.5%
10 Cogent Nominees Pty Ltd				16,915,564	1.2%
Total				536,687,094	37.8%
Other shareholders				882,931,899	62.2%
Total				1,419,618,993	100.0%

Source: Computershare Investor Services Pty Limited.

AMP has a large number of retail investors resulting from its demutualisation and listing in 1998. At 30 June 2003, approximately 95% of AMP's shareholders held between 1 and 2,000 shares which represented 33% of issued capital.

Distribution of shareholdings at 30 June 2003					
Categories				Number of shareholders	% of capital
1 - 1,000				824,855	22.2%
1,001 - 2,000				108,935	10.7%
2,001 - 5,000				41,985	8.9%
5,001 - 10,000				7,367	3.7%
10,001 - 100,000				3,526	5.7%
100,001 - over				253	48.8%
Total				986,921	100.0%

Source: Computershare Investor Services Pty Limited.

As at 30 June 2003, AMP had 22,752,535 options granted over unissued ordinary shares. Currently all options are out of the money with an exercise price ranging from \$14.28 – \$20.46 (there are also 484,297 options with an exercise price ranging from £5.25 to £5.75, the majority of which will lapse by the end of October 2003).

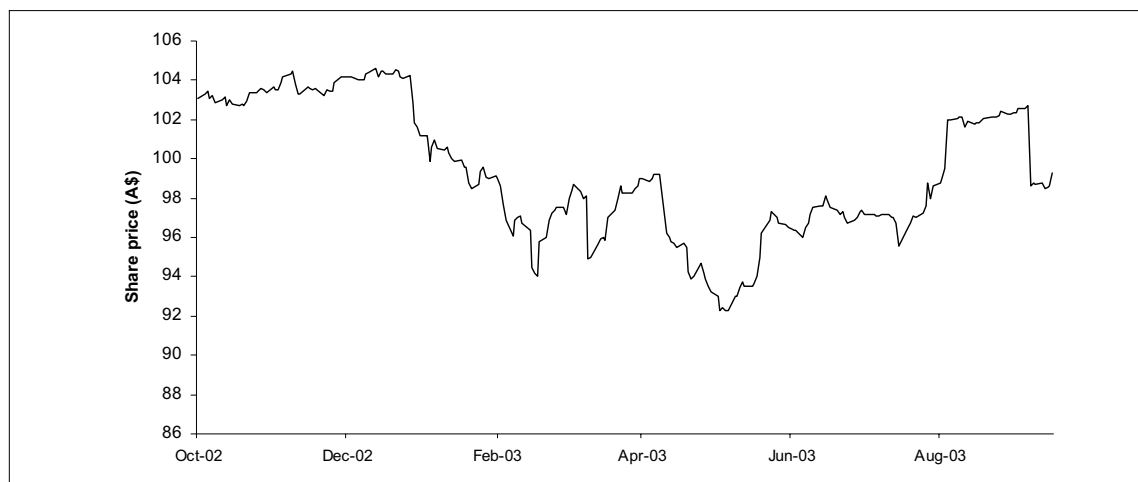
3.3.2 Reset Preferred Securities ("RPS")

AMP had \$1,150 million in RPS on issue as at 30 June 2003 (with a face value of \$100 per RPS). 11,500,000 RPS were issued in 2002 at \$100 each with distributions payable twice yearly in arrears. The annual distribution rate is currently set at 8.62% until the first reset date on 24 October 2007.

Under certain conditions, AMP may cause the redemption of the RPS or require conversion of the RPS into AMP ordinary shares. These include the occurrence of a regulatory event (eg. where there is a change in relevant laws or there is a material risk that AMP is not able to treat all of the RPS as Tier 1 regulatory capital under APRA guidelines), a tax event (eg. where there is a change in relevant tax legislation) or a change in control in AMP.

At each reset date and upon the occurrence of certain specific events, holders of RPS may request conversion into ordinary shares of AMP. The conversion ratio is determined by reference to an average of the daily volume weighted average prices of AMP ordinary shares sold in the 20 trading days immediately preceding conversion. Until the first reset date (24 October 2007) the conversion discount currently available to RPS holders is 2.5% to the prevailing market price (subject to certain conditions).

The graph below shows the trading range of the RPS' since listing in October 2002. As the graph shows, the RPS have been trading at a significant discount to prior levels since the profit warning in January 2003, but recovered in August 2003 following speculation that AMP might redeem the RPS as part of the Demerger proposal.



Source: IRESS.

3.3.3 Perpetual Income Securities

Perpetual Income Security floating rate notes were issued in 1999, with a face value of \$100 per note. The note pays a floating interest rate of 1.3% over the 90 day Bank Bill Rate, reset quarterly in advance. The issuer may redeem the whole or partial amount of the notes any time after 10 February 2005 by repaying the face value.

3.3.4 Debt and credit ratings

As at 30 June 2003, AMP had total external corporate and operational debt of \$6.6 billion, of which \$3.3 billion related to corporate debt with the balance being operational debt attributable largely to funding the banking operations.

\$m	Corporate	Operational	Total
Subordinated bonds/notes	723	420	1,143
Income Securities	1,240		1,240
Subordinated Debt (Tier 2)	1,963	420	2,383
Senior Debt	1,384	1,108	2,492
Deposits-in		1,717	1,717
Other		1	1
Total Debt	3,347	3,246	6,593

Source: AMP.

Note: Excludes operational debt in the UK.

There are two types of credit ratings typically assigned to life insurers – counterparty credit ratings (which measure the overall credit rating of the group/ company) and the insurer financial strength rating (which measures the insurer's ability to meet policyholder liabilities).

Following the \$2.6 billion writedowns announced by AMP on 1 May 2003, Standard and Poor's ("S&P") downgraded a number of AMP group entities on 14 May 2003. In addition, as a result of the uncertainties surrounding the Demerger and the difficult operating environment, these entities were placed on a negative rating outlook. The financial strength and counterparty credit rating for the various entities within the AMP Group before and after the 14 May 2003 announcement by S&P are set out below:

Entity	S&P (post 14 May)	S&P (pre 14 May)
AMP Life (financial strength rating)	A+	AA-
AMP Group Holdings Ltd	BBB+	A-
AMP Bank	BBB+	A-
Pearl Assurance PLC (financial strength rating)	BBB	BBB+
National Provident Life Ltd (financial strength rating)	BBB	BBB+
NPI Ltd (financial strength rating)	BBB	A

Source: Standard & Poor's.

Note: NPI Ltd was downgraded from BBB+ to BBB on 23 June 2003.

As at the date of this report, there has been no change to these ratings following the release of AMP's first half 2003 results on 20 August 2003.

3.3.5 AMP's Position in the Capital Markets

As at 9 October 2003, AMP was the 11th largest company on the ASX by market capitalisation. AMP's significant presence on the ASX is evidenced by its weighting on the various ASX indices. In addition, AMP has a presence in various global indices, encouraging international interest in the Group. The index weightings as at 9 October 2003 are set out below:

AMP weightings Index	Weight (%)
S&P/ASX 200 Insurance	34.61
S&P/ASX 200 Financials ex Property trusts	4.78
S&P/ASX 200 Financials	3.91
MSCI Australia	2.439
MSCI World	0.051

Source: IRESS / ABN AMRO.

4 WEALTH MANAGEMENT OVERVIEW

4.1 Australian / New Zealand wealth management industry

The term “wealth management” has a broad definition and encompasses savings, investments, life insurance and credit products, as well as other services such as financial planning, research and broking. The sub-sectors of the wealth management industry most relevant to AMP's Australian businesses are life insurance, financial planning and funds management.

4.1.1 Life insurance

Key participants

As at 30 June 2003, there were 39 separately registered life insurance companies operating in Australia as part of 34 groups. Six groups – AMP, AXA Asia-Pacific and the four major trading banks (ANZ has a joint venture controlled by ING) – have a combined market share of approximately 80% measured by reference to statutory fund assets.

Statutory fund assets (the assets within the life insurance companies) and total premiums (funds placed with life insurance companies) are often used to measure the size and business generating ability of life insurance groups. The table below sets out the key dimensions of the top six life insurance groups in Australia:

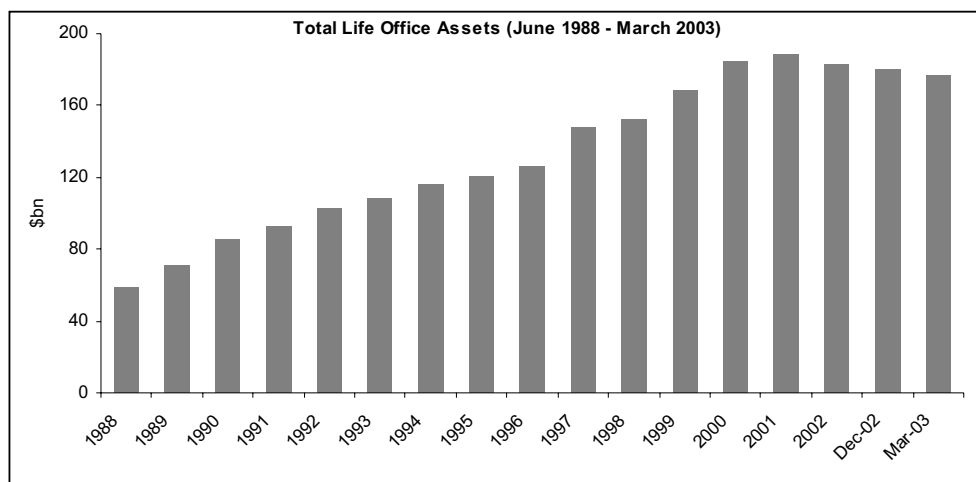
Group	Statutory Fund Assets (\$bn)	Market Share
AMP	52.0	28%
NAB / MLC	32.6	18%
CBA / Colonial	24.5	13%
ING / ANZ	19.3	10%
National Mutual / AXA	17.0	9%
Westpac	11.1	6%

Source: APRA Life Insurance Market Statistics, December 2002.

Group	Total Premiums (\$bn)	Market Share
AMP	8.1	22%
NAB / MLC	6.6	18%
ING / ANZ	4.6	13%
CBA / Colonial	3.7	10%
Westpac	3.2	9%
National Mutual / AXA	2.7	7%

Size of the Australian life insurance market

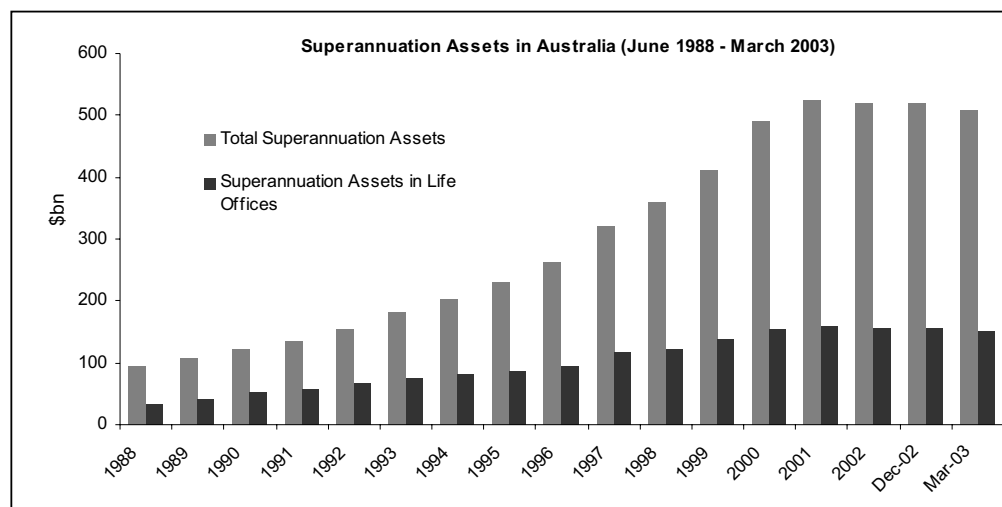
The Australian life insurance industry as at 31 December 2002 managed approximately \$185 billion in assets backing both Australian (\$180 billion) and foreign (\$5 billion) liabilities. The assets backing Australian liabilities have grown at a compound rate of 8% pa since 1988.



Source: APRA's Life Insurance Trends, March 2003.

Superannuation became increasingly popular in Australia in the 1980s, and the life insurance industry became more reliant on superannuation products for new business and asset growth. Superannuation business is now the dominant component of life insurance business in Australia, representing approximately 87% of total life insurance assets as at 31 December 2002 (versus 60% in 1988), and 88% of life insurance premiums in 2002.

Total superannuation assets in Australia exceeded \$500 billion as at March 2003. Approximately 30% of these assets are held in life insurance policies with the remainder in industry, public, corporate and other superannuation funds. Total superannuation assets have grown at over 12% pa from 1988 and superannuation assets held in life insurance policies have grown at over 10% pa since 1988 as shown below:



Source: APRA's Life Insurance Trends March 2003.

Life insurance products

Products offered by life insurers in Australia can be grouped into four main categories:

- Contemporary investment products are investment-linked products (where the amounts paid to policyholders depend upon the investment performance of the underlying policyholder funds), which now represent over 60% of life insurance premiums in Australia.
- Mature (or conventional) products include endowment insurance (where the policyholder pays a regular premium and the insurer pays the sum insured to the policyholder upon death or at maturity date, whichever occurs first) and whole of life insurance products (which are similar to endowment policies but with a longer maturity). Almost all of these policies in Australia and New Zealand are participating, which means that policyholders participate in the profit made by the life insurer. In Australia, at least 80% of the profits arising from participating policies must be distributed to the policyholders. Other mature products include investment accounts and retirement savings accounts (which provide a capital guaranteed return). Most life insurers in Australia no longer write the majority of these products, as they effectively required life insurers to guarantee a payment of a specified amount in the future and/ or are capital guaranteed. The policies in force currently continue to generate significant profits for the life insurance industry.
- Risk products consist mainly of term, trauma and disability and income protection products and represent approximately 11% of total premiums in Australia. Risk products grew strongly in the first half of 2003.
- Annuities and allocated pensions comprise the remainder of the life insurance market in Australia. Growth in annuities and allocated pensions is expected to continue and increase in the future as the "baby boomers" approach retirement.

Recent developments

A major factor affecting the life insurance industry and broader wealth management industry in Australia has been the downturn in global equity markets over the last two to three years. The downturn has resulted in negative investor sentiment, lower asset values and lower or even negative net inflows, placing additional pressure on the profitability of life insurers.

Despite these recent challenges, the long-term outlook for the Australian wealth management industry remains positive. The Australian Treasury's Retirement Income Modelling Taskforce recently forecast growth in superannuation assets in Australia at approximately 8% pa until 2011, when the total superannuation funds are expected to reach \$1 trillion. Key drivers of the growth in superannuation assets continue to be compulsory employer superannuation contributions (currently at 9% of salaries), a tax environment which favours retirement savings and Australia's ageing population. These are not expected to change in the near future. Increasing community awareness and concern regarding financial security in retirement are the other key drivers of the continued growth in superannuation and life insurance products. "Member Choice" legislation (which is being considered by the Australian parliament) could provide life insurers with additional opportunities as more companies outsource the provision of superannuation services.

Historically, the majority of life insurance products in Australia have been distributed through "tied" agency networks (ie. the agents essentially sold only one insurer's products). As open architecture has developed, these agency networks have evolved and currently most life insurance products are distributed via financial planning networks (both aligned or owned dealer groups and independent financial advisers) and bank branch networks.

The additional main trends that have affected Australian life insurance recently include:

- increased concentration in the industry as a result of mergers;
- increasing recognition of financial planners as the most important distribution channel;
- margin pressure;
- continuing popularity of platforms (master trusts and wrap accounts);
- increasing regulatory interest in the operation and capital positions of life companies, particularly on product disclosures, licensing, the quality of advice, transparency of fees, and the quality and quantity of capital; and
- efficiency advancements through technology.

Key earnings drivers for the industry include asset growth and operating efficiency. Drivers of asset growth include brand, distribution network, investment performance and to some extent product innovation and quality of service. Efficiency is mainly achieved through scale and/ or cost control.

4.1.2 Financial planning

Key participants

The financial planning industry in Australia is the distribution engine for wealth management products. In the quarter to March 2003, around 45% of all retail inflows to fund managers were sourced through financial planners. Each of the top four commercial banks, AXA Asia-Pacific and AMP have significant financial planning networks, owning a number of dealer groups. The past few years have seen the major banks and AXA Asia-Pacific building up their financial planning networks organically and via acquisitions.

There were over 14,000 financial planners in Australia in 2002. The top ten dealer groups are shown below:

Dealer Group	No. of FPs 2002	No. Offices	Major Shareholders
AMP Financial Planning	1,470	900	AMP
Professional Investment Services	1,284	806	Private (including Norwich - 9%)
Count Wealth Accountants	1,085	520	Listed (including Lambert family - 24%)
Westpac Financial Planning & Advice	721	na	Westpac
AXA Financial Planning	650	na	AXA Asia-Pacific
Commonwealth Financial Planning	566	993	Commonwealth Bank
Garvan Financial Planning	421	380	National Australia Bank
Charter Financial Planning	357	na	AXA Asia-Pacific
National Australia Financial Planning	321	200	National Australia Bank
ANZ Banking Group Limited	318	232	ANZ

Source: Money Management Top 100 Dealer Groups, October 3, 2002.

The top three life companies and the four major banks own equity in dealer groups with which approximately 50% of financial planners in Australia are affiliated.

Financial Services Groups	No. of FP's 2002
AMP	1,714
National Australia Bank	1,547
AXA	1,154
Commonwealth Bank	981
Westpac	891
ING	619
ANZ	468

Source: Money Management Top 100 Dealer Groups, March 13, 2003.

Note: AMP excludes New Zealand planners, para planners and provisional planners.

Effect of poor equity markets

The Australian financial planning industry has been affected by the poor performance of equity markets. As a result:

- investor demand for equity products has slowed down significantly over the past 18 months;
- as dealer groups and financial planners earn revenues based on a percentage of funds under advice, the profitability of dealer groups has come under pressure accordingly; and
- investors are questioning the quality and trustworthiness of advice provided by financial planners.

This last trend has been illustrated in a recent survey conducted by ASIC on the financial planning industry, which called into question the quality of advice provided by financial planners belonging to a wide range of dealer groups.

Recent developments

In an increasingly open architecture environment, two important developments have been the need by financial planners to offer their clients a range of investment products from a number of different product providers (which has had the effect of increasing the influence of asset and research consultants), and the rise of master trusts and wraps. These are discussed below together with a brief commentary on other recent developments in funds management.

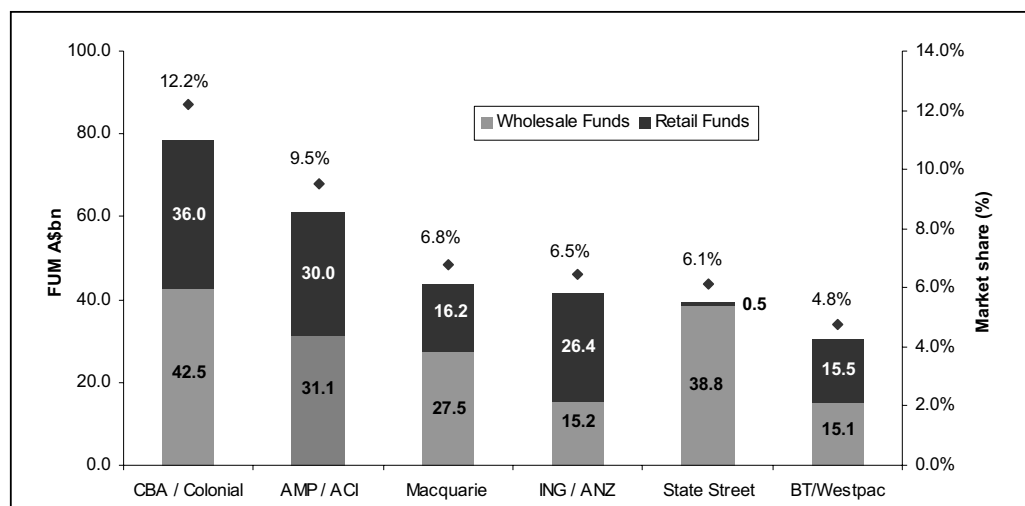
4.1.3 Funds management

Key participants

Fund managers (also called asset or investment managers) are responsible for investing funds on behalf of their clients, both retail and wholesale. Retail funds are sourced mainly from the various platforms (i.e.

master trusts and wraps), unit trusts or directly from individuals. Wholesale funds mainly represent funds managed for superannuation funds and insurance companies.

The funds management sector in Australia can be characterised by a number of large fund managers which offer a broad range of investment services, and a large number of specialist boutique managers. The chart below shows the top six participants in the funds management industry in Australia as at March 2003, setting out each manager's FUM and market share:

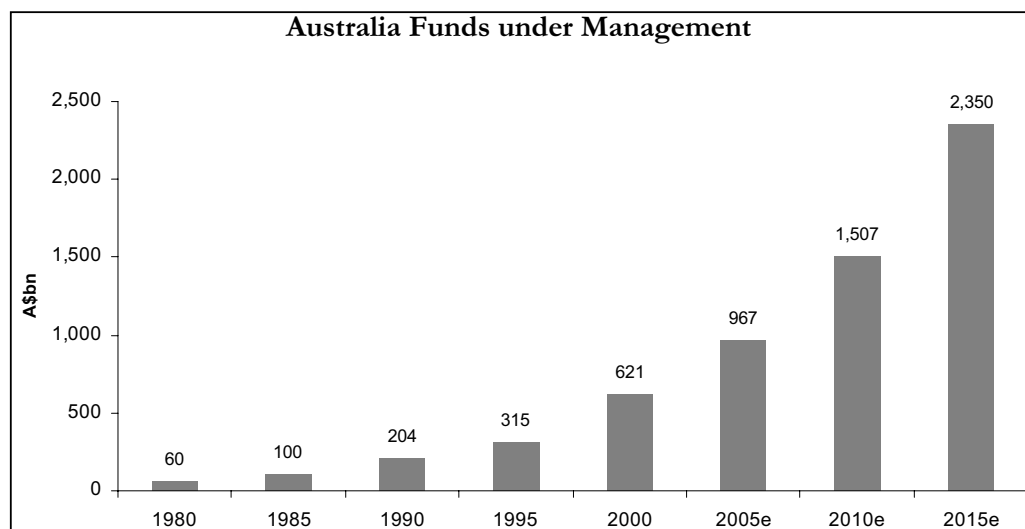


Source: Rainmaker March 2003.

Note: Retail FUM has been calculated by subtracting wholesale FUM from total consolidated FUM as published by Rainmaker.

Industry growth

The funds management industry in Australia has experienced strong growth over the last five years with an annual growth rate of 13% pa. The drivers behind this growth include government initiatives such as the compulsory employer superannuation contribution as well as Australia's ageing population, which has accumulated wealth and is moving away from banking services towards wealth management products and advice. Despite the downturn in global equity markets over the last three years, the strength of these underlying drivers is likely to continue to support long term growth in the market. The Reserve Bank of Australia has recently forecast growth in funds under management of approximately 10% pa from 2002 to 2015.



Source: Reserve Bank of Australia, 2003.

Recent developments

Growth in profitability is largely driven by the growth in FUM and increases in efficiency, providing a strong rationale for recent industry consolidation. Falling investment returns and increased competition over the last few years have, however, resulted in increased margin pressures. Lower margins plus a shift of assets away from equities into lower risk asset classes (ie. fixed interest and cash) where lower fees are typically charged, have resulted in lower profitability for many funds managers. As a result, cost control and increased productivity will play an important part in future earnings growth.

The Australian asset management industry is undergoing a structural transformation that has affected the wealth management value chain. The emergence of master trust and wrap platforms (generally administered by life insurance and other wealth management companies) has been significant for the industry. These platforms have had a significant influence in the development of the open architecture environment in Australian wealth management. Master trusts and wraps allow for greater choice and flexibility for end consumers as well as adding further value to the financial planners' proposition. This is achieved through the platform's ability to offer its customers the services of a number of different fund managers in each asset class. For the year to 31 March 2003, master trust and wrap platforms accounted for approximately 35% of gross retail inflows into the funds management industry. Fund managers are also increasingly being charged a "shelf space" fee for a place on a particular platform putting further pressure on their profitability.

Research and asset consultants play an important part in influencing investment decisions by retail and institutional investors through their ratings of the capabilities and investment performance of fund managers. Industry estimates are that these "gatekeepers" influence a significant majority of all funds invested. Consultant ratings of asset managers are driven primarily by investment performance and internal processes including investment process, internal controls and risk management. Investors therefore look to these external consultants for guidance as to the quality and performance of asset managers, influencing where inflows are directed.

4.1.4 New Zealand

The New Zealand wealth management industry has experienced lower growth compared to its Australian counterpart. The lack of a compulsory superannuation regime to provide growth in retirement savings, together with weak investment earnings in the last three years has resulted in FUM remaining broadly flat since 1999. Looking forward, market observers expect modest growth from the New Zealand wealth management market. Despite this, current market participants are seeking opportunities to increase their scale in an attempt to drive operational efficiencies. Total assets in the New Zealand wealth management industry are currently at approximately NZ\$42 billion (compared to \$636 billion total managed fund assets in Australia as at March 2003).

4.2 UK wealth management industry

4.2.1 Life Insurance

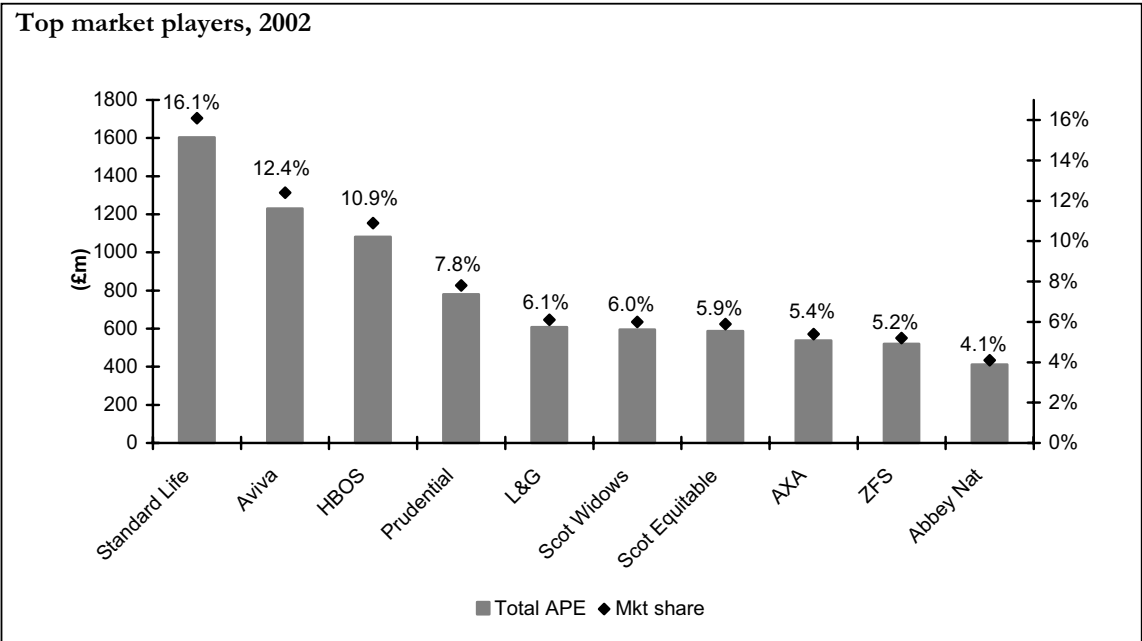
Introduction

The UK life insurance market is the third largest in the world after the USA and Japan. Total premiums per capita in 2001 amounted to £1,691 and life insurance premiums comprised some 10.7% of UK GDP. Total premium income received by UK life companies was £117 billion in 2001, with UK life insurers controlling some £909 billion of funds. As at the end of 2001 there were some 89.5 million policies in force in the UK.

Key market players

The UK market is dominated by a handful of large groups. However, no group has a dominant market share – the largest market share (by new business annual premium equivalent or "APE") is 16%, held by Standard Life, although the top ten groups do control some 80% of the new business market. The chart

below shows 2002 new life and pensions annual premium equivalent (“APE”) and market share of the top ten life groups:

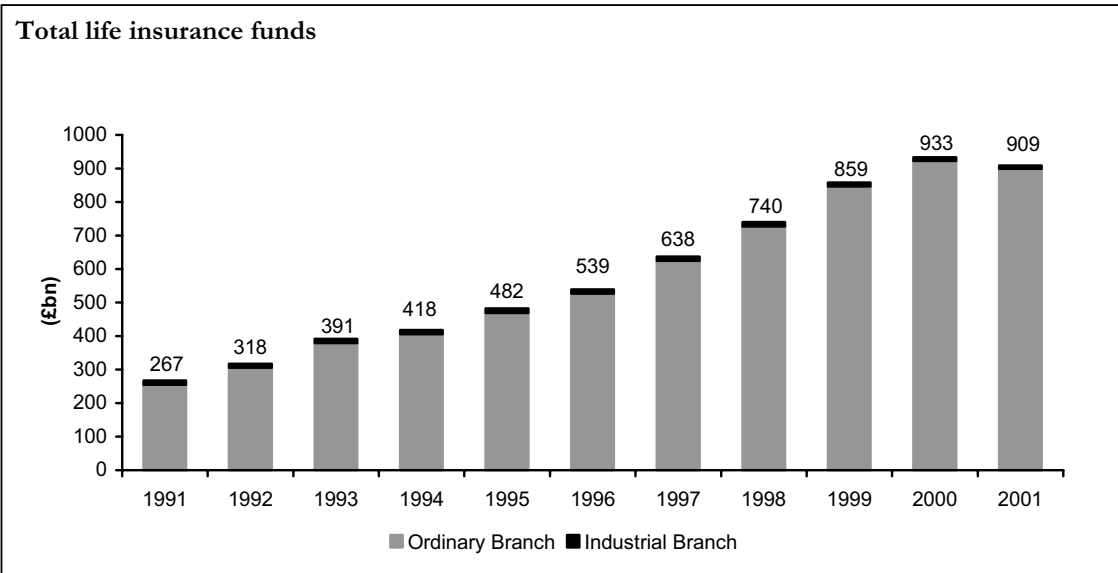


Source: Annual Reports, Association of British Insurers.

The UK listed life companies control some 30% of the new business market. The UK mutuals, which formerly featured strongly in size and new business production, have dwindled in number largely due to the consolidation trend experienced in the last few years (excepting Standard Life, the market leader). In addition, a number of the former mutuals are now owned by banks, eg. Scottish Widows (Lloyds TSB), Scottish Provident (Abbey National), Clerical Medical/Equitable (HBOS) and Scottish Equitable (Aegon).

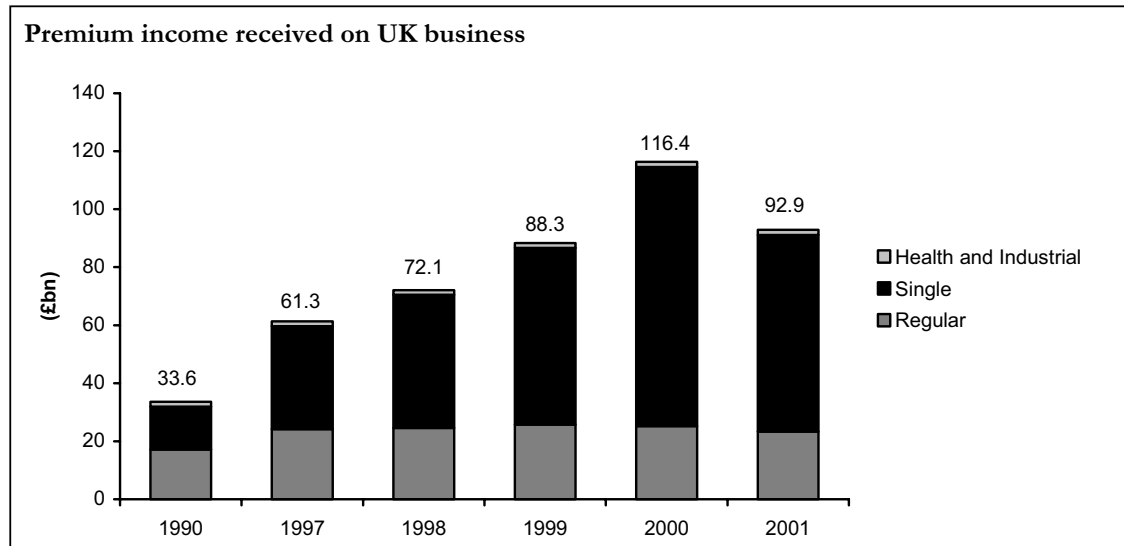
The UK life market

Over the last ten years or so the UK life market has trebled its funds under management, as shown in the graph below:



Source: Association of British Insurers.
Note: Industrial branch premiums relate to cash collected premium business, which is no longer widely sold.

Premiums have increased in a similar manner, with the greatest amount of growth emanating from single premium products. These tend to be investment based products, such as with-profit bonds. The chart below shows the trend:

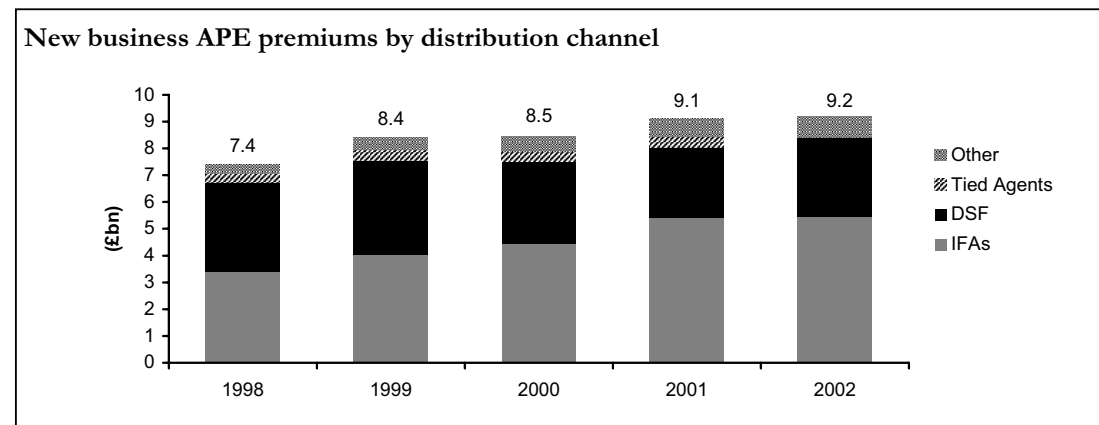


Source: Association of British Insurers

Products and distribution

Products in the UK historically tended to be regular premium participating policies, ie. with-profits policies. These policies provide for policyholders to participate by way of bonuses on a 90:10 basis in the profits, with shareholders receiving as a transfer from the life fund one ninth of the cost of policyholders' bonuses. Increasingly, however, unit-linked and single premium products are being sold. Products comprise life, personal pensions, group pensions, savings and investments (particularly with-profit bonds), critical illness and healthcare. Endowment policies, which were commonly associated with house purchases, have declined in popularity and many life companies no longer write such business. Personal pensions remain a significant part of new business statistics, although protection products have shown good growth.

Products have been sold through a multiplicity of channels including IFA, direct sales forces, bank branches, telesales and off-the-page advertising. The IFA sector has steadily increased its market share and now accounts for some 59% of new business. Direct sales forces, which were important in the late 1980s and 1990s have declined significantly due to the increased regulatory burden of running such distribution – direct sales agents were heavily involved in the pensions mis-selling scandal which has cost the UK industry some £14 billion to redress since the mid 1990s. The graph below shows the relative strengths of UK distribution channels:



Source: Association of British Insurers.

Recent developments

The UK life insurance sector has been subject to increasing legislation and scrutiny in recent years. There have been a number of product mis-selling scandals, such as the sale of personal pensions and, more recently, the sale of endowments. The introduction of stakeholder pensions in 2001 was one of the most significant product developments in recent years and introduced the life sector to a charging rate capped at 1%, which has damaged profitability for a number of life offices. The 1% charging rate has now begun to infect many other products offered in the UK, fuelling general profitability concerns.

The Sandler Review of long term savings products in 2002 was critical of many of the aspects of the UK wealth management sector. In particular, the review criticised the lack of transparency in charging and in product structures (such as with-profits policies) and arguably will hasten the arrival of simpler, more transparent product structures.

By contrast, the issues faced by Equitable Life arising from guaranteed annuity option provisioning alerted the industry to the cost of providing for annuity policies; this problem will continue while interest rates remain low. However, perhaps the biggest issue to have faced the UK life sector is the severely weakened solvency and capital adequacy positions, which most companies face following recent declines in world equity markets. A significant number of groups have obtained regulatory rule waivers from the FSA to help deal with day to day volatility. Some have responded by shifting the equity components of their asset portfolios into fixed interest assets, at the expense of future returns. More crucially, low solvency poses difficulties for life offices selling with-profits products, which provide guarantees in respect of declared bonuses. Some 40 out of 62 with-profits life offices have closed their with-profits funds to new business.

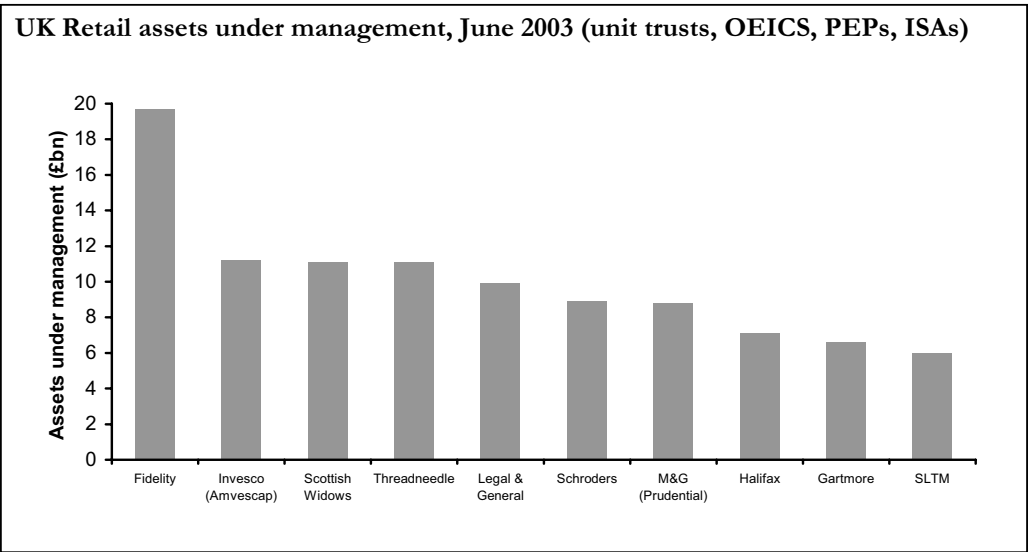
The government's proposed reforms of UK distribution may also change the way the industry sells its products. Currently, product salesmen are either independent (IFAs) or tied to one manufacturer. The proposed reforms will introduce a halfway house whereby distributors such as banks or IFAs can tie to a number of key providers. It is thought that this will help the banks to finally succeed in bancassurance (i.e. the sale of life insurance to a banking customer base) by offering products from a range of providers, perhaps distributing through advice centres. The IFA domination of the distribution market is likely to come under increasing pressure, which should be favourable in the short term for a number of more upmarket players. A further consequence is that some larger IFA firms or networks may be encouraged to tie with a handful of the top life companies, resulting in mid-sized and smaller life companies finding it difficult to secure IFA "shelf space".

Finally, UK life companies' financial reporting and regulatory capital requirements are being reviewed with a view to the production of "realistic" balance sheets by 2004. The FSA has issued a consultation paper, CP 195, setting out its preliminary proposals. This is likely to result in further erosion of life company regulatory capital as previously disregarded liabilities begin to be taken into account in the balance sheet calculations.

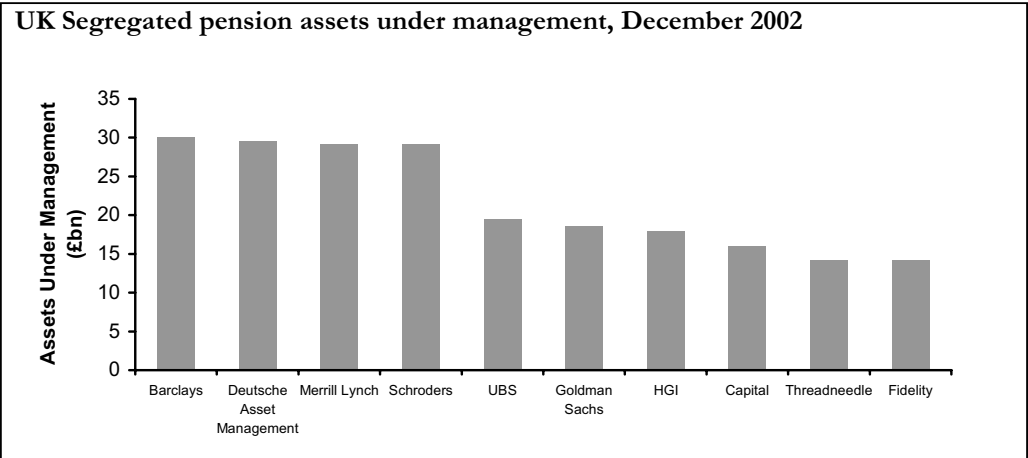
4.2.2 Funds management

Key participants

The UK is the largest investment management market in Europe with approximately £1.4 trillion under management. Approximately one quarter of these assets are in retail (mutual) funds with the remainder of the assets in pension funds or sourced from life insurance products. The sector consists of a mixture of independent funds management organisations (managing around 24% of total assets) and, often larger, funds management operations of banking and insurance groups. The diagrams below show the top ten fund managers of retail assets and segregated pension fund assets in the UK.



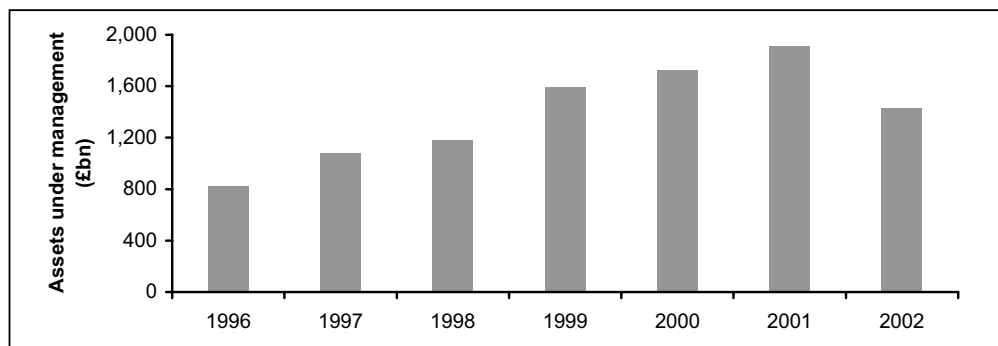
Source: Investment Management Association.



Source: Financial Times.

Industry growth

The UK funds management sector has seen strong growth over the last ten years, driven by, inter alia, rising wealth and – for the latter half of the 1990s – strong growth in the UK stock market. The FTSE 100 grew by approximately 68% over the period December 1996 to December 1999, while total UK funds under management grew by 95% over the same period (equivalent to 24.9% CAGR). UK funds under management continued to rise through 2000 (by over 8%) and 2001, despite the falls in the UK stock market in those years; only in 2002, when the FTSE 100 fell by approximately one quarter, did UK assets fall. The chart below shows the growth in UK assets under management since 1996.



Source: Datamonitor, Boston Consulting Group.

Future growth of UK assets will depend partly on the growth of the stock market which is forecast to show a somewhat lower long-term growth rate than experienced over the period 1998 to 2001. However, strong growth of inflows to investment management firms is expected to continue to be driven by demographic changes, government policies to encourage people to save for their retirement and the well-developed equity culture in the UK. As an illustration of forecast growth, a research house has recently estimated growth of approximately 8% per annum over the next ten years in defined contribution and personal pension assets in the UK.

Characteristics of the market

Asset allocation

53% of UK funds under management are invested in equities. This is lower than the figure in 2000 of 64%, but significantly higher than the global average of 44%. Recent falls in equity markets have led to a slight decline in equity ownership as investors have been attracted by less risky assets such as fixed income, but it is expected that over the long term equities will continue to be the dominant UK asset class.

Distribution

Institutional investment managers dominate the UK asset management sector, managing approximately fifteen times as many assets as the retail sector, though the latter is demonstrating faster growth. Consultants dominate the institutional market, playing a decisive role in the allocation of institutional mandates; it is estimated that the top four consultants have a 70% share of the market.

IFAs dominate the distribution of retail funds in the UK, accounting for approximately 60% of new business sales. IFAs have increased their share of the market rapidly since 1996, while other distribution channels have generally seen flat sales and hence falling market shares. The other key distribution methods are tied agents, direct sales and salesforces.

Products

Institutional mandates in the UK are commonly segregated, pooled, specialist or balanced. In a pooled structure, funds from various mandates are managed together under common investment guidelines. This generally attracts lower fees than a segregated mandate, where a client's funds are managed separately from others under their own guidelines. Both segregated and pooled mandates can be either specialist or balanced depending upon whether the mandate consists of one or multiple-asset classes.

Retail funds exist in the form of either unit trusts or open-ended investment companies ("OEICs"). More recently, PEPs ("personal equity plans" – a government-sponsored tax efficient personal savings vehicle), now replaced by ISAs ("Individual Savings Account") have become the common investment structure as the government has promoted tax-efficient saving for individuals.

Recent trends

The experience of UK asset managers over recent years has not been dissimilar to managers in Australia, with their profitability linked tightly to the movement in the stock market and hence the level of assets

under management. The rise in equity markets through the second half of the 1990s, increasing awareness amongst the UK population of the need to save for their retirement and the increasing popularity of tax-efficient retail saving products all served to rapidly increase assets under management.

This growth encouraged investment managers to develop their operations and resulted in a significant level of consolidation in the UK (and worldwide) in the period 1999 to 2001 through corporate acquisition as existing, and new, fund managers looked to increase their share of the market. Given the heavy gearing of fund managers' profitability to assets under management, the period saw a significant improvement in the profitability of fund managers and hence their perceived value.

The forecast lower rate of market growth is anticipated to play a significant role in the shaping of the industry. To be successful, fund managers will need to be able to demonstrate an ability to maintain an efficient cost base while maintaining consistent growth in their assets under management and hence revenues. It is expected that this will drive continued consolidation as firms look for greater economies of scale. Meanwhile, as private investors seek greater diversity in their portfolios, it is likely that successful firms will increasingly offer a flexible and wide range of alternative products, e.g. hedge funds, to satisfy demand.

4.3 Regulation and Supervision

Australia

Australian life insurance companies are regulated prudentially by the Australian Prudential Regulation Authority ("APRA"), which administers the Life Insurance Act 1995. The primary purpose of this legislation is the protection of the interests of the owners and prospective owners of life insurance policies. The Life Insurance Act requires life insurance companies to among other things conduct life insurance business in statutory funds and satisfy capital adequacy and solvency requirements which are set out in the Life Insurance Act.

APRA also supervises the superannuation industry pursuant to the Superannuation Industry (Supervision) Act 1993, general insurance industry pursuant to the Insurance Act 1973 and authorised deposit-taking institutions pursuant to the Banking Act 1959.

The financial planning and funds management industry is regulated by the Australian Securities and Investments Commission ("ASIC"). ASIC also regulates Australian life insurance companies. ASIC administers the Corporations Act 2001 ("Act") and in particular chapters 5C and 7 of the Act that deal with managed investments schemes and licensing of financial service providers.

In 2002 the Act was amended by the Financial Services Reform Act ("FSR Act"). The introduction of the FSR Act significantly impacts the financial services industry. The increased regulation and increased administrative duties have been significant contributors to industry consolidation over the last few years. Broadly, the FSR Act:

- introduced broadly uniform regulation of all financial products;
- implemented a single licensing framework for financial services providers;
- established minimum standards of conduct for financial services providers dealing with retail clients; and
- established broadly uniform disclosure obligations for all financial products provided to retail clients.

The Financial Sector (Shareholdings) Act 1998 imposes a 15% shareholding limit in financial sector companies (authorised deposit-taking institutions and authorised insurance companies including holding companies). The Federal Treasurer may approve a higher percentage limit on national interest grounds.

United Kingdom

Life insurance and funds management in the UK are both regulated by the Financial Services Authority ("FSA"). Formerly regulation occurred under the Insurance Companies Act 1982, with the sale of investment business governed by the Financial Services Act 1986. With effect from 1 December 2001, both areas became regulated by the FSA under the Financial Services and Markets Act 2000 ("FSMA"). The FSMA established the FSA with the objectives of:

- maintaining confidence in the UK financial system;
- promoting public understanding of the financial system;
- protecting consumers; and
- reducing the incidence of financial crime.

The FSA now incorporates some nine separate regulatory bodies which formerly oversaw different areas of the financial services market, including the Insurance Directorate of HM Treasury and the Personal Investment Authority.

A key feature of the FSA's approach to regulation is the assessment of the risk which a particular firm or activity poses to the FSA's statutory objectives – accordingly it tends to concentrate its efforts on high risk firms or activities. This is known as "risk-based" supervision and the FSA has introduced a standard risk assessment process for all regulated firms.

The Interim Prudential Sourcebook is the main part of the FSA Rules which sets out the framework for the prudential supervision of insurance companies. It largely restates the provisions of the former Insurance Companies Act.

In March 2003 the FSA published draft proposals in Consultation Paper 173, which propose to alter the way in which investment management firms and their subsidiaries will be treated for regulatory capital purposes. The proposed regulations will have the effect of treating groups of related companies on a consolidated basis, rather than individually – which is the current approach. While these regulations have not yet come into force, it is expected that their effect will be to require many investment groups to raise substantial amounts of additional capital.

CP 195 was published in August 2003 and contains the FSA's proposal for, inter alia, capital requirements and provisioning for liabilities. CP 195 is currently an industry consultation paper. Once industry responses have been received the FSA is expected to issue a policy statement in early 2004, with the implementation of the new rules to take place later in the year. One key thrust of CP 195 is the "twin peaks" approach of assessing the capital adequacy requirements for firms conducting with-profits business. This requires firms to undertake a "realistic" assessment of their liabilities to determine whether an additional capital buffer, on top of statutory mathematical reserves, is required in order to cover expected discretionary bonus payments and to allow for major risks, such as market, credit and persistency.

4.4 Differences in Australian and UK wealth management

There are important differences between the Australian and UK wealth management markets. These include the issues set out below.

Product

Both Australia and the UK historically sold participating, with-profit life and pensions products. Over the last ten years both markets have experienced a trend towards unit or investment linked products. These have particular attractions for product manufacturers as the absence of guarantees permits a significantly lower degree of reserving for products sold, which reduces the amount of capital required to meet regulatory requirements.

However, while the bulk of new business sold in the UK remains with-profit, the Australian savings market has moved towards investment-linked products, much like the US mutual fund market. The bulk of such product sales are made through master trust or wrap platforms, which allow investors to select products from a range of investment managers. These platforms are not widely available in the UK market.

The pensions markets contrast more starkly. Australia moved to a compulsory and largely employer-funded superannuation scheme in 1992, which now represents one of the main drivers of long-term savings growth in Australia (excluding investment products). The UK has not yet moved to a mandatory regime – the introduction of stakeholder pensions in 2001 as a supplement to the state pension scheme is the closest the UK has come to emulating Australia's experience. UK stakeholder schemes have not yet seen significant take-up.

Distribution

During the 1990s Australia moved much more quickly away from sales-force led distribution towards independent third party advice, now the largest source of new inflows. The UK has followed suit more slowly, with IFAs steadily increasing market share each year, and the reducing emphasis on large direct sales forces only happening in the last three or four years.

Open architecture product structures, well advanced in their development in Australia, as in the US, are still in their infancy in the UK, although more manufacturers are offering this option. As a consequence of a further developed open architecture environment, Australian financial planners have adopted an advice-led model to assist their clients in their purchasing decisions.

The recent move in the UK towards “depolarisation” of distribution and the acceptance of multi-ties amongst distributors follows a model already prevalent in Australia. Depolarisation refers to the reform of the regulatory system surrounding the sale of long term and other investment products in the UK. Currently, distributors of products are either independent, that is tied to no particular product provider (“IFAs”), or exclusively tied to one manufacturer (“tied agents”). CP 121, the government's consultation paper, proposes to amend this to allow “multi tied” advisers to sell products from several providers rather than just one.

Regulation

The UK market has become a heavily regulated market in which to sell or distribute long-term savings products. The FSA has taken an increasingly close look at existing business practices and has focussed on regulating the sale of inappropriate products (starting with the investigation into pensions mis-selling in the late 1990s), the sales process and those who sell products. Recently the FSA has been particularly involved with most life companies as they struggle to maintain regulatory capital levels as a result of weaker equity markets.

Like the FSA, APRA has recently taken a more intrusive stance in fulfilling its prudential supervisory role, particularly after the collapse of HIH, a general insurer, in 2001. The Australian government has adopted a regulatory approach that focuses on licensing and disclosure.

5 AMP AFTER THE DEMERGER

5.1 Overview

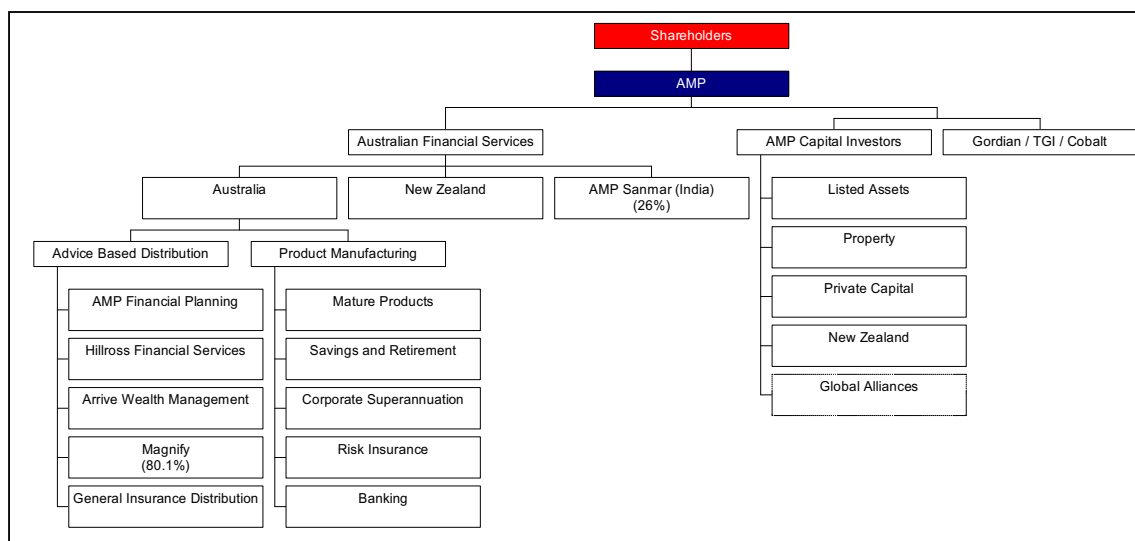
After the Demerger, AMP will consist of the existing AMP group's two main businesses in Australia and New Zealand, namely AFS (including AMP Bank), and HGI's Australian and New Zealand operations (to be renamed AMP Capital Investors, "ACI"). It will also include Cobalt and the closed reinsurance and commercial insurance portfolios (principally Gordian and TGI), which are under strategic review by AMP.

AMP will own 15% of HHG's ordinary share capital. This holding will be subject to an escrow arrangement which may require AMP to hold these shares until at least the release of HHG's financial results for the six months to 30 June 2004.

AMP will continue to be listed in Australia and New Zealand. It is expected to be in the top 50 largest companies on the ASX by market capitalisation, and as a result will be included in the main benchmark indices used by fund managers and institutional investors.

Corporate structure

A simplified corporate structure diagram of AMP following the Demerger is set out below:



Source: AMP.

Note: Legal structure of the AMP Group after the Demerger differs from the operational structure summarised above.

Key financial dimensions

The key financial dimensions of AMP after the Demerger and its associated restructurings are set out below:

Metric	
AFS Traditional Embedded Value	\$5.4 – \$6.1bn
ACI Funds Under Management	\$70bn
Pro forma forecast 2003 operating margin (after tax)	Low High
- AFS (incl. AMP Bank)	\$347m \$383m
- ACI	\$63m \$65m
Capital	
- Ordinary equity	\$3,400m
- Hybrid securities (incl. subordinated debt)	\$1,745m
- Senior debt	\$882m

Source: AMP. All figures as at 30 June 2003, except as noted.

Note: Traditional EV excludes AMP Banking and is based on discount margins of 6-3% over long term Government bond rates.

5.2 AMP Financial Services ("AFS")

5.2.1 Overview

AFS will be the largest operating unit of AMP. It consists of two main businesses – advice based distribution through 2,100 financial planners in Australia and New Zealand, and the manufacture of savings, investment, risk and retail banking products for distribution by its own distribution arm and third party distribution channels. AFS' Australian operation provides life insurance, superannuation, retirement income and banking products, distributes general insurance and other third party products and provides financial planning services. AFS also has a significant life insurance and financial planning operation in New Zealand as well as a 26% equity stake in a life insurance operation in India.

Sources of AFS revenues

AFS has a number of sources of revenue:

- participation in profit margins released from mature products;
- manufacture or packaging of investment products (this is usually a master trust or wrap platform);
- manufacture or packaging of other products, including risk products;
- ownership of the dealer group; and
- rebates from asset managers who pay AFS if its customer decides to invest in products provided by these managers.

Market share and business flows

AFS is the largest life insurance company in Australia both by assets backing life insurance liabilities and by total premiums. It offers a broad range of products and has the largest distribution network in the country. Its market share for selected products is shown below:

Product type	Market rank	Market share (%)
Total retail managed funds	3	11%
Superannuation	1	17%
Retirement Income	3	12%
Master Funds	2	13%
Unit trusts (ex. CMT)	9	4%
Individual risk	4	11%

Source: Plan for Life, June 2003. Individual risk figures – Plan for Life, March 2003.

Note: Retirement Income includes allocated pensions and annuities, immediate annuities and allocated pensions master funds. Master Funds are a subset of the superannuation, retirement income and unit trust categories.

AFS' total new business flows by product type and by geographic region for 2002 and the six months to 30 June 2003 are shown below:

New business (\$m)	FY2002	1H2003
Australia:		
Savings and Retirement	4,673	1,787
Corporate Superannuation	2,013	855
Risk	523	241
Mature Products	855	317
Advice Based Distribution Products	809	299
	8,873	3,499
New Zealand	495	195
Total	9,368	3,694
Banking (Mortgages)	1,665	910
Banking (Deposits)	1,184	251

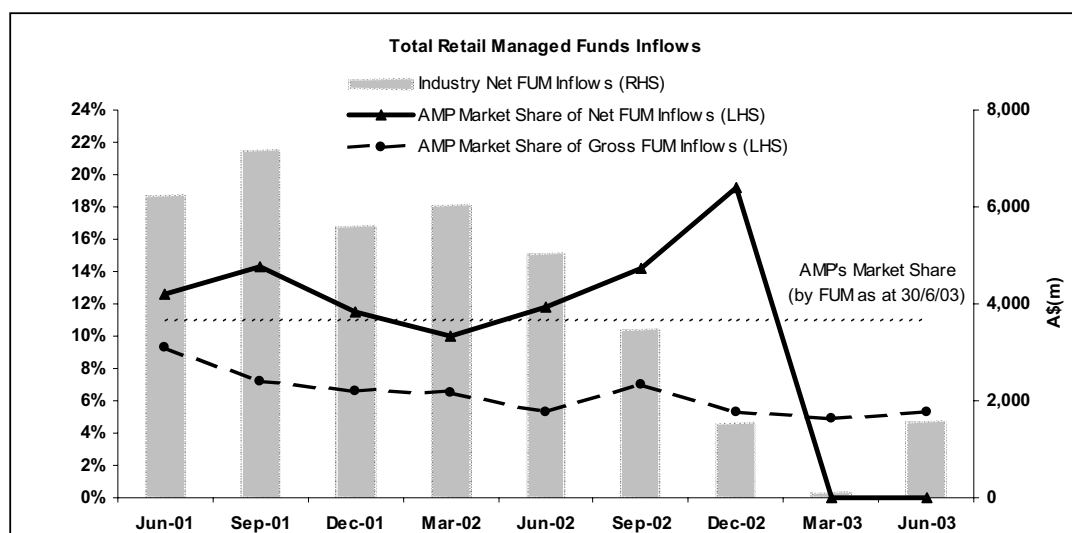
Source: AMP.

Note:

1. A multiple of 10 has been applied to convert Risk annual premiums to New Business.
2. Advice Based Distribution products refers to PortfolioCare – externally manufactured products earning platform fees.

The AFS market share of both gross and net retail inflows in the two years to June 2003 is set out in the chart below. The following points should be noted:

- industry-wide gross and net retail inflows have fallen substantially since June 2002;
- the AFS share of industry gross inflows has fallen from 6.0% in 2002 to 5.1% in the first half of 2003;
- the AFS share of industry net inflows (gross inflows less redemptions) held up well up to and including the December 2002 quarter;
- the first half of 2003 has, however, seen a substantial decline in the AFS share of net inflows, being close to zero for the two quarters;
- the cause of this substantial decline was the fall in the AFS market share of gross inflows (as AFS redemptions remained in line with the market).



Source: Plan For Life, June 2003.

Note: Fund flow information above includes AMP's mature book. Net Inflows in the March 2003 quarter were negative at -\$17 million and marginally positive in June 2003 quarter at \$1 million.

5.2.2 Advice based distribution

AFS' financial planners

The distribution operations of AFS currently consist of three established dealer groups and one new dealer group, which are described below. All dealer groups are 100% owned by AFS (with the exception of Magnify which is 80.1% owned); most of the financial planners are self-employed. AFS' distribution model is based on having multiple dealer groups targeting the various market segments (i.e. mass market, mass affluent and high net worth).

Dealer Group	Financial planners	Description
AMP Financial Planning in Australia and AMP in NZ	<ul style="list-style-type: none"> Australia – 1,443 financial planners and 32 Bank Mobile Lenders New Zealand – 364 financial planners 	<ul style="list-style-type: none"> Mostly self employed Key product is AFS' FLS (master trust) Will distribute eWrap product (provided by Asgard) Targets mass affluent and mass market
Hillross Financial Services	<ul style="list-style-type: none"> Australia – 251 financial planners 	<ul style="list-style-type: none"> All self employed Key product is Asgard's PortfolioCare Targets mass affluent and mass market
Arrive Wealth Management	<ul style="list-style-type: none"> Australia – 22 financial planners 	<ul style="list-style-type: none"> All employed planners Targets high net worth market

Dealer Group	Financial planners	Description
Magnify	<ul style="list-style-type: none"> New venture (commenced August 2003) 	<ul style="list-style-type: none"> Jointly owned with PricewaterhouseCoopers Targets Chartered Accounting practices 80.1% owned by AMP

Source: AMP. The total number of planners is over 2,100 (including bank mobile lenders, excluding provisional planners and paraplanners).

AFS has active retention and succession strategies in place with regards to its dealer groups. These include the Buyer of Last Resort ("BOLR") arrangements with self employed financial planners of AMP Financial Planning. Under these arrangements the planner may sell all or part of his/her business (i.e. the entitlement to the distribution revenues) to AMP provided certain business conditions are met. AMP may then on-sell this business to another planner. Planners who sell their business to AMP undertake not to re-enter the industry for three years.

Key source of new business growth

Over 80% of AFS new business flows in Australia are obtained through its financial planning network. The remainder is sourced via AFS' salaried corporate superannuation sales team, external advisers and brokers and a small amount from direct distribution such as call centres and the Internet. New business inflows by distribution channel are summarised below:

New business (\$m)	FY2002	1H2003	% (1H 2003)
By distribution channel:			
Australia:			
AMP Financial Planning	5,931	2,375	64.3
Hillross Financial Services	1,117	486	13.2
Arrive	-	-	-
Third party distribution	888	350	9.5
Corporate Superannuation	780	204	5.5
Customer Communications Centre	157	84	2.3
	8,873	3,499	94.7
New Zealand	495	195	5.3
Total	9,368	3,694	100.0

Source: AMP.

Note: Arrive did not distribute any AMP products since acquisition on 1 July 2002 to 30 June 2003.

Products and services

The AFS distribution arm provides financial planning advice to its clients. This is complemented by a range of financial products manufactured by both AFS and other parties including:

- wealth management and select banking products (deposit accounts and mortgages) from the AFS product manufacturing arm;
- wealth management and other banking products from external suppliers under third party brands; and
- general insurance products from external suppliers under the AMP brand and third party brands.

5.2.3 Product manufacturing

The product manufacturing operation is the principal source of earnings for AFS. The majority of the products distributed by AFS' dealer groups are provided by AFS, with the main exception being Hillross's key product, a master trust called PortfolioCare manufactured by Asgard (a business unit of St George Bank Limited). The manufacturing division of AFS is split into five separate units: mature products, savings and retirement products, corporate superannuation, risk products, and banking.

Mature Products

AFS no longer actively markets mature products, and hence new business volumes are relatively low. Mature products include endowment insurance, whole of life insurance, investment accounts, rollover

funds, closed investment linked products and retirement savings accounts. Most of the mature products guarantee a payment of a specified amount in the future and/or are capital guaranteed.

AFS historically wrote substantial amounts of these products and has a large portfolio of in-force mature life insurance assets, some of which is in run-off (i.e. closed to new business). The book of mature products contributes significantly to the assets and operating margins of AFS, but consumes more capital. As at 30 June 2003 assets backing mature product liabilities were at \$19.6 billion.

Management of balance sheet risks is an important part of the run-off process. Given the guaranteed nature of mature products, asset/liability mismatches can cause earnings to be volatile.

Savings and Retirement

Savings and retirement products are one of the fastest growing areas in the wealth management industry in Australia. These products include personal superannuation, allocated pensions, term and lifetime annuities, investment funds and others. This growth is linked to the strong growth in superannuation assets over the last decade, which has been fuelled by compulsory superannuation and an ageing population. Savings and retirement FUM of AFS as at 30 June 2003 were approximately \$18.6 billion. These products contributed almost 50% of new business for AFS for the six months to 30 June 2003.

AMP Flexible Lifetime Super ("FLS") is a master trust and is AMP's flagship product for retail clients. Master trusts and wrap platforms combine transaction, administration and reporting services in one package. They also allow customers the choice of a broad range of investments through a range of fund managers (with the exception of non-discretionary master trusts). Master trust and wrap platform products have grown at approximately twice the overall market rate over recent years, as their flexibility to allow investors to invest in a broad range of products from a range of funds managers is increasingly important in an open architecture environment.

FLS is distributed by AMP Financial Planning (with a significant percentage of new business written directed into FLS) and has seen significant growth over recent years. FLS offers a choice of 16 different fund managers including ACI. ACI currently secures a large proportion of inflows into FLS. AFS has recently reached agreement with Asgard to distribute a wrap product manufactured by Asgard (called "eWrap" by AFS), which will replace the existing wrap product provided by AFS. AFS will receive an annual fee from Asgard based on FUM. Hillross currently distributes the PortfolioCare master trust product (provided by Asgard) on which AFS also levies an annual fee based on FUM.

Corporate Superannuation

Total corporate superannuation FUM in Australia was estimated at around \$70 billion in 2002. The trend in Australia and New Zealand over the last few years has been for companies to outsource the provision of superannuation services to third party providers. Member Choice legislation, which is currently being considered by the Australian parliament, is likely to result in more companies outsourcing these services. AFS is the largest provider of corporate superannuation services in Australia, which are usually provided as a package of administration, insurance and investment products. AMP Custom Super is the key master trust product offered to AMP's corporate superannuation clients.

Corporate superannuation assets of AFS as at 30 June 2003 were at \$6.2 billion.

Risk Insurance

Risk insurance products consist of term life, disability, crisis, income protection and business overhead insurance. AFS has experienced increased demand for these products over the past twelve months. AFS believes that contributing factors to this growth have been the full service advice provided by AMPFP and Hillross to their clients and the increasing importance of risk products as part of an individual's wealth plan. With investment markets delivering lower returns, individuals are showing an increasing demand for protection products.

Risk products can be individual or group. Group products are usually provided as options in the corporate superannuation package.

Banking

AFS exited the manufacturing of certain of its banking products during late 2002 and 2003. AFS, through AMP Bank, continues to provide residential mortgages and retail deposits in Australia. As at 30 June 2003 AMP Bank had \$1.7 billion in deposits and \$5.3 billion in mortgages. New deposits and mortgages for the six months to 30 June 2003 were at \$251 million and \$910 million respectively.

It is intended that the majority of mortgage lending will be funded through off balance sheet securitisation vehicles. AMP Banking is currently investigating the opportunity to reduce operating costs through outsourcing certain business processes (e.g. mortgage processing, transaction services, customer communications etc.) to external parties. A decision is expected later this year.

5.2.4 Other

New Zealand

AFS is the largest life insurer and wealth management company in New Zealand. AMP's focus in New Zealand is on risk products, corporate superannuation and traditional savings products. New business flows are lower than in Australia.

AMP Sanmar

AFS launched a joint venture with the Sanmar Group, an industrial conglomerate based in southern India, in early 2002. AFS has a 26% equity stake in the joint venture. AMP Sanmar manufactures and distributes traditional life insurance products in India. The joint venture has an agency force of approximately 3,000 advisers based in 39 cities in southern and western India and a team of business managers distributing products to the corporate market. The carrying value of AMP's investment in AMP Sanmar is approximately \$12 million. It is expected to report small operating losses for a number of years.

5.3 AMP Capital Investors ("ACI")

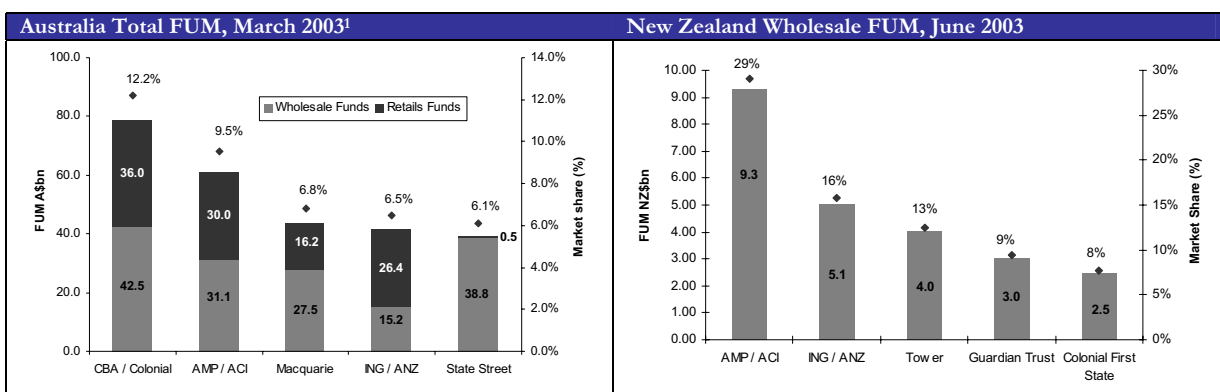
5.3.1 Business description

Overview

AMP Capital Investors ("ACI") will be the new name for HGI's Australian and New Zealand operations. ACI was largely developed under the AMP Asset Management brand, before being placed under the "AMP Henderson" brand following AMP's 1998 acquisition of Henderson plc.

ACI provides investment management services to Australian and New Zealand retail and institutional investors, and to companies within the existing AMP Group (AFS is ACI's largest customer). It is Australia's second largest and New Zealand's largest fund manager with approximately \$70 billion of funds under management and at 30 June 2003 employed 820 staff.

ACI manages a range of asset types, including equities, fixed interest, property and private capital. Its position in Australia (total funds under management) and New Zealand (wholesale funds under management) as at 31 March 2003 and 30 June 2003 respectively is as follows:

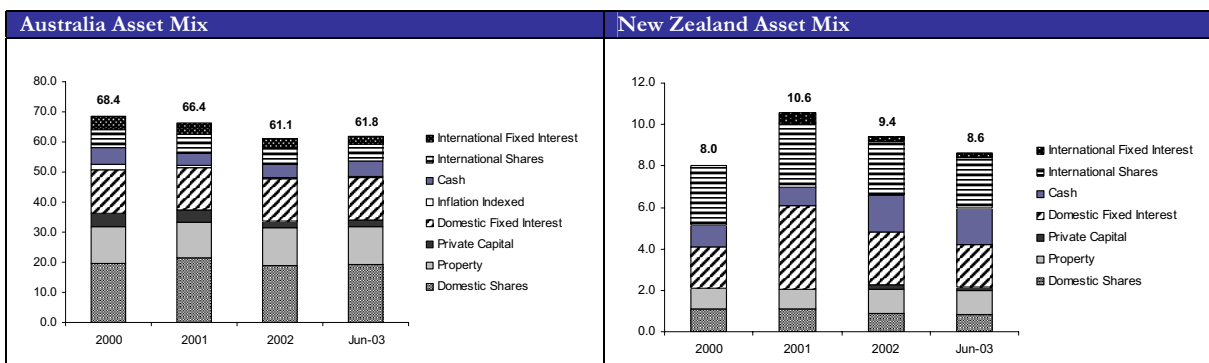


Source: Rainmaker; MJW Wholesale Manager survey.

Note: Retail FUM in Australia has been calculated by subtracting wholesale FUM from total consolidated FUM as published by Rainmaker.

Asset mix

The asset mix in Australia has been relatively stable over recent years although the proportion of equity has reduced slightly given negative investment returns and a shift into more defensive assets. Asset mix has been less stable in New Zealand. ACI's asset mix in Australia and New Zealand since 2000 is summarised below:



Source: AMP.

Sources of FUM and inflows

Funds sourced from the existing AMP group accounted for over 65% of ACI's total FUM as at 30 June 2003. The remaining 35% was sourced externally and includes discrete wholesale mandates as well as funds from third party master trusts. Internally sourced assets can be divided into two components – mature and contemporary.

The mature business of AFS represents over 35% of ACI's FUM. ACI currently manages most of the assets backing the mature products' liabilities of AFS. The contemporary business includes the investment linked products currently sold by AFS. Contemporary business is being distributed by AFS dealer groups.

ACI secured a large proportion of gross inflows from FLS sold by the AMPFP dealer group in the first half of 2003. Hillross and Arrive offer different master trusts where ACI secures a lower percentage of inflows. Funds inflow from AMP Financial Planning is an important source of FUM and earnings growth to ACI.

Externally sourced business has been growing, partially due to the emergence of master trusts as a source of funds, where ACI receives inflows from a number of the larger master trusts and wraps, including AXA-Summit, Navigator and BT Wrap.

ACI does not have a large exposure to any one client other than AFS. The top 50 clients in Australia as at 30 June 2003 (excluding AFS) represented less than 20% of total FUM.

5.3.2 Investment performance

Historical investment performance

The table below outlines the performance of the main ACI Australian funds (covering all the major asset classes) against benchmark returns.

Funds	One year to 30 June 2003		Three years to 30 June 2003		Benchmark (B/mark)
	Actual % p.a.	B/mark % p.a.	Actual % p.a.	B/mark % p.a.	
Diversified					
Aust Balanced Growth	-2.4	-1.8	-0.7	0.0	Competitors Median
Australian Fixed Interest					
AFI (AMPFS Contemporary)	10.2	9.7	8.0	7.8	UBS Fixed Debt
AFI (SMP)	10.1	9.8	7.9	8.0	UBS Comp Bond All Mat
Australian Equities	-1.3	-1.7	2.5	0.7	ASX 200
Active Quant	-2.1	-1.7	1.7	0.7	ASX 200
Enhanced Index	-1.7	-1.7	1.5	0.7	ASX 200
Capital	-2.9	-1.7	-0.1	0.7	ASX 200
Value Plus	1.3	-1.7	8.6 ³	0.7	ASX 200
International Equities	-21.7	-18.5	-18.6	-16.3	MSCI World Acum Index (unhedged)
Direct Property	10.1	11.1	9.5	10.4	Mercer Property Index
Private Capital	3.3	-1.7	-4.6	0.7	Internal monitor - ASX 200
New Zealand Equities					
Active	13.7	10.2	9.5	7.1	NZSE40
Passive	11.8	12.3	5.5	5.9	Russell / JBWere Tradable Index
Strategic Equity growth Fund	13.0	16.0	n/a	n/a	NZ Equity average index
NZ Fixed	12.8	11.8	9.4	8.6	CSFB NZ Stock Gross Returns Index
NZ Cash	6.2	6.0	6.2	6.1	CSFB Bills Index
Property	8.5	n/a	8.0	n/a	n/a

Source: AMP.

Notes:

1. All returns are before fees and tax unless otherwise stated.
2. The investment performance tables exclude AUM from AFS mature products. These products are managed against internal investment performance benchmarks.
3. Value Plus return is for the period January 2001 to June 2003, i.e. 2.5 years only.

Excluding the performance of international equities (and its consequential effect on the diversified funds) and private capital, the ACI range of funds summarised above has broadly performed in line with their respective benchmarks over the last three years to 30 June 2003.

Until recently, Henderson (HHG's UK-based fund manager) managed ACI's international equities, international fixed interest and small international property portfolios, which as at 30 June 2003 amounted to \$10 billion in FUM. Most of these mandates are included in the diversified (ie. balanced) funds managed by ACI. Due to the relatively poor performance of the global equity product range managed by Henderson, ACI's balanced funds have performed below benchmark over key investment horizons (one and three years).

In August 2003, ACI announced it is in the process of outsourcing the management of its international active equities, accounting for nearly \$2 billion of international FUM. Henderson will continue to manage ACI's indexed and enhanced indexed international equity assets as well as international fixed interest.

ACI's historical investment performance in New Zealand over one and three years to 30 June 2003 has been in line or above their respective benchmarks across most asset classes.

Asset and research consultant ratings

Asset and research consultants provide ratings on the investment performance and overall quality of a fund manager. Asset consultants are often engaged by institutional investors (mostly superannuation funds) to provide advice on asset allocation and fund manager selection. Research consultants publish ratings (eg. ranging from 1 to 5 stars) that set out their recommendations on various fund managers. These ratings are often used by retail investors in deciding which fund managers they should use. Ratings are important in an open architecture environment as most platforms (master trusts and wrap accounts) offer products from a large number of investment managers.

Current research consultant ratings for ACI are set out in the table below. Research consultants remain largely supportive post the Demerger announcement, although Morningstar recently downgraded ACI given concerns surrounding the management of international equities and demerger uncertainty.

Research ratings	Rating	Scale
Morningstar Research	3 stars	1 to 5 stars
van Eyk - Management strength	B	E to A
van Eyk - Business strength	B	E to A
Assirt Research - Management	Strong	Very Weak to Very Strong
Assirt Research - Operations	Strong	Very Weak to Very Strong

Source: AMP.

5.4 Portfolio Businesses

The bulk of portfolio businesses in Australia, comprising AMP's general insurance operations, are in run-off and include:

- Gordian RunOff, which consists of the run-off book of the reinsurance and corporate portfolios of GIO. As at 31 December 2002, it had gross outstanding claims of \$2.2 billion and net assets of \$636 million;
- TGI Australia, which consists of the run-off book of the corporate portfolio of AMP General Insurance. As at 31 December 2002, it had gross outstanding claims of \$267 million and net assets of \$65 million.; and
- Cobalt RunOff Services, which is a specialist run-off manager owned 100% by AMP and provides services to AMP and external clients.

The run-off process involves the management of the outstanding liabilities. Currently, the outstanding liabilities are calculated at the 75th percentile confidence level, the minimum required by APRA. AMP is currently exploring options to release capital from its general insurance operations.

5.5 Board and Management

5.5.1 Board

Following the Demerger, the board of AMP will consist of the following directors:

Board Member	Brief Resume
Peter Willcox Chairman	<ul style="list-style-type: none"> • Appointed to the Board in September 2002; appointed Chairman in February 2003. • Previously CEO of BHP Petroleum and a director of a number of international companies including financial services experience with Lend Lease Corporation, MLC and Schroders Australia. • Also Chairman of Mayne Group.

Board Member	Brief Resume
Andrew Mohl Managing Director and Chief Executive Officer	<ul style="list-style-type: none"> Joined AMP in 1996. Appointed Managing Director and CEO in October 2002. Previously Managing Director of AFS, Managing Director of AMP Asset Management, Managing Director of ANZ Funds Management and ANZ Chief Economist. Also Director of HHG since October 2003.
Richard Grellman Non Executive Director	<ul style="list-style-type: none"> Appointed to the Board in 2000; Chairman of the Board's Audit and Compliance Committee. Previously KPMG partner from 1982 to 2000 and a member of KPMG's National Board from 1995 to 1997. Also Chairman of the Board and Council of the NSW Motor Accidents Authority and a director of Atlas Group.
Roger Patrick (Pat) Handley Non Executive Director	<ul style="list-style-type: none"> Appointed to the Board in April 2003. Also Director of HHG since June 2003. Previously Chief Financial Officer of Westpac Banking Corporation, Chairman and CEO of County Savings Bank, Chief Financial Officer of Bank One Corporation and a director of Suncorp Metway. Also Chairman of Pacific Brands.
Meredith Hellicar Non Executive Director	<ul style="list-style-type: none"> Appointed to the Board in March 2003; Chairman of the Board's Remuneration Committee. Previously Chief Executive of Corrs Chambers Westgarth, Managing Director of TNT Logistics Asia and Managing Director of InTech Financial Services. Also a director of James Hardie Industries and the Southern Cross Airports Group.
Peter Mason Non Executive Director	<ul style="list-style-type: none"> Appointment to the Board announced in August 2003 (will commence on 20 October 2003). Over 30 years experience in investment banking. Also Chairman of JP Morgan Chase group in Australia and Director of Mayne Group.
Dr Nora Scheinkestel Non Executive Director	<ul style="list-style-type: none"> Appointment to the Board announced in August 2003 (commenced on 1 September 2003). Previously held positions with CRA, Macquarie Bank, Chase AMP and Deutsche Bank. Director of Newcrest Mining and PaperlinX. Also Chairman of South East Water and Director of Hydro Tasmania.

Source: AMP.

5.5.2 Management

AMP's current management team together with a brief background is set out below:

Executive	Brief Resume
David Cohen General Counsel	<ul style="list-style-type: none"> Joined AMP in January 2003. Previously a Partner with Allens Arthur Robinson.
Marc de Cure General Manager, Strategy and Development	<ul style="list-style-type: none"> Formerly AMP Chief Financial Officer. Previously a Partner with PricewaterhouseCoopers. Intends to leave AMP following the Demerger.
Craig Dunn Managing Director, AFS	<ul style="list-style-type: none"> Joined AMP in 2000; appointed to current role in 2002. Previously Corporate Strategy Executive, Managing Director of AMP Banking and Director, Office of the CEO. Previously Chief Executive Officer of a Malaysian-based insurance company, a joint venture of Colonial.
Peter Hodgett General Manager, Human Resources	<ul style="list-style-type: none"> Joined AMP in 1986. Previously AMP's Director Corporate Strategy and Chief Actuary, amongst other roles.
Paul Leaming Chief Financial Officer	<ul style="list-style-type: none"> Corporate Finance Director prior to being appointed Chief Financial Officer in October 2002.
Christine McLoughlin General Manager, Office of the CEO	<ul style="list-style-type: none"> Joined AMP in 1997; appointed to current role in October 2002. Previously AMP's Group Executive Legal Counsel.
Matthew Percival General Manager, Corporate and Public Affairs	<ul style="list-style-type: none"> Joined AMP in 2000. Previously Group General Manager, Public Affairs at Colonial Limited.
Jack Ritch Managing Director, ACI	<ul style="list-style-type: none"> Joined AMP in 1958. Managing Director of ACI since December 1999. Previously Director of Property since 1987.

Source: AMP.

5.6 Pro forma financial performance and position

This section summarises pro forma financial information for AMP without HHG, followed by information on AFS and ACL. The information below should be read together with the pro forma financial information in the Explanatory Memorandum, which includes more detailed information (including the main assumptions behind the forecasts and key sensitivities), a description of the risk factors for AMP and the Independent Accountant's Report.

5.6.1 Financial performance of AMP

The table below summarises the historical pro forma profit and loss for AMP, together with AMP's forecasts for the 12 months to 31 December 2003:

\$m	2000	2001	2002	1H2003	2003F (Low)	2003F (High)
AFS	342	368	329	172	347	383
ACI	79	85	95	34	63	65
BU operating margins	421	453	424	206	410	448
Cobalt/Gordian	(56)	103	49	27	39	39
Corporate office costs	(74)	(47)	(26)	(19)	(45)	(45)
Operating margins	291	509	447	214	404	442
Underlying investment income	199	199	215	94	201	201
Underlying contribution	490	708	662	308	605	643
Investment income market adjustment	251	(97)	(256)	2	(80)	15
Goodwill amortisation	(13)	(46)	(45)	(20)	(40)	(40)
Pro forma net profit after tax before corporate borrowing costs	728	565	361	290	485	618
Corporate borrowing costs					(123)	(123)
Pro forma net profit after tax					362	495
Net Assets	4,643	5,607	4,639	5,188		
Intangibles	764	807	666	839		
Total Invested Capital	5,407	6,414	5,305	6,029		

Source: AMP.

Note: This adjusts underlying investment income, from normalised to actual investment income.

The following should be noted in reviewing the pro forma earnings for AMP.

Basis

The pro forma earnings include the continuing and discontinuing businesses of AMP but exclude the earnings from businesses divested during the three years to 31 December 2002.

The results for the years ended 31 December 2000 to 2002 and six months ended 30 June 2003 are based on audited accounts. The pro forma information does not include abnormal and other items.

2003 Forecasts

The key assumptions, excluding investment return assumptions, regarding the business unit operating margins (as set out in section 5.4 of the Explanatory Memorandum) include:

- persistency levels in AFS to decrease marginally during 2003 due to weak performance markets but with no long-term impact;
- earnings in ACI to reduce as a result of the listed property trusts - the full year effect of this would have been a reduction in earnings of \$16.5 million;
- FUM in ACI to decrease to approximately \$68 billion by the end of 2003;
- average management fee rates in ACI to remain comparable with 1H 2003;
- AFS (excluding AMP Banking) cost base to decrease by at least 13% compared to 2002;

- ACI's operating expenses in 2H 2003 to remain comparable with 1H 2003 (excluding expenses related to the listed property trusts); and
- corporate expenses in 2H 2003 to remain similar to expenses incurred in 1H 2003 excluding the impact in 1H 2003 of provisions no longer required.

The earnings forecasts for the 12 months to 31 December 2003 have been prepared by AMP, and are the responsibility of AMP. They are the subject of the Independent Accountant's Report on forecast financial information, which is contained in the Explanatory Memorandum. By their nature, forecasts involve an assessment of future events that are uncertain, and therefore the actual future performance may be significantly more or less favourable than the forecasts. Rothschild has had no involvement in the preparation of the forecasts and does not warrant the achievement of the forecasts.

2000, 2001, 2002 and 30 June 2003 results

Key observations from the above pro forma results include:

- investment income fell substantially in 2001 and 2002. Investment income in 2000 included profits from the sale of Westpac and Colonial securities which were not subsequently repeated. The fall in 2002 investment income reflected the downturn in equity markets; and
- total invested capital as at 30 June 2003 increased from 31 December 2002 due to the \$1,192 million capital raising in early May 2003 and the increase in the market value of Hillross and AMP Financial Planning.

Further details on these results are set out in AMP management's discussion and analysis in the Explanatory Memorandum.

5.6.2 Financial position of AMP

The table below summarises the pro forma balance sheet for AMP without HHG as at 30 June 2003:

\$m	H1 2003		H1 2003
Assets		Liabilities	
Cash	1,016	Payables	2,174
Receivables	2,732	Outstanding claims	2,126
Equity securities	23,270	Provisions	562
Investment in HHG	480	Borrowings	4,519
Debt securities	24,731	Life insurance policy liabilities	46,400
Property	9,664	Subordinated debt	1,845
Other investments	695	Other liabilities	832
Intangible assets	565		
EMVONA	288	Total liabilities	58,458
Other assets	905		
Total assets	64,346	Net assets	5,888
		Equity	
		Shareholders equity	3,400
		Outside equity interest	2,488
		Total equity	5,888

Source: AMP.

Note: The debt above includes operational debt.

The pro forma financial position for AMP in the table above includes adjustments to reflect the capital structure after the Demerger, the recapitalisation of HHG subsidiaries, the retention of 15% of HHG, and transaction costs of the Demerger.

Internal restructure and capital raising

AMP had substantial cash resources as at 30 June 2003, following receipt of proceeds from the institutional share placement in May 2003. These cash resources were subsequently supplemented by the proceeds from the retail share purchase plan. The capital injection into HHG as part of the Demerger and scheduled senior and subordinated debt repayments later this year will be funded out of AMP's cash resources.

The pro forma indebtedness of AMP at 30 June 2003 set out in this section assumes the Demerger took effect on that date, and reflects the following:

- AMP is to assume or repay approximately £1,041 million of external debt currently held by HHG;
- AMP will contribute additional capital of approximately £157 million to HHG in part to recapitalise the UK service company and approximately £34 million in part for the issue of shares in HHG;
- the RPS is to be redeemed in full out of proceeds of the AMP Rights Offer;
- a scheduled debt repayment of around \$100 million is to be made in November 2003, with an additional \$600 million debt restructuring prior to 31 December 2003; and
- transaction costs of the Demerger.

AMP's pro forma external corporate debt of \$2,627 million after these adjustments is summarised below. The annual after tax interest expense is expected to be around \$135 million.

Security	Amount	Comment
RPS	Nil	Redeemed out of AMP Rights Offer
Income Securities	\$1,240 m	
Subordinated Bonds (2009)	} \$1,387 m	c. \$600 m repaid by 31 Dec 2003
Subordinated Bonds (2022)		
Euro MTN (2010)		
Euro MTN (2008)		
Euro MTN (2003)	Nil	Repaid from existing cash resources
Total	\$2,627 m	

Source: AMP.

5.6.3 AFS

Financial and operating performance

The following table summarises the historical pro forma financial and operating performance for AFS for the years ended 31 December 2000, 2001, 2002 and for the six months to 30 June 2003:

\$m	2000	2001	2002	1H 2003
Profit margins released	296	306	239	114
Profit margins – other operations	31	64	98	61
Profit margins – AMP Banking	(12)	(4)	(8)	2
Total profit margins	315	366	329	177
Experience profits	23	2	-	(6)
Capitalised loss reversals	4	-	-	1
Operating margins	342	368	329	172
Underlying investment income	258	234	221	96
Underlying operating profit after income tax	600	602	550	268
Cost to income (exc. AMP Bank)	46%	43%	43%	40%
Cost to income (inc. AMP Bank)	48%	46%	46%	43%
Persistency (exc. AMP Banking)	82.0%	83.8%	83.8%	82.5%
Net Assets	3,610	3,927	3,192	3,137

\$m	2000	2001	2002	1H 2003
Intangibles	540	507	495	735
Total invested capital (exc. AMP Bank)	4,150	4,434	3,687	3,872
AMP Bank – ongoing activities	102	166	199	193
Total invested capital	4,252	4,600	3,886	4,065

Source: AMP.

Market conditions have affected profitability in 2002 and in the first half of 2003, which was offset in part by improved cost control. Persistency was down in the first half of 2003 compared to 2002, largely as a result of lower investor confidence generally and damage to AMP's brand.

Embedded Value and Value of New Business

The embedded values and value of new business for AFS (excluding AMP Banking) prepared and reported by AMP as at December 2001 and 2002 and 30 June 2003 under a range of discount margins is summarised below:

\$m	Capital Included	3%	4%	5%	6%
Embedded value as at 31 December 2001	4,377	6,863	6,613	6,386	6,183
Restatement		(249)	(232)	(216)	(202)
Expected return		549	571	590	609
Value added		(458)	(482)	(499)	(514)
Net transfers out		(991)	(991)	(991)	(991)
Embedded value as at 31 December 2002	3,635	5,714	5,479	5,270	5,085
Restatement		281	266	252	239
Expected return		229	241	252	262
Value added		120	118	116	113
Net transfers out		(294)	(294)	(294)	(294)
Embedded value as at 30 June 2003	3,819	6,050	5,810	5,596	5,405
Value of new business					
31 December 2001 (full year)		249	217	188	162
31 December 2002 (full year)		251	222	197	174
30 June 2003 (half year)		100	88	76	66

Source: AMP Investor Reports.

Note : 3-6% are discount margins over long term Government bond rates.

The value of new business (ie. one year's new business) is lower in the first half of 2003, mainly due to lower new business volumes and reduced persistency assumptions. These were offset by improved cost control and a more favourable business mix (ie. a higher proportion of more profitable business was written than in the previous period).

Consulting Actuary's Report

The consulting actuary, Tillinghast-Towers Perrin ("Tillinghast"), has conducted an assessment of the embedded value of AFS as at 30 June 2003 and value of new business of AFS for six months to 30 June 2003 using the traditional and market-consistent methodologies. Tillinghast's conclusions are set out in the following table.

AFS	Traditional	Market-consistent
Embedded Value	5,625	6,084
Value of New Business	76	118

Source: Tillinghast.

Note:

Traditional embedded value calculated at risk discount rate of 10% for Australian life insurance business, 11% for Australian unit trust business, 10.5% for New Zealand life insurance business and 11.5% for New Zealand unit trust business. Market-consistent embedded value excludes explicit agency costs, which represents a further discount that shareholders may apply to the company's equity because they do not have direct control over its deployment.

Tillinghast's calculation of the traditional embedded value and value of new business for AFS is not substantially different from the value of these items as set out in AMP's Investor Report for the six months to 30 June 2003 at a similar discount margin.

The key differences between the traditional embedded value and the market-consistent embedded value calculated by Tillinghast for AFS are set out below:

Reconciliation of Market-Consistent to Traditional Embedded Value		\$m
Traditional Embedded Value		5,625
- Removal of Traditional Cost of Prudential Capital		352
- Removal of Traditional Allowance for Operating Profit Risk		828
Specific Allowance for Risk:		
- Policyholder Financial Guarantees and Options		(116)
- Other Market Related Risks		(437)
- Market-consistent Cost of Capital		(168)
Market-Consistent Embedded Value		6,084

Source: Tillinghast.

Further details of the valuation work and other actuarial advice provided by Tillinghast to AMP are set out in the Consulting Actuary's report, which is included in the Explanatory Memorandum.

5.6.4 ACI

The following table summarises the pro forma financial and operating performance of ACI for the years ended 31 December 2000, 2001, 2002, and for the six months to 30 June 2003:

\$m	2000	2001	2002	1H2003
Fee Income	321	316	289	128
Management Expenses	(205)	(199)	(177)	(79)
Income Tax	(37)	(32)	(17)	(15)
Operating margin	79	85	95	34
Underlying investment income	1	1	6	4
Underlying operating profit after tax	80	86	101	38
Cost to income	64%	63%	60%	59%
Funds Under Management	76.5	77.0	70.5	70.4
Net Assets	132	136	121	161
Intangibles	260	175	171	104
Total invested capital	392	311	292	265

Source: AMP.

ACI's underlying profit was significantly lower in the first half of 2003 due to a lower percentage of FUM in equities (where higher margins are typically earned) as well as a return to normal tax expense. ACI has reduced its cost to income ratio over the past three years to 59%.

5.6.5 Regulatory capital position and credit rating of AMP

Regulatory capital position

AMP's pro forma capital position following the Demerger is as follows:

\$m	Net Assets	Intangibles	Total capital
Equity attributable to ordinary shareholders	2,561	839	3,400
Hybrid equity (RPS)	-	-	-
Tier 1 capital	2,561	839	3,400
Allowable Upper Tier 2 capital	-	-	-
Allowable Lower Tier 2 capital	1,281	-	1,281
Tier 2 capital	1,281	-	1,281
Total regulatory capital	3,842	839	4,681
Non-allowable hybrid capital	464	-	464
Senior debt	882	-	882
Total shareholder capital resources	5,188	839	6,027

Source: AMP, based on 30 June 2003 balance sheet.

The pro forma allocation of AMP's capital by major business unit as at 30 June 2003, is set out below:

\$m	Minimum regulatory requirements	Net Assets	Intangibles	Total capital
AFS	1,623	3,330	735	4,065
AMP Life Statutory Funds	1,464	2,971	-	2,971
AFS other (incl. Banking)	159	359	735	1,094
ACI	75	161	104	265
Cobalt/Gordian	392	725	-	725
Corporate office	4	1,097	-	1,097
Inter business unit holding	-	(125)	-	(125)
Total shareholder capital resources	2,094	5,188	839	6,027

Source: AMP.

Based on the 30 June 2003 pro forma capital position, AMP would have met all Australian regulatory requirements.

APRA approval of the Demerger

On 10 October 2003, APRA gave AMP its approval in principle for the Demerger. In summary, APRA has advised that:

- APRA's consent to the Demerger is based on the appropriate approvals being obtained from the FSA and the removal of any guarantees currently provided by AMP to its UK entities;
- AMP must manage its level of gearing and reduce it over a period of time to a level acceptable to APRA;
- APRA will consent to the redemption of the RPS provided that sufficient cash proceeds are raised from the AMP Rights Offer; APRA reserves the right to require AMP to convert the RPS into equity until such time as the RPS are redeemed;
- APRA has consented to the capital structure proposed by AMP following the Demerger; and
- AMP's future dividends will continue to require approval from APRA until the balance of consolidated retained earnings becomes positive.

Credit ratings

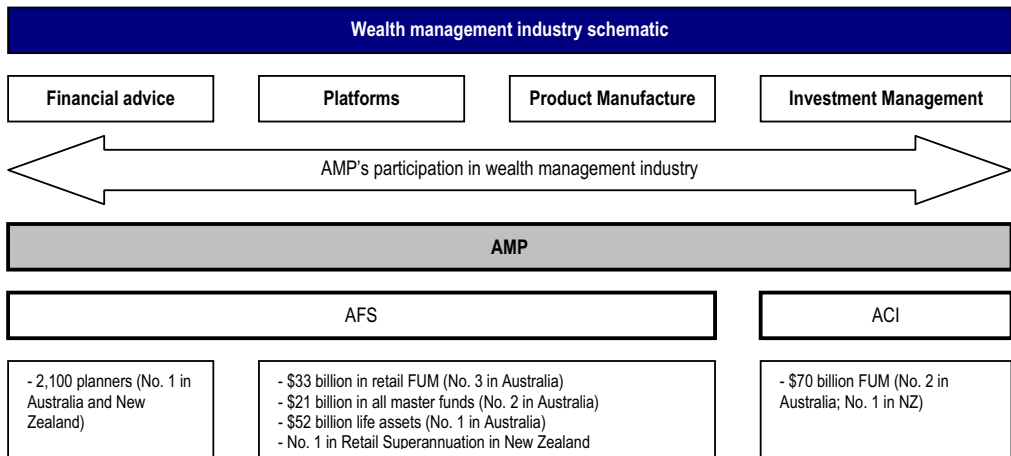
As at 10 October 2003, AMP Life had a Standard & Poor's financial strength rating of A+ (negative outlook). AMP Group Holdings Limited (the guarantor for the Income Securities, senior debt and the subordinated debt) had a counterparty credit rating of BBB+ (negative outlook).

AMP management continues to target a strong A financial strength rating for AMP Life and a strong BBB counterparty credit rating for AMP Group Holdings Limited following the Demerger.

5.7 Situation analysis

5.7.1 AMP's positioning

The chart below sets out AMP's participation in the main subsectors of the wealth management industry:



Source: AMP data; APRA; Rothschild analysis.

Note: ACI FUM includes a large proportion of AFS FUM.

AMP's core competitive advantages consist of its overall scale as one of the largest wealth management participants in Australia and New Zealand, its significant participation in both distribution and manufacturing (including investment management), and its brand. Equally, and not unlike its competitors, there are a number of issues which AMP will need to address, centred around maintaining its competitive advantages in the face of an increasingly open architecture environment, continuing margin pressures and an uncertain investment market outlook.

5.7.2 Key strengths

Scale

The benefits of AMP's scale include:

- strong capabilities to source and retain funds through Australia's largest financial planning network;
- economies of scale and scope from funds management operation, allowing ACI to offer a comprehensive range of products at competitive prices;
- greater ability to withstand margin and market pressure; and
- greater leverage for both AFS and ACI in third party negotiations; for example, AFS is able to agree commercially attractive pricing from third party providers, in large part due to the inflows it could provide to these parties.

In force mature life insurance assets

The AFS portfolio of mature business, which is the largest in Australia, is in run-off and is expected to release capital over time as policies within the portfolio continue to mature.

Distribution and manufacturing

There are significant synergies between AFS and ACI, with the clients of AFS directing significant proportion of new inflows into AFS' contemporary products to ACI. This synergy will continue to be important for AMP, but will depend on, amongst other things, ACI's investment performance and consultant ratings. Equally, ACI will be able to seek "best of breed" fund managers to manage asset classes which are outside its core competencies as part of its lead manager strategy.

Brand

Brand strength is important for life insurance and wealth management companies, as it helps build customer confidence in the organisation. Brand strength and positioning is increasingly important in an open architecture environment, as branding helps attract investor and platform support. Further, in poor investment climates, investors tend to seek trusted brands associated with financial strength, good performance and reliability. The AMP brand is well established and highly recognised, and strongly associated with the provision of wealth management products and services. The AMP brand continues to have value amongst financial planners and end investors, with significant brand recognition.

The brand has come under significant pressure over the last 12-18 months, largely as a result of issues facing its UK life insurance businesses which have in turn affected the share price of AMP. Market research conducted for AMP amongst financial planners and end investors show that the perception of AMP has been significantly downgraded but not permanently damaged. AMP will need to leverage the underlying goodwill to re-establish its status amongst customers as a safe and secure provider of retirement and savings products. The Demerger can be expected to be an important factor in the anticipated rehabilitation of the AMP brand.

5.7.3 Key issues to manage

The key strategic issues that AMP will need to address include:

- maintaining its competitive advantage in an increasingly open architecture environment: for AFS, this includes customer and planner intimacy and the provision of value for money products; for ACI, this includes the delivery of above-benchmark investment performance and customer service;
- maintaining profitability in the face of increasing competition and margin pressures: cost management will be important, while not compromising customer relationships, service levels or investment performance; and
- operating in a poor investment market: lower FUM levels and slower new business flows will affect both investment management and advisory fees.

These issues can be considered further under the following headings:

Corporate

Key issues at the AMP corporate level include:

- rebuilding customer trust in the AMP brand;
- generating market confidence in the ability of AMP's management to deliver upon the potential advantages of the Demerger as well as operational issues (including capitalising on synergies between AFS and ACI, and cost reductions);
- management of AMP's debt levels; and
- continuing to explore strategic options for Cobalt/ Gordian.

AFS

Key issues for AFS to address include:

- in relation to its financial planning network, the provision of highly regarded advice to customers whilst improving planner productivity, and continuing to develop and maintain competitive platforms in order to facilitate the use of AFS products by financial planners and their clients; and
- in relation to its manufacturing arm, the provision of competitive products either in support of a premium pricing strategy or through lowest per unit costs.

ACI

Key issues for ACI to address include:

- implementing its lead manager strategy, which combines in-house investment capabilities, in which ACI has competitive advantage, with “best of breed” external asset managers;
- improving investment performance and service delivery; and
- developing its third party distribution channels.

5.8 Peer review

This section compares AMP against its main peers, as well as the recent performance of AFS' two key divisions against its peers. The Australian peers include AXA Asia-Pacific (“AXA”), and the life insurance and wealth management divisions of the four largest commercial banks. There is effectively only one listed peer for ACI, namely Perpetual Trustees (“Perpetual”), although operationally, ACI's peers include the fund managers within the major commercial banks as well as AXA/ Alliance and Macquarie Bank.

5.8.1 AMP after the Demerger

The table below summarises AMP against its main life insurance and wealth management peers in Australia. These include AXA and the wealth management and life insurance divisions of the major commercial banks.

	Financial Planners ¹	Life insurance assets (\$bn)	Retail FUM (\$bn)	Total FUM ² (\$bn)
AMP	1,714	52.0	32.6	61.1
Commonwealth/ Colonial	981	24.5	44.2	79.8
National/ MLC	1,547	32.6	37.3	10.0
ING/ ANZ	1,087	19.3	31.9	37.5
Westpac	891	11.1	23.9	32.0
AXA	1,154	17.0	14.4	22.4

Source: Company reports; Money Management; APRA; Plan for Life; and Rainmaker.

Notes:

1. Excludes New Zealand planners, provisional and para-planners.
2. Refers to investment management activities.

AMP has the largest financial planner network and life insurance assets, the third largest retail FUM and the second largest total FUM.

5.8.2 AMP Financial Services

Retail inflows and credit ratings are important in a review of AFS and its key peers.

Retail inflows

Retail inflow performance for AFS, AXA and the major banks for the 12 months to June 2003 and June 2003 quarter is summarised below.

\$m	Net Inflow June Quarter		Net Inflow Year to 30 June 2003		Total Retail FUM (June 2003)	
	\$m	% ¹	\$m	% ¹	\$m	% ¹
AMP	1	0.1	772	11.6	32,593	11.0
CBA/ Colonial	-481	n/a	-1,218	n/a	44,172	14.9
National/ MLC	164	10.5	337	5.0	37,293	12.5
ING/ ANZ	-180	n/a	861	12.9	31,879	10.7
Westpac/BT	-694	n/a	-3,823	n/a	23,854	8.0
AXA	293	18.8	1,071	16.1	14,357	4.8
Industry total	1,561		6,661		297,380	

Source: Plan For Life, June 2003.

Note: 1. Calculated as percentage of industry total.

AFS' net inflow performance over the past twelve months has been commensurate with its market share of 11% (as measured by total retail FUM). It outperformed CBA and National, which are the two largest retail managers in Australia, and Westpac, which continues to experience significant net outflows. Both ING/ANZ and AXA generated net inflows above their respective market shares for the 12 months to June 2003.

During the June 2003 quarter, AFS' inflows were below its market share, albeit outperforming CBA and Westpac. AXA continued to improve its market share.

Credit ratings

The table below sets out the insurer financial strength ratings for AMP Life and its key peers as at 8 October 2003:

	AMP Life	AXA	Colonial	MLC	ING
Standard & Poor's	A+	AA-	AA-	AA	A _{pi}

Source: Standard & Poor's.

Note: ING's rating is based on publicly available information (the other ratings are based on information provided to Standard & Poors by each of the other companies).

AMP Life would have a strong credit rating but it would be lower than its key peers.

5.8.3 ACI

Operational review

From an operational perspective, pro forma ACI financial performance show that ACI operates at industry efficiency levels, with ACI's cost to income ratio in line with Perpetual, and lower than AXA's asset manager Alliance Capital. Given the scale of ACI relative to Perpetual as well as other peers, ACI would be well placed to extract further operating efficiencies. This suggests that following the demerger ACI will have a competitive operational cost structure relative to its industry peers. This can be seen in the table below:

Asset management financial metrics						
	Cost to income			Revenue / Av. FUM (%)		
	2001	2002	2003 ¹	2001	2002	2003 ¹
Perpetual ²	74%	61%	60%	0.78%	0.76%	0.80%
AXA / Alliance Capital ³	72%	67%	n/a	0.23%	0.26%	n/a
ACI	63%	60%	59%	0.41%	0.39%	0.36%

Source: ACI - management accounts; Perpetual / AXA - company announcements. Revenue excludes investment earnings.

Note:

1. ACI 2003 based on 1H 2003 numbers. Revenue percentage of average FUM annualised.
2. Perpetual's cost to income based on group financials; Revenue / Avg. FUM based on Perpetual's investment revenue.
3. 2001 based on year end AUM.

As the table also shows, revenue as a percentage of average AUM is quite varied. The mix of assets managed largely influences this – for example, Perpetual has a strong focus on higher margin Australian equities with 60% of FUM invested in Australian equities compared to ACI's 27%, which significantly affects revenue margins.

Investment performance

ACI's investment performance in key Australian asset classes against its top five competitors ranked by FUM is set out below:

Manager		Australian Shares ² (Diversified)		Listed Property		Aust Fixed Income (Diversified)	
		1yr	3yrs	1yr	3yrs	1yr	3yrs
Sample size	\$bn	(12)	(12)	(31)	(24)	(15)	(15)
CBA/ Colonial	78.4	5	8	9	8	5	9
ACI	61.1	3	3	15	17	2	5
Macquarie	43.7	9	10	15	11	9	11
ING/ ANZ	41.6	4	9	21	19	9	5
Westpac/ BT	30.5	6	5	14	13	5	9
AXA / Alliance	21.7	n/a	n/a	8	n/a	n/a	n/a

Source: Mercer Sector surveys June 2003, Rainmaker March 2002.

Note:

- Where there is more than one 'manager' for a respective group (ie. ING / ANZ, Westpac / BT), the highest ranked manager over 1 year has been selected.
- Macquarie and ING/ANZ performance is based on ASX300, whilst remaining managers are based on ASX200.

ACI has performed respectably relative to its peers, ranking in the top half of its peers for Fixed Income (Diversified) and Australian Shares (Diversified).

6 HHG

6.1 Overview

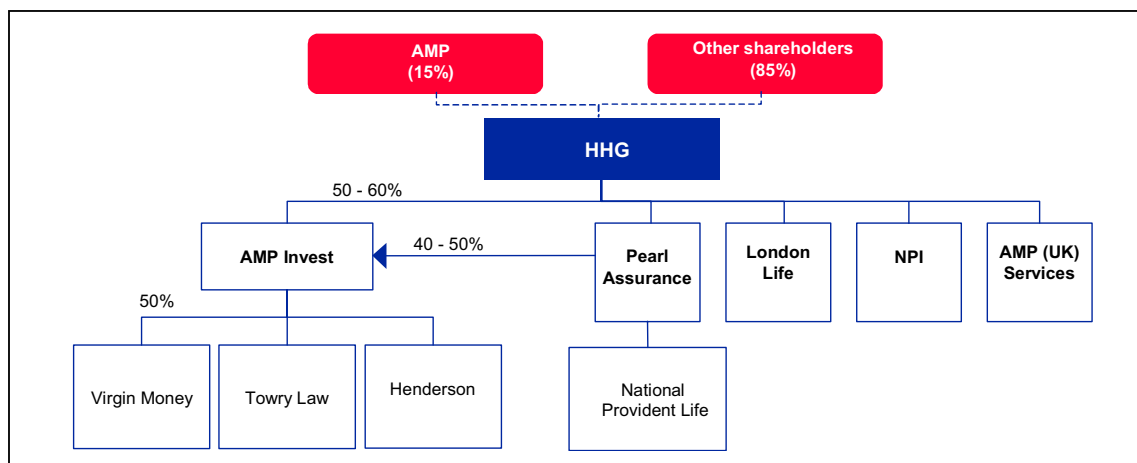
HHG has two distinct business lines: asset management and the provision of life insurance and pensions products. Following the proposed Demerger, HHG will comprise the majority of the operations which currently make up AMP (UK):

- the UK, European, American and Asian businesses of HGI (“Henderson”);
- UK Life Services, comprising the UK life insurance operations of London Life, Pearl and National Provident (all closed to new business); and
- AMP’s remaining UK portfolio businesses including Towry Law and its 50% holding in Virgin Money.

The remaining businesses of HGI, namely the Australian and New Zealand operations, will separate from the remainder of Henderson and become part of AMP, reducing Henderson’s funds under management by approximately one quarter.

HHG will focus on its core business of investment management and the efficient run-off and servicing of the closed life businesses. HHG will operate as a stand-alone public company. A listing will be sought for HHG on both the Australian and London stock exchanges.

A simplified corporate structure of HHG following the proposed Demerger is shown below:



Source: AMP.

Following the Demerger, HHG is expected to hold a majority interest in AMP Invest, with the balance held by the Pearl shareholders’ funds.

AMP will hold approximately 15% of the HHG issued ordinary share capital. It will, however, be restricted from selling this shareholding: it may sell up to half of its HHG shareholding after the release of HHG’s financial results for the six months to 30 June 2004, if HHG has completed its £100 million capital raising. If the capital raising by HHG is not completed by 30 June 2004, AMP will not be able to sell any of its HHG shares until after the release of HHG’s financial results for the year to 31 December 2004. In any event, AMP may sell all of its HHG shares after the release of HHG’s financial results for the year to 31 December 2004.

Key financial dimensions

The key financial dimensions of HHG are set out below:

Metric	
UK Life Services Traditional Embedded Value	\$3.3 – \$3.8bn
Henderson Funds Under Management	\$170bn
1H Earnings (Pro forma underlying operating profit after tax)	
- UK Life Services	\$107m
- Henderson	\$31m
Total Shareholder Equity	\$5,667m

Source: AMP. All figures as at 30 June 2003; Source: Investor Report.

Note: Traditional EV based on discount margins of 3-5% over long term Government bond rates.

6.2 Henderson

6.2.1 Business description

Overview

Henderson operates in Europe, the United States and Asia but with particular strength in its UK base. It managed approximately £69 billion of assets (as at 30 June 2003) and is among the top 100 investment managers in the world by FUM and is a top 25 European-domiciled investment manager and a top 10 UK investment manager.

Henderson's products cover a wide range of asset classes including active equities, fixed income, private equity and property, catering for both institutional and retail investors. Henderson also offers more specialised investment opportunities such as emerging markets, socially responsible investments, hedge funds, structured products and infrastructure investments.

Approximately 39% of Henderson's funds under management represent in-house life funds managed on behalf of UK Life Services; approximately 36% will be managed on behalf of third party institutional clients and 14% for retail clients and 11% for sub-advisory clients. It is anticipated that the percentage of total assets which is sourced in-house (and the revenues flowing therefrom) will decline over time as the closed life books run off.

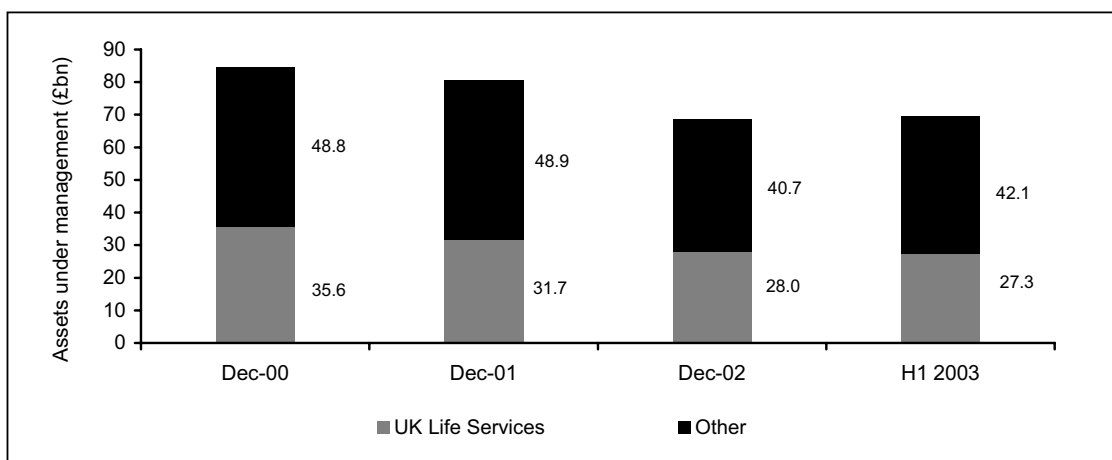
Henderson has developed a strong and established position in the key markets in which it currently operates:

- number 2 in UK investment trusts;
- number 3 in UK collective investments;
- number 5 in UK by retail OEIC/UT*; and
- number 7 in UK by segregated pension funds.

* assumes completion of the HHG product rationalisation under which UK Life Services OEICs and unit trusts will be transferred to Henderson OEICs.

Funds under management

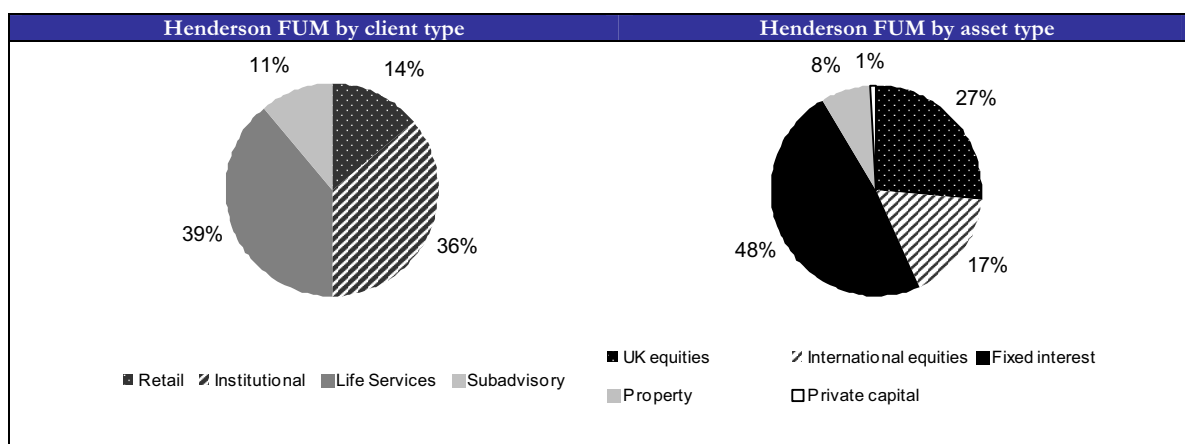
The development of Henderson's funds under management since December 2000 is shown in the chart below:



Source: AMP.

As the graph shows, Henderson's funds under management have fallen since the end of 2000 by approximately 18%. This compares with a fall in the FTSE All Share of approximately one third over the same period and a fall in worldwide funds under management in the two year period to December 2002 of approximately 11%. Henderson's funds under management have proved to be resilient in relation to the decline experienced by the stock market, reflecting Henderson's strong and well-established market position in the UK and its diversified asset base.

The charts below show the split of Henderson's assets under management by client type and asset class, as at 30 June 2003.



Source: AMP.

These charts reflect:

- the large proportion of Henderson's funds under management which are managed for UK Life Services (39%);
- the relative weighting of institutional third party funds compared to retail funds, the latter tending to attract higher charging rates; and
- the effect of de-risking the UK business, which has increased the share of fixed income assets from 39% at 31 December 2002 to 48% at 30 June 2003 at the expense of equity investments.

It should be noted that included in the £69 billion managed by Henderson is approximately £4 billion managed under a sub-advisory arrangement on behalf of ACI. Around £1 billion of international active equities included in this figure has recently been mandated to other international equity managers with

effect from January 2004. Assets managed for UK Life Services are terminable after varying notice periods.

Henderson also has a number of sub-advisory agreements with other financial services groups to manage funds on behalf of clients to prescribed investment guidelines. Henderson has relationships with Investors Group in Canada, Waddell and Reed in the US, Banca Popolare di Lodi in Italy (international equity funds), UBK in Kuwait and Nextra in Italy (institutional property funds).

Products

The Henderson product offering is built around core active equity and fixed income products, supplemented by a broad range of specialist and higher margin alternative products, tailored to clients' requirements. Some 43% of Henderson's assets are invested in equities, with a primary focus on direct investment in shares of larger listed companies in the major developed markets of the UK, Continental Europe, North America and Japan. Henderson's fixed income focus is on investment in government and corporate bonds in the UK and major Continental European markets, with additional expertise in the management of pan European and US corporate bonds and geared products. Some 48% of Henderson's assets are invested in fixed income securities. Henderson also has expertise in a number of specialist areas, including emerging markets, socially responsible investment, smaller companies and hedge funds.

Henderson's investments in property (8% of assets under management) include office and residential buildings, warehouses and shopping centres. Henderson utilises a number of investment vehicles in addition to direct purchases of properties, including real estate investment trusts and property fund of funds. Henderson's private equity operations provide investors with direct access to private companies by providing capital for expansion and development, management buy-outs and indirectly via a fund of funds product. Approximately 1% of Henderson's assets are invested in private capital.

Historically, Henderson's core institutional offering has been traditional balanced mandates. Recently, however, there has been a shift towards more specialist mandates and alternative investments.

Henderson's institutional product range comprises:

- segregated funds: these are large individual accounts managed on a bespoke basis for pension fund clients;
- pooled funds: these are large unitised funds composed of assets from pension fund clients and managed to a standard mandate; and
- internally-sourced life funds are managed in a similar way to institutional mandates and are managed on a pooled and segregated basis.

Henderson's retail product range comprises:

- open ended funds: in the UK there is a range of 31 OEICs and unit trusts, encompassing both core UK equity and fixed income funds and specialist regional and sector funds. Institutional investments are accepted into the OEIC structures via a different share class. Offshore, there is a Luxembourg domiciled SICAV umbrella fund called Henderson Horizon with 21 specialist regional and sector specific sub-funds. These offshore products are distributed throughout Continental Europe and in Asia. A range of US-domiciled mutual funds was launched in 2001, comprising four specialist international equity funds distributed to US investors; and
- closed ended funds: Henderson has had long experience in the UK investment trust marketplace and currently manages the assets of 16 investment trusts. Each of the investment trust companies managed by Henderson is listed on the London Stock Exchange.

Distribution

Henderson has formed strong relationships with global consultants who are responsible for a large proportion of institutional funds flows. Retail distribution in the UK is via the largest IFA networks and

fund supermarkets. Henderson also benefits from well established relationships with banks in Continental Europe (for example Banca Popolare di Lodi in Italy and MM Warburg in Germany) and Asia.

Investment performance

The table below shows the performance of HGI funds against appropriate benchmarks over the five years to 30 June 2003.

Henderson Investment Performance as at 30 June 2003					
	Qtr	Ytd	1yr	3yrs	5yrs
By client type					
UK Life Services life funds	88%	13%	12%	9%	81%
Institutional					
- Equity/balanced	87%	66%	5%	6%	4%
- Fixed income	71%	85%	34%	55%	64%
Retail	41%	58%	34%	42%	50%
Retail (compared with chosen peer group)	32%	40%	36%	36%	56%
By asset class					
Equity – active	58%	52%	19%	26%	34%
Equity – active (compared with chosen peer group)	36%	47%	35%	23%	46%
Equity – Enhanced index	53%	86%	86%	88%	95%
Fixed income & cash	67%	84%	33%	49%	51%
UK Balanced (sample)	76%	33%	0%	0%	0%
Hedge Funds	96%	96%	73%		
Listed Assets	61%	71%	34%	43%	51%
Private equity	0%	0%	8%	100%	96%
Property	55%	41%	69%	n/a	n/a
Asset weighted total	60%	68%	36%	44%	51%

Source: AMP.

The table above shows which proportion of funds beat a specified peer group or a benchmark specified by the client over a given time period. Broadly, the table indicates that Henderson's performance was relatively weak over the mid term (1 to 3 years), with the exception of enhanced index products which, in c.90% of cases, beat the relevant benchmark. The year to date and quarter to date figures generally show an improving performance trend, with a strong performance in fixed income and cash. Institutional equity/balanced funds have seen the most marked improvement over the period; by contrast, retail funds are improving much more slowly. Hedge fund performance has been particularly impressive in the short period since inception.

6.3 UK Life Services

The UK Life Services business unit was launched in October 2002 to manage AMP's mature, closed life books (Pearl, London Life and National Provident Life). In June 2003, NPI Limited was folded into UK Life Services following its closure to new business. All of the life companies within UK Life Services are now effectively closed to new business- although contractual increments are accepted from existing customers, and new members can join certain group schemes. UK Life Services is focussed on extracting maximum value from the policies which constitute the closed books of business, while treating customers fairly. The portfolio consists of a range of with-profits and non-profit life and pensions business, savings and investment products, protection products and industrial branch business. UK Life Services has approximately five million policies in force and approximately £30 billion in life funds under management.

London Life

AMP merged the long-term insurance business of London Life with its UK business in 1989, by means of a UK court approved transfer by which the existing London Life fund was held as a separate sub-fund within AMP's No. 1 Statutory fund. It was subsequently transferred out of AMP's No. 1 Statutory Fund into London Life in 1998. At the time of acquisition London Life had £1.4 billion of long term assets. London Life ceased to actively seek new business in 1995 due to its lack of scale and profitability. London Life is the smallest of AMP's three closed books and its book predominantly comprises savings, investment and pensions products together with a smaller number of annuities and protection policies. AMP's traditional embedded value for London Life as at 30 June 2003 was £155 million based on a 5% discount margin over long term government bond rates.

Pearl

Pearl was acquired in December 1989 for £1.2 billion through a public takeover. At the last balance sheet date prior to acquisition Pearl had total assets of some £6.9 billion. Originally, Pearl offered both general and life insurance products but the general insurance business was sold to Churchill in 2001 for £80 million as part of AMP (UK)'s strategy of re-focussing on its core areas. In August 2002 Pearl announced its intention to cease writing most new with-profits and annuity products. Pearl effectively closed to new business in early 2003.

Pearl has some 1.8 million in-force Industrial Branch policies, consisting of a mixture of endowment savings and whole of life contracts. This business represents some 2.3% of UK Life Services liabilities. The remainder of Pearl's business-in-force consists of pension policies (predominantly individual personal pensions) and savings and investments policies, which are a mixture of with-profits single premium bonds and with-profits endowment savings contracts. Pearl also has a small number of annuities, collective investment and protection policies. Pearl mainly distributed its products via a direct sales force, which has now been closed down.

Shareholders participate on a 90:10 basis in all with-profits business (that is, they receive as transfers from the life funds 1/9th the cost of policyholders' bonuses declared for that year).

In 1996 some £960 million (£918 million orphan plus £42 million value of future interest in non-profit business) of "orphan assets" in the Pearl policyholders' funds were attributed to shareholders following negotiations with the Department of Trade and Industry (who at that time had responsibility for insurance company regulation). These assets were previously unattributed to either policyholders or shareholders and were used as part of the general capital backing the life business. At the time of attribution, Pearl undertook to leave the attributed assets in the long term fund for a period of five years, and it may only be removed thereafter. Although this five year period has expired, there is no current expectation that the assets will be distributed to shareholders in the medium term. This capital, together with Pearl policyholder funds, was subsequently used to expand AMP's UK presence by a number of acquisitions, including HGI. AMP's traditional embedded value for Pearl as at 30 June 2003 was £1,006 million based on a 5% discount margin over long term government bond rates.

NPI

The mutual insurer National Provident Institution was acquired in 1999 in an auction process. AMP paid £510 million for National Provident Institution, and offered a further £800 million in capital support on commercial terms. National Provident Institution had £13.8 billion of assets as at the last balance sheet date prior to acquisition. As part of the transaction, National Provident Institution was closed to new business and ring-fenced for the benefit of policyholders within a company called National Provident Life Limited. A new company, NPI Limited ("NPI") was formed into which all new business was written.

More recently NPI tried to focus on being a specialist pensions provider using the IFA channel and employee benefit consultants. NPI was fully closed to new business in June 2003. AMP's embedded value for NPI as at 30 June 2003 was £182 million based on a 5% discount margin over long term government bond rates.

6.4 Portfolio businesses

Towry Law

Towry Law is a financial advisory group, principally operating in the UK, Middle East and Asia. It was acquired by AMP in 2001. Towry Law operates through four divisions: Towry Law Life and Pensions, Towry Law International, Towry Law Insurance Brokers and Towry Law Mortgage Services. Towry Law does not manufacture its own products but offers advice to clients on financial services products manufactured by other companies, and levies a commission and/or charges fees. Towry Law's target customers are mass affluent, aspiring individuals and Small to Medium Sized Enterprises ("SMEs"). Towry Law benefits from a recognised brand and a broad customer base, giving it a strong position in its chosen markets.

Towry Law operates regionally in the UK, and overseas in Hong Kong, Bahrain, Japan, Dubai and Spain.

Ample

Ample is an online financial website with over one million registered users. Ample offers a fund supermarket offering unit trusts and OEICs from a number of leading fund managers as well as an execution only share dealing service. Ample has been in operation since 2001 and developed out of the combination of Interactive Investor's equity information site and AMP's funds transaction site (Ample).

Virgin Money

AMP (UK) holds a 50% stake in Virgin Money, a joint venture with the Virgin Group. Virgin Money has the global rights to the Virgin brand for the manufacture and distribution of retail financial services products and has approximately 735,000 customers. The business was initially established in March 1995 and AMP acquired its interest in November of that year. The traditional focus of the business was on the manufacture and distribution of savings and pensions products. However, as the product range has broadened and the emphasis on product manufacturing has declined, Virgin Money's strategy has evolved to concentrate on the branded packaging of third party products to the UK and Australian markets while its in-house manufactured products are expected to contribute a declining proportion of revenues.

In the UK, Virgin Money's principal source of new business is now the distribution of the Virgin credit card through a manufacturing agreement with MBNA; there are in excess of 300,000 cards in issue. Other products packaged for the UK market include household and car insurance, deposit and mortgage accounts and share dealing, all in conjunction with appropriate third parties. In addition, Virgin Money offers tracker and fixed income unit trust funds, life assurance (term assurance and critical illness), equity ISAs and individual and group pension products. Recently, Virgin Money has started offering personal loans via its relationship with MBNA. In Australia Virgin Money launched the Virgin credit card in partnership with Westpac in May 2003, receiving some 255,000 applications to the end of July 2003, and issuing approximately 100,000 cards.

6.5 Board and Management

The proposed composition of the Board of HHG is shown below:

Board Member	Brief Resume
Sir Malcolm Bates Chairman	<ul style="list-style-type: none"> Appointed to AMP Board in 1998. Former Deputy Managing Director, GEC. Chairman Premier Farnell; previous non executive roles in a number of organisations.
Roger Yates Managing Director and Chief Executive	<ul style="list-style-type: none"> Managing Director of HGI since 1999. Director since 2002. 22 years' experience in the funds management industry. Previously CIO of Invesco Global; previous senior roles with LGT and Morgan Grenfell.
Nicholas Toby Hiscock Chief Financial Officer	<ul style="list-style-type: none"> Director of HHG since August 2003 and CFO since May 2003. 22 years' experience as an accountant. Previously Global Director of Finance & Operations, HGI.

Board Member	Brief Resume
Ian Laughlin Managing Director, UK Life Services	<ul style="list-style-type: none"> Executive Director of HHG since January 2003. Almost 30 years' financial services experience; actuary. Joined AMP in November 1996 as Chief Manager, Life and Risk Insurance Services.
Peter Costain Non-executive Director	<ul style="list-style-type: none"> Director of HHG since 1994. Former Chief Executive and Deputy Chairman of construction group, Costain Group. Accountant; director of Wessex Water Services Limited.
Roger Patrick (Pat) Handley Non-executive Director	<ul style="list-style-type: none"> Director of HHG since June 2003; appointed to the AMP Board April 2003. Previously Chief Financial Officer of Westpac Banking Corporation, Chairman and CEO of County Savings Bank, Chief Financial Officer of Banc One Corporation and a director of Suncorp Metway. Chairman of Pacific Brands.
Anthony Hotson Non-executive Director	<ul style="list-style-type: none"> Director of HHG since November 2002. Former Managing Director and head of Financial Institutions Group, UBS Warburg. Formerly at the Bank of England and at McKinsey.
Andrew Mohl Non-executive Director	<ul style="list-style-type: none"> Managing Director and Chief Executive Officer of AMP Limited since October 2002. 20 years' plus financial services experience. Joined AMP in 1996 as General Manager Retail Distribution, AMP Financial Services. Former ANZ Senior and Chief Economist (1986-90); past Deputy Head of Research at the Reserve Bank of Australia.
Sir William Wells Non-executive Director	<ul style="list-style-type: none"> Director of HHG since April 1994. President, Chesterton International. Chairman, NHS Appointments Commission; director of Exel.

Source: AMP.

Note: Andrew Mohl will be on HHG's Board as long as AMP retains a shareholding of more than 5%.

Roger Yates, Toby Hiscock and Ian Laughlin will also be members of HHG's management team. In addition, the team will comprise:

Executive	Brief resume and responsibilities
Ian Buckley Chief Investment Officer	<ul style="list-style-type: none"> Joined HHG in 1992. Previously at Sun Life Asset Management.
Mike Clare Managing Director, Henderson UK/Asia	<ul style="list-style-type: none"> Previously Chief Investment Officer of AMP Asset Management New Zealand, subsequently Managing Director.
Jonathan Moss Finance Director of UK Life Services and Chief Actuary	<ul style="list-style-type: none"> Has held a number of senior actuarial roles in AMP including Chief Actuary, AMP Financial Services.
Steven O'Brien General Counsel	<ul style="list-style-type: none"> Has held a number of senior legal roles since joining National Provident Life in 1988, including Executive Legal Counsel for Henderson since 2000. Formerly with British Telecom.
Anne Rein Director of Human Resources and Corporate Affairs	<ul style="list-style-type: none"> Joined AMP in 1995 Previously HR Executive at AMP Asset Management. Former Deputy Director General, NSW Premier's Department, responsible for public sector performance improvement.

Source: AMP.

6.6 Pro forma financial performance and position

6.6.1 Pro forma financial performance

HHG

The Explanatory Memorandum sets out detailed consolidated historic pro forma financial results for HHG. Set out below is HHG's pro forma consolidated historic financial results for the years ended 31 December 2000, 2001 and 2002 and the six month period ended 30 June 2003. In the following sections, divisional historic results are set out for Henderson and UK Life Services. All financial information is presented under Australian GAAP.

\$m	2000	2001	2002	1H 2003
Total assets under management (\$ billion)	224.1	226.4	196.3	170.8
Henderson	234	117	97	28
UK Life Services	303	355	226	(24)
Other Businesses	-	(22)	(30)	(2)
Total business units operating profit	537	450	293	2
Corporate Office	(51)	(34)	(28)	(4)
Total operating margins	486	416	265	(2)
Underlying investment income	283	292	219	114
Underlying contribution	769	708	484	112
Investment income market adjustment	(160)	(441)	(139)	10
Amortisation of goodwill	(8)	(8)	(9)	(9)
Net profit after income tax before corporate borrowing costs	601	259	336	113
Net assets	5,966	5,745	6,775	4,815
Intangibles	2,189	2,791	2,088	997
Total Invested Capital	8,155	8,536	8,863	5,812
Return on invested capital	7.5%	3.1%	3.9%	3.1%

Source: AMP.

HHG's operating performance over the past three years reflects the increasingly difficult trading environment, represented most clearly by the fall in equity markets and hence funds management revenue over the period. While pro forma net profit after tax before corporate borrowings rose to \$336 million in 2002, this primarily resulted from an increase in net investment income driven by bond appreciation in the UK and a reduction in growth assets as a percentage of total managed assets, rather than an improvement in core operating performance.

The fall in pro forma net profit after tax in the six months to 30 June 2003 primarily reflected reduced operating margins in UK Life Services (due to market impact, reduction in equity exposure and to the impact of closure of new business, including service company cost overruns) and a fall in Henderson operating margins due to the decline in equity markets. The fall was softened by an increase in net investment income due to a slight recovery in equity markets during the period. It should be noted that total invested capital fell in this period as a result of write-offs in each of the main business units and the stronger Australian dollar.

Henderson

\$m	2000	2001	2002	1H 2003
Fee income	755	627	592	247
Management expenses	(424)	(452)	(442)	(209)
Income tax	(97)	(51)	(53)	(10)
Transformation costs	-	(7)	-	-
Operating margin	234	117	97	28
Underlying investment income	6	7	7	3
Underlying operating profit after income tax	240	124	104	31
Net assets	331	390	311	404
Intangibles	1,253	1,241	1,028	817
Total invested capital	1,584	1,631	1,339	1,223
Cost to income ratio	56%	71%	73%	83%
RoIC	16.7%	7.7%	7.0%	4.8%
Assets under management by asset class (\$bn)				
Local equities	97.2	81.7	67.8	45.2
International equities	48.1	48.0	34.4	28.6

\$m	2000	2001	2002	1H 2003
Fixed interest	65.4	81.0	77.1	82.2
Property	12.8	14.7	15.4	13.5
Private Capital	0.6	1.0	1.6	1.3
	224.1	226.4	196.3	170.8
Assets under management by line of business (\$bn)				
Retail – open end	22.8	20.2	15.4	14.0
Retail – closed end	18.8	14.2	10.8	9.8
Subadvisory	29.6	27.0	21.0	18.0
Institutional	57.0	74.8	69.0	61.8
Life Services' life funds	95.9	90.2	80.1	67.2
	224.1	226.4	196.3	170.8

Source: AMP.

Henderson's operating margin has steadily fallen since 2000 as fee income has fallen, reflecting reduced funds under management driven by falling equity markets, the strengthening of the Australian dollar and some net outflows; although operating costs have been reduced, management has invested a proportion of these savings in developing business in future growth areas. This has led to an increase in the cost to income ratio from 56% in 2000 to 83% in the half year to June 2003. Investment income has remained broadly steady across the period.

The business unit's return on invested capital (RoIC) fell significantly in 2001 but has shown smaller falls in subsequent periods. The result in 2000 included exceptional investment performance fees from technology funds. While profitability has fallen since 2001, this has been somewhat offset by tangible and intangible write-downs which have reduced invested capital, thus reducing the effect of falling margins on the RoIC.

Funds under management have fallen by approximately one quarter since the end of 2000 with a more significant percentage fall in retail assets. The percentage of assets invested in equities has also fallen, reflecting weak equity markets and, in the period to 30 June 2003, the de-risking of UK Life Services and decision to invest more heavily in fixed income assets.

UK Life Services

\$m	2000	2001	2002	1H 2003
Profit margins released	230	230	152	45
Profit margins – other operations	10	16	102	(38)
Total profit margins	240	246	254	7
Experience profits/(losses)	3	64	(22)	(37)
Capitalised (losses)/loss reversals	60	45	(6)	6
Operating margins	303	355	226	(24)
Underlying investment income	205	236	211	131
Underlying operating profit after income tax	508	591	437	107
Net Assets	3,957	4,604	6,994	4,956
Intangibles	936	1,094	844	-
Total Invested Capital	4,893	5,698	7,838	4,956
Cost to income ratio	65%	64%	64%	72%
Retention/persistence	89%	89%	88%	85%
RoIC	10.6%	11.2%	6.5%	3.3%

Source: AMP.

Profit margins declined in the period to 31 December 2002 following reductions in underlying with-profit assets, lower equity backing ratios and increases in provisions for pensions mis-selling, mortgage endowments and guaranteed annuity options. Investment income fell slightly as a result of the shift away

from equities – this was partially offset by the return on the increased capital allocated to UK Life Services. The increase in capital comprised a contribution of \$1,393 million from AMP Group including an increase of \$1,211 million in admissible assets and regulatory waivers following an internal restructuring, partially offset by asset writedowns, payment of dividends and a reallocation of shareholder attributable assets.

In the six months to 30 June 2003, profit margins decreased due to the reduction in equity exposure and the impact of closure of new business. Invested capital fell due to a number of write-downs in goodwill and to reflect the expectation that shareholder assets within the life companies would be required to support policyholder liabilities. Over the period persistency experience declined from 88% to 85%, reflecting difficult market and company conditions.

6.6.2 Pro forma financial position

The table below summarises the pro forma consolidated financial position of HHG as at 30 June 2003 assuming the Demerger becomes effective:

\$m	H1 2003		H1 2003
Assets		Liabilities	
Cash	12,041	Payables	2,151
Receivables	2,589	Provisions	1,621
Equity Securities	16,061	Borrowings	1,492
Debt Securities	39,901	Life insurance policy liabilities	62,520
Property	4,724	Subordinated debt	320
Other investments	910	Other liabilities	978
Other Assets	134		
EMVONA	997	Total liabilities	69,082
Total assets	77,357	Net assets	8,275
		Ordinary equity	5,667
		Unattributed life funds	2,596
		Outside equity interests	12
		Total Equity	8,275

Source: AMP.

Note: The borrowings and subordinated debt above represent principally policyholder debt.

As part of the Demerger it is proposed that AMP re-capitalises HHG to remove £1,041 million of external debt (which includes £75 million of costs related to the termination of the cross currency swap associated with the RPS, which will be settled in cash prior to the Demerger). Immediately after the Demerger, HHG will be left with no external hybrid or debt financing other than a £100 million convertible loan note facility drawn down to £50 million (see section 1.3.3 of this report for further details), £1 million of loan notes issued by Henderson and a £8 million FRN issued by AMP (UK) Financial Planning. In addition, approximately £191 million of further equity will be injected by AMP into HHG. Pursuant to the Demerger, HHG and AMP have agreed that various guarantees and financial support arrangements between AMP and HHG be discharged.

The UK Life Services contribution can be expressed in traditional embedded value terms as set out in the table below:

£ m	31 December 2002	30 June 2003
Embedded value	1,979	1,341
- adjusted net assets	672	39
- loans and reserves	125	76
- value of in-force business	1,182	1,226
Embedded value by major entity		
Life business	1,896	1,344
Business support operations	52	-
Other subsidiaries	31	(3)

Source: AMP.

Note: The above figures are calculated at the 5% discount margin over long term Government bond rates.

This can be split between the businesses as follows:

£ m	31 December 2002	30 June 2003
Pearl		
Adjusted net assets	574	-
Value of in-force business	829	1,006
Embedded value	1,403	1,006
NPI (new NPI)		
Adjusted net assets	106	27
Value of in-force business	141	155
Embedded value	247	182
London Life		
Adjusted net assets	36	27
Loans and reserves	125	76
Value of in-force business	85	52
Embedded value	246	155
Other subsidiaries		
BSO (service co)	52	-
AMP UK Services	(29)	(6)
Towry Law	77	14
AMPLE	13	3
II	(8)	(15)
NPI non-life	22	29
Eliminations	(44)	(27)
Total	1,979	1,341

Source: AMP.

6.6.3 Pro forma regulatory capital position

HHG's pro forma statement of regulatory capital as at 30 June 2003 is set out below:

\$m	Tangible Capital Resources	Intangibles	Total Capital
Henderson	406	817	1,223
Pearl	3,683	-	3,683
London Life	671	-	671
Life Services other	602	-	602
Other	482	180	662
Eliminations	(1,029)	-	(1,029)
Total	4,815	997	5,812

Source: AMP.

Note: Eliminations relate to Pearl life funds' investment in Henderson (\$797m) and Virgin Money (\$232m).

HHG and its principal operating subsidiaries are regulated by the FSA and are required to maintain minimum amounts of regulatory capital and reserve levels. As at 30 June 2003 HHG's minimum regulatory capital requirement was \$4,422 million compared to actual available capital after eliminations of \$5,812 million. The eliminations represent investments by Pearl in Henderson and Virgin which are already included in Pearl's capital resources. The regulatory positions of HHG's divisions are discussed below. It should be noted that the FSA has issued a consultation paper (CP 195) which will also require, if and when implemented, HHG to produce realistic balance sheets for its life companies. These are set out in the Consulting Actuary's report in the Explanatory Memorandum and summarised in section 6.6.4.

FSA approval

The FSA has given its approval in principle for the Demerger, having received a number of commitments from AMP and HHG. In particular:

- AMP has given certain financial commitments as set out above;
- Pearl has given an undertaking to the FSA that it will restrict transfers to shareholders' funds from the Pearl 90/10 fund for as long as policyholder benefits require support and in any event will not release any capital transfers so accumulated within the fund before 2014 without the prior consent of the FSA; and
- Pearl has agreed that it will not remove any capital or pay a dividend from Pearl without the prior consent of the FSA.

Henderson

In common with all investment management firms in the UK, Henderson is required to meet prudential requirements set by the FSA governing its level of capital. In March 2003, the FSA published proposed amendments to these requirements in Consultation Paper 173. While these requirements have yet to come into force, they propose changes to the way in which investment management firms, which are members of a group, are treated for capital purposes. In response to these changes, the Demerger proposal includes a new £40 million re-capitalisation of Henderson to ensure that it continues to meet FSA requirements; this will be funded by way of an equity injection from AMP to HHG.

UK Life Services

Pearl, London Life and NPI are all required to meet FSA regulatory requirements governing the margin of the assets they hold over and above their liabilities (the Required Minimum Margin or "RMM"). The key measure of financial strength for life insurers is the surplus assets over and above that required for the RMM, known as free assets. The ratio of free assets to liabilities is known as the Free Asset Ratio, or FAR. FARs are calculated depending on the type and amount of insurance business that the company writes. The FAR position of UK Life Services is as shown below.

Free asset ratio (FAR)	31 Dec 2001	31 Dec 2002	30 June 2003
Pearl	4.7%	2.7%	1.8%
London Life	5.4%	2.6%	1.1%
NPI Ltd	3.6%	1.1%	0.7%
National Provident Life	8.2%	1.3%	0.4%

Source: AMP.

The free asset ratios of UK Life Services' subsidiaries are considerably lower than the UK average. The industry average free asset ratio of companies writing with-profits business was 5% as at 31 December 2002.

In future, UK Life Services will need to report on the "twin peaks" approach, taking into account realistic liabilities, as described in Section 4. The prudential guidelines of UK life insurance companies is undergoing a period of change, which could increase capital requirements. The Consulting Actuary's realistic balance sheet assessment indicates that UK Life Services has little free capital after satisfying its risk capital margin, being the excess assets required to support the business in adverse conditions.

Portfolio Businesses

As part of the Demerger, Towry Law will be recapitalised by the injection of £40 million by AMP.

6.6.4 Consulting Actuary's Report

The consulting actuary, Tillinghast-Towers Perrin ("Tillinghast"), has conducted an assessment of the embedded value of UK Life Services as at 30 June 2003 using the traditional and market-consistent methodologies. Tillinghast's conclusions are set out in the following table.

UK Life Services (£m)	Traditional	Market-consistent
Embedded Value	845	900

Source: Tillinghast.

Note:

Traditional embedded value calculated at risk discount rate of 9.4% for Pearl and NPLI, and 7.4% for all other companies. Market-consistent embedded value excludes explicit agency costs, which represents the discount that shareholders may apply to the company's equity because they do not have direct control over its deployment.

Tillinghast's calculation of the traditional embedded value for UK Life Services is substantially lower than the £1,341 million embedded value set out in AMP's Investor Report for the six months to 30 June 2003. The key differences relate to the definition of capital (Tillinghast excludes capital allocated to other business units eg. Henderson and Virgin Money) and recognition of future expense savings (Tillinghast excludes anticipated expense savings). If Henderson, Virgin Money and Towry Law were included in the Tillinghast calculation, the traditional embedded value as at 30 June 2003 would have been £1,261 million.

The key differences between the traditional embedded value and the market-consistent embedded value calculated by Tillinghast for UK Life Services are set out below:

Reconciliation of Market-Consistent to Traditional Embedded Value (£m)	
Traditional Embedded Value	845
- Removal of Traditional Cost of Prudential Capital	276
- Removal of Traditional Allowance for Operating Profit Risks	193
Specific Allowance for Risk:	
- Policyholder Financial Guarantees and Options	(233)
- Other Market Related Risks	(44)
- Market-consistent Cost of Capital	(137)
Market-Consistent Embedded Value	900

Source: Tillinghast.

Set out in the table below are the realistic balance sheets for the UK Life Services companies which have been prepared by Tillinghast on the basis of Consultation Paper 195 issued by the FSA in August 2003. This table highlights the fact that the free assets in the realistic balance sheets represent only a small buffer (£125 million) against the realistic liabilities of £20 billion.

The above asset values reflect current admissibility rules. If the FSA removes the option to value at market non-insurance undertakings in accordance with Consultation Paper 145, the level of inadmissible assets in Pearl could increase by up to £210 million.

£m	Pearl	National Provident Life	London Life
Admissible assets	14,874	7,915	2,865
Adjustment for non-profit business	(3,471)	105	(1,122)
Available assets	11,403	8,020	1,743
Realistic liabilities	(11,017)	(7,819)	(1,714)
Assets available to cover risk capital margin	3,862	201	29
Risk capital margin	(311)	(151)	(29)
Free capital	75	50	0

Source: AMP.

Further details of the valuation work and other actuarial advice provided by Tillinghast to AMP are set out in the Consulting Actuary's report, which is included in the Explanatory Memorandum.

6.7 Situation Analysis

6.7.1 Key strengths

Scale

With some £69 billion under management, Henderson is a mid-sized UK fund manager. With such funds under management it should be able to achieve operating efficiencies while offering a full service asset management proposition. Henderson also has the ability to extract significant synergies from any acquisition it may subsequently make. The UK asset management sector is a reasonably fertile source of mergers and acquisitions activity and Henderson should be able to find, or become, a suitable acquisition target in due course if that is desired.

Capabilities and distribution

Henderson has a broad range of funds management expertise for a diverse client base which should assist it in developing its business in future. Henderson has strong distribution links through the global asset consultants (on the institutional side) and UK independent financial advisers (on the retail side) as well as through its Continental European distribution relationships. Improving funds management performance should over time assist in generating new business from these sources. Henderson also has distribution links through Towry Law, its IFA business.

Profitability

Having closed its life operations to new business, UK Life Services has an opportunity to run its closed books in such a way as to generate maximum profit, subject to ensuring the fair treatment of policyholders, assuming it can control costs and generate some administrative efficiencies.

Capital release

As the life businesses mature and customers leave the books, so the release of capital previously held as reserves is facilitated. However, given current uncertainty over the new realistic regulatory capital requirements for life companies, HHG is unable to predict when capital may be able to be released.

6.7.2 Key issues

Stock market risk

HHG's prospects are directly linked to the performance of the stock market. The cost base is relatively fixed but the generation of profitability depends on predictable and positive equity market performance – which directly affects funds management fees and the release of embedded value profit.

Product reviews/liabilities

In the past HHG has sold a number of products which have attracted regulatory interest. These products have tended to be long-term savings rather than asset management based. HHG has provisions against reviews or claims against them in relation to such matters; the risk is that such provisions are inadequate or that the FSA reviews additional product areas which are unprovided for. Examples of such reviews/product liability are the mis-selling of personal pensions, guaranteed annuity option reserving, and sales of mortgage-related endowment policies. In some cases the cost of redress can be shared with policyholders. Current provisions total some £1.25 billion, with some £400 million relating to guaranteed annuity options, £300 million for pensions mis-selling, £195 million in relation to the mortgage endowment “promise” and £19 million for mortgage endowment mis-selling. HHG's auditors have reviewed and approved the level of provisioning.

Declining life book

After the Demerger, HHG's three closed life businesses may start to experience higher lapse or termination rates as a result of the corporate change. As investors withdraw funds, this has a number of effects – the company no longer has to provide for payment of future benefits to that investor, hence

creating the potential to release capital. At the same time Henderson's funds under management fall, thereby reducing revenue levels. Management considers that the timing of the replacement of UK Life Services revenues and assets by third party assets represents a significant challenge for Henderson. UK Life Services is currently experiencing some increases in lapse rates compared to last year, particularly in relation to certain product lines.

Market Value Adjusters

A number of Pearl products were written without market value adjusters ("MVAs"). This has the consequence that policyholders who choose to withdraw their funds have the potential to remove more than their underlying asset shares at any point in time. These products in particular are currently experiencing higher than normal lapse rates. This could have adverse consequences for the financial strength of Pearl on a realistic basis.

Regulatory capital position

As noted earlier, UK Life Services' regulatory capital position is weaker than its peers, and narrowly satisfies the required minimum margin in relation to each entity at 30 June 2003. On the realistic basis, UK Life Services is also thinly capitalised, as shown in the Consulting Actuary's report included in the Explanatory Memorandum. There is, therefore, a significant risk that adverse experience in one of these funds, which could result from changes to future experience assumptions, compensation claims or adverse market movements could lead to a further weakening and possibly a breach of the required minimum margin. In such circumstances HHG would have to consider measures to protect UK Life Services' regulatory capital position, which could include raising additional capital.

6.8 Peer review

This section compares HHG against a number of its peers, both life companies and fund managers. There are few direct comparators to HHG, though Britannic does bear some degree of similarity in having a largely closed life business and an asset management division, but it is clearly several times smaller than HHG in terms of assets under management.

HHG

The table below reviews HHG against its main UK wealth management and life insurance peers.

	Market capitalisation (£m)	Total FUM ² (£bn)	New business (APE) ⁵ (£m)
Pearl¹	n/a	15	116
NPI¹	n/a	11	115
Henderson	n/a	69³	n/a
Amvescap	4,037	207	n/a
Aviva	11,945	208	2,373
Britannic	518	14	82
Friends Provident	2,398	60 ⁴	377
Isis	380	60	n/a
Legal & General	6,681	116	700
Prudential	8,891	155	1,900
Schroders	2,030	88	n/a
Standard Life	n/a	83	1,300

Source: Company accounts, Bloomberg.

Notes:

1. Pearl and NPI are now closed to new business.
2. As at 31 December 2002: Pearl number from draft 2002 accounts.
3. Includes UK Life Services FUM.
4. Funds managed by Isis, in which Friends Provident holds a 67.5% shareholding.
5. Life and pensions only, except for Britannic which includes retail investment sales.

The table above demonstrates Henderson's position as a mid-sized fund manager. UK Life Services had a relatively modest new business market share and has now ceased writing new business.

Henderson – fund flows

The table below shows Henderson's net retail sales of unit trusts and OEICs in the UK relative to the market over the last four years.

£m	1999	2000	2001	2002
Henderson's net retail sales of unit trusts and OEICs in the UK	368	1,513	267	34
Market share (%)	2.6%	8.5%	2.9%	0.4%

Source: AMP and Investment Management Association.

Henderson's share of UK retail unit trust and OEIC sales has declined over the past two years, although 2000 benefited from exceptional technology sales.

UK Life Services

The table below benchmarks HHG's two main life businesses' share of the new business market over the last five years. It will be seen that both Pearl and NPI lost ground to their peers over this period. London Life has not been separately analysed because it has been largely closed to new business since 1995.

New business (£m) / market share	2002	%	2001	%	2000	%	1999	%	1998	%
Pearl	115.5	1.0	95.5	0.9	123.7	1.3	115.5	1.2	111.3	1.3
NPI	114.6	1.0	105.5	1.0	115.3	1.2	136.1	1.4	150.7	1.7
Industry total	11,091		10,980		9,824		9,844		8,700	

Source: Statutory Returns, Thesys, ABI.

A key element to UK Life Services' value is the extent to which customers remain with the business for the full policy term. UK Life Services' terminations experience is demonstrated by the table below. Pearl's lapse rates have increased over time; NPI's have increased modestly albeit from a low base.

Termination ratio (%) ¹	2002	2001	2000	1999	1998
Pearl	6.4	6.2	6.1	5.9	4.8
NPI²	3.3	n/a	2.1	n/a	n/a
Aviva	8.5	7.5	6.5	6.1	7.0
Britannic	8.9	7.5	6.1	4.8	4.3
Friends Provident	12.2	5.3	3.0	3.6	3.4
Legal and General	8.9	7.7	6.7	5.8	5.7
Prudential	5.7	4.6	4.1	3.5	3.5
Standard Life	4.4	2.5	2.3	2.0	2.2

Source: Thesys, Statutory Returns.

Notes:

1. Non-linked business (i.e. with-profits). Ratio shows surrenders and forfeitures as a % of average premiums in force.
2. NPI is shown from year of acquisition.

UK Life Services' efficiency in capturing new business over the last five years is shown below:

Initial expense ratio (%) ³	2002	2001	2000	1999	1998
Pearl¹	137.3	126.1	134.3	111.1	100.3
NPI^{1,2}	44.1	41.8	65.4	n/a	n/a
Aviva	55.8	64.7	91.0	84.0	102.5
Britannic	102.4	121.9	104.9	95.2	82.1
Friends Provident	99.4	51.3	70.0	75.6	84.2
Legal and General	90.1	107.5	90.0	75.5	76.7
Prudential	93.0	92.2	76.6	69.5	82.7
Standard Life	43.6	40.4	42.4	43.8	49.7

Source: Thesys, Statutory Returns.

Note:

1. Pearl and NPI are now closed to new business.
2. NPI is shown from year of acquisition.
3. Ratio shows new business expenses as percentage on new premiums.

The characteristics of Pearl as a direct sales business and NPI as an IFA distributor are clearly demonstrated by the above table. In May 2003 UK Life Services closed to new business and thus will not incur further new business acquisition expenses. Strict control of costs will ensure HHG extracts maximum value from its closed life books.

Renewal expense ratio (%) ³	2002	2001	2000	1999	1998
Pearl¹	34.8	40.8	44.5	38.3	31.4
NPI^{1,2}	12.5	12.9	34.4	n/a	n/a
Aviva	14.3	27.7	20.8	18.8	15.5
Britannic	38.0	58.9	61.6	79.1	81.0
Friends Provident	15.8	14.1	13.9	11.3	10.7
Legal and General	15.0	19.1	18.7	24.7	28.0
Prudential	26.9	36.5	26.2	27.6	24.6
Standard Life	14.3	12.5	10.3	9.5	10.4

Source: Thesys, Statutory Returns.

Note:

1. Pearl and NPI are now closed to new business.
2. NPI is shown from year of acquisition.
3. Ratio shows business maintenance expense as percentage of business inforce (excluding new business).

Renewal expenses indicate the efficiency of a life office in maintaining existing business. Direct sales businesses such as Pearl (which has closed to new business) and Britannic clearly experience higher expense levels.

7 DEMERGERS

7.1 Overview

A demerger is one method by which identifiably different business activities, carried on by one company or group can be formally separated into two or more stand-alone entities. They are typically undertaken to create companies with a single geographic, industry or commodity focus. A demerger often involves a pro-rata distribution of shares in a subsidiary to the shareholders of the parent company such that the shareholders hold shares in the demerged entities in the same proportions as they held shares in the demerging company before the demerger.

A parent company will usually undertake a demerger when it considers that a part of its business no longer sits naturally with the remainder of the group, and value for shareholders can be unlocked by the decoupling of that part of the group.

The key principle behind demergers is that investors are able to achieve diversification themselves and do not reward corporate diversification unless there are substantial synergies between the various businesses. The operational challenges of running a portfolio of businesses (ie. a conglomerate) and the lack of focus can cause such groups to trade at a discount to a “sum of the parts” valuation.

7.2 Australian experience

A number of demergers have taken place in Australia over the last few years. The majority of these demergers involved subsidiaries exposed to a different industry or geographic region to the parent company:

Date	Parent Company	Demerged Entity	% Demerged	Method
October 1997	Boral Limited	Envestra Limited	80.0%	IPO
June 1998	Coca-Cola Amatil Limited	Coca-Cola Beverages Limited	49.9%	Distribution
October 1998	Delta Gold	Zimbabwe Platinum Mines Limited	49.0%	Distribution
February 2000	Boral Limited	Origin Energy Limited	100.0%	Distribution
April 2000	Amcor Limited	PaperlinX Limited	82.0%	Distribution
June 2000	AGL Limited	Australian Pipeline Trust	70.0%	Distribution
October 2000	BHP Limited	OneSteel Limited	100.0%	Distribution
March 2001	Village Roadshow Limited	Austereo Limited	55.0%	IPO
August 2001	Futuris Corporation	Australian Agricultural Company	60.0%	IPO
July 2002	BHP Billiton Limited	BHP Steel Limited	94.0%	Distribution
November 2002	WMC Limited	Alumina Limited	100.0%	Distribution
March 2003	CSR Limited	Rinker Group Limited	100.0%	Distribution

Source: Company documents; IRESS; Bloomberg.

The success of a demerger is generally measured by comparing the market value of the parent before the demerger announcement to the combined market value of the parent and the demerged entity after both entities are listed. This should then be compared to the change in the general market to determine the relative performance of the demerged entities. The table below sets out a summary of changes in the combined market values of relevant demerged entities (as measured between the date of announcement and three and twelve months after the first day of trading of shares in the demerged entity) and the corresponding movement in the general market:

Demerger	Change in Market Value (3 mths)	Change in All Ordinaries (3 mths)	Out-performance ²	Change in Market Value (12 mths)	Change in All Ordinaries (12 mths)	Out-performance ²
Coca-Cola Amatil / Beverages	(31.8%)	(9.3%)	(22.5%)	(16.4%)	14.0%	(30.4%)
Delta Gold / Zimbabwe Platinum	24.8%	(4.4)%	18.2%	36.3%	(0.6%)	36.9%
Boral / Origin	(35.3%)	9.4%	(44.7%)	(12.0%)	20.0%	(32.0%)
Amcor / PaperlinX	22.2%	3.4%	18.8%	29.4%	1.1%	28.3%
BHP / OneSteel	4.0%	13.8%	(9.8%)	5.9%	10.7%	(4.8%)
BHP Billiton / BHP Steel	0.9%	(7.8%)	8.7%	0.8%	(4.3%)	5.1%
WMC / Alumina	(16.3%)	(15.2%)	(1.1%)	Na	Na	Na
CSR / Rinker	23.8%	1.3%	22.5%	Na	Na	Na

Source: IRESS; Bloomberg; Aspect Financial; Company Announcements; Rothschild analysis.

Note:

1. "Market value" approximates the value of shares that a shareholder holds in the demerged entities, as measured by the number of shares as at first day of trading of the demerged entities multiplied by the relevant share price.
2. Outperformance is equal to the change in market value less the change in All Ordinaries Index.
3. The Change in Market Value and Change in All Ordinaries is calculated from the Announcement date to 3 and 12 months after the first day of trading of the demerged entity.

The Australian demerger experience has been mixed, and does not give positive guidance to the potential success, or otherwise, of the AMP Demerger proposal. The performance of companies after a demerger depends on a number of factors, with company specific factors being the most important. Our discussion of AMP specific factors as well as our assessment of the Demerger can be found in section 9.

7.3 UK experience

The UK has seen a higher frequency of demergers over recent years than in Australia and a number of these have involved subsidiary entities being demerged which operate in a similar industry and geographical region as their parents. The table below sets out relevant demergers since the beginning of 1998 and shows the same analysis of the demergers as outlined in the section above.

Parent company / demerged entity	Date of demerger	Change in Market Value (3 mths)	Change in FTSE All Share (3 mths)	Out- performance ²	Change in Market Value (12 mths)	Change in FTSE All Share (12 mths)	Out- performance ²
Northern Foods / Express Dairies	March 1998	7.0%	11.9%	(4.9%)	(40.2%)	17.6%	(57.8%)
Lonrho / Lonrho Africa	May 1998	(36.6%)	2.9%	(39.6%)	0.3%	14.4%	(14.1%)
BTG / Torotrak	July 1998	(38.6%)	(12.3%)	(26.3%)	(12.3%)	4.9%	(17.2%)
United News and Media / Garban	Nov 1998	(26.5%)	(0.7%)	(25.8%)	(22.2%)	9.4%	(31.6%)
Tarmac / Carillion	July 1999	14%	5.8%	8.1%	Na	Na	Na
Penninsular & Oriental / P&O	October 2000	(21.1%)	(0.1%)	(21.0%)	(50.2%)	(17.2%)	(33.0%)
Princess Cruises							
BG Group / Lattice	October 2000	29.7%	(4.8%)	34.5%	35.7%	(21.1%)	56.8%
Chubb / Kidde	Nov 2000	(2.9%)	(4.2%)	1.3%	(15.5%)	(18.8%)	3.3%
Uniq / Wincanton	May 2001	(10.1%)	(13.8%)	3.7%	(6.5%)	(15.9%)	9.4%
Kingfisher / Woolworths	Aug 2001	(24.0%)	(19.4%)	(4.6%)	(46.2%)	(33.7%)	(12.5%)
British Telecom / MMo2	Nov 2001	(29.3%)	(14.4%)	(14.9%)	(38.1%)	(31.6%)	(6.5%)
Chorion / Urbium	May 2002	(60.8%)	(16.3%)	(44.4%)	(72.0%)	(24.7%)	(47.3%)
Mitchells & Butler / Intercontinental Hotel Group	April 2003	2.1%	10.1%	(8.0%)	Na	Na	Na

Source: Hydra; Bloomberg; Datastream; Company Announcements; Rothschild analysis.

Note:

1. "Market value" approximates the value of shares that a shareholder holds in the demerged entities, as measured by the number of shares as at first day of trading of the demerged entities multiplied by the relevant share price.
2. Outperformance is equal to the change in market value less the change in FTSE All Share.
3. The Change in Market Value and Change in FTSE All Share is calculated from the Announcement date to 3 and 12 months after the first day of trading of the demerged entity.

The experience of demergers in the UK is also mixed and makes it difficult to draw firm conclusions from precedent demergers other than that company specific factors are probably the most important factor in determining the outcome of any demerger.

8 ALTERNATIVES TO THE DEMERGER PROPOSAL

8.1 Overview

The AMP Board considered an extensive range of alternatives before deciding to recommend the Demerger proposal. The main alternatives to the Demerger considered by the Board were:

- maintaining the status quo;
- a trade sale or merger of all or part of AMP's UK businesses;
- a float of the Henderson group (ie. HGI) on the London Stock Exchange;
- a trade sale or merger of AFS; and
- various forms of demergers.

In our discussion below on the benefits and drawbacks of each of these alternatives, we have focussed on the issues that are distinct from the benefits and drawbacks of the Demerger proposal itself. Our assessment of the Demerger proposal is set out in section 9.

8.2 Consideration of main alternatives

Maintaining the status quo

The merits of AMP maintaining the status quo are largely the reverse of the advantages and disadvantages of proceeding with the Demerger. These are discussed in greater detail in section 9.

Sale or merger of all or part of HHG

A sale of all or part of AMP's UK businesses would generate cash for AMP, and could insulate AMP's Australia and New Zealand businesses from brand damage due to its issues in the UK. A merger of the UK operations with a local UK partner may allow it to mitigate its capital requirements in the UK, whilst effecting a partial decoupling of AMP's UK businesses.

AMP conducted discussions in late 2002 and early 2003 with a number of UK and European life insurers to gauge their level of interest in either an acquisition of, or merger with, its UK businesses. At that time, UK equity market conditions were extremely unfavourable with the FTSE 100 Index approaching a seven year low. Based on those discussions, there was little interest from the parties approached in reaching an agreement acceptable to the AMP board.

Since the announcement of the proposed Demerger in May 2003, AMP has received conditional proposals from a number of parties to acquire all or part of HHG. We believe that a trade sale of HHG (in whole or in part) could deliver value to shareholders. As at the date of this report none of these conditional proposals is so advanced or so certain in its terms that it can be considered preferable to the Demerger proposal. However, it is possible that the Board of AMP could reach agreement with one of the parties on mutually acceptable terms following the date of this report. In those circumstances the Board of AMP would have to reconsider its recommendation of the Demerger and advise shareholders accordingly.

Float of HGI on the LSE

An IPO of HGI would generate cash for AMP and establish HGI (either with or without its Australian and New Zealand operations) as a separate listed entity. However, this would not achieve a decoupling of AMP's UK life insurance business from its Australia and New Zealand operations.

The Pearl shareholders' fund currently holds the majority of the economic interest in Henderson. A float of HGI on the London Stock Exchange would involve a sale by Pearl of its interests in Henderson, the proceeds of which would flow back to the Pearl shareholders' fund. The net proceeds released to AMP as a result of a float of HGI would therefore have been modest.

Trade sale or merger of AFS

As with a trade sale or merger of its UK businesses, a trade sale or merger of AFS would release cash, but it would mean the disposal (in whole or in part) of AMP's most profitable business at a time when its value is being depressed by the problems faced by AMP's UK businesses as well as by weaker equity markets. Furthermore, the links between AFS and ACI are strong with a significant amount of ACI's new business coming from AFS in 2002. Any disposal of AFS would need to take into account the effect on ACI. AMP announced in late August 2003 that it had been approached by National Australia Bank in May 2003 with a view to acquiring AFS. Since no purchase price was offered by National Australia Bank, the Board of AMP declined to pursue the approach and no formal proposal resulted at that time.

Other forms of demergers

The AMP Board examined a number of forms of demergers to effect the decoupling of its UK life business from its Australia and New Zealand businesses. The main differences centred on whether HGI was included in AMP or HHG. The Demerger proposal separates HGI between its UK operations (i.e. Henderson) and its Australia and New Zealand operations (i.e. ACI), to be owned by HHG and AMP respectively. In view of the linkages between the life insurance companies and the funds management operations in the two countries, this represents, in our view, the optimal structure if a demerger is to be pursued.

8.3 Conclusion

The alternatives set out above have been considered by the AMP Board and all but one rejected. We concur with the Board's view that a trade sale of all or part of HHG on acceptable terms should continue to be pursued since it does offer a decoupling of the UK business from the Australian business, which is important for the preservation and enhancement of value for shareholders. A number of approaches have been made for all or part of HHG but as at the date of this report none is so advanced or so certain in its terms that it should forestall the Demerger process.

9 ASSESSMENT OF THE DEMERGER

9.1 Basis of assessment

In forming an opinion on whether the Demerger proposal is in the best interests of AMP shareholders as at the date of this report, Rothschild needs to assess whether the Demerger proposal is the strategic option most likely to deliver maximum value to AMP shareholders over time. In forming an opinion as to whether the capital cancellation is fair and reasonable to AMP shareholders as a whole, Rothschild considers that the same analysis should be used since the Demerger is to be effected by an interdependent capital cancellation and scheme of arrangement.

We have reviewed in the previous section the alternatives to the Demerger and have concluded that, in the absence of any concrete proposal to acquire all or part of AMP's UK businesses on appropriate terms, we should assess whether there is greater ability to maximise the value of AMP's assets under the existing group structure or by demerging the UK businesses.

9.2 Summary of opinion on the Demerger

The proposal before AMP shareholders is either to vote in favour of the Demerger, as recommended by the Board, or to continue with the current group structure by voting against the Demerger.

It is our view that the Demerger will provide two key benefits. First, we believe that implementation of the Demerger should help to arrest any further decline in the value of AMP arising specifically from the problems faced by AMP's UK Life Services business. As a result of these problems in the UK, AMP has experienced a decline in the perception of its brand in Australia which has caused commercial damage. In the event the Demerger does not proceed, we believe that this brand contagion could continue to have an adverse impact on the value of AMP's shares over time.

Secondly, AMP has a number of businesses attractive to third parties, of which the Australian businesses would be the most prized assets. However, the ability to realise full value for these assets through a takeover of AMP is constrained by its exposure, under the current group structure, to the risks and vulnerabilities of UK Life Services. AMP's attraction to a potential acquiror is therefore likely to be increased by the Demerger which will distance AMP from these risks and vulnerabilities. The Chief Executive of National Australia Bank, which increased its holding in AMP at the end of August 2003, has explicitly confirmed this by commenting that National Australia Bank "has no interest in acquiring AMP while AMP owns its UK business".

There is, in addition, a long-term strategic argument which favours separating the UK business from AMP's Australasian businesses. This argument is based on the fact that the market positions of the Australasian and UK businesses are substantially different. On the one hand, AMP is one of the leading life insurance and wealth management groups in Australia and New Zealand, whilst on the other hand, Henderson is a mid-market player in funds management and UK Life Services is closed to new business. The risk/ reward profiles of AMP and HHG are consequently different and there is little or no economic value in having them both grouped under one corporate structure. The Demerger will allow investors to choose whichever profile suits them, by enabling them to hold shares in either or both of AMP and HHG.

Finally, the basic economic rationale behind demergers is that the combined market value of the two parts will be greater than that of the whole. In the case of AMP, we are of the view that, once the Demerger documentation becomes publicly available, the two key benefits of the Demerger outlined above will then largely be reflected in its share price. This has already risen substantially since August 2003 and is now reflecting the greater degree of certainty associated with the Demerger structure and process. As a consequence (and in the absence of new information being released to the stock market), we do not expect the combined market capitalisations of AMP and HHG immediately after the Demerger to stand at a substantial premium to AMP's market capitalisation following publication of the Demerger documentation

(unless AMP becomes immediately subject to a takeover offer, in which case a control premium would be expected to arise). Further, if the Demerger were not to be implemented as a result of shareholders voting against the proposal, it is our view that the share price of AMP would fall after the vote (assuming the current share price were to be maintained until then).

An overall assessment of the Demerger proposal is necessarily judgemental. In our view, the benefits outweigh the drawbacks. This section addresses in further detail the reasons for our opinion, focussing on the benefits, drawbacks and risks of the Demerger proposal, including the implications of shareholders voting against the Demerger proposal.

9.3 Key benefits of the Demerger proposal

9.3.1 Commercial rationale for decoupling the UK business

The underlying commercial rationale for decoupling the UK business from the Australia and New Zealand business is driven by the following:

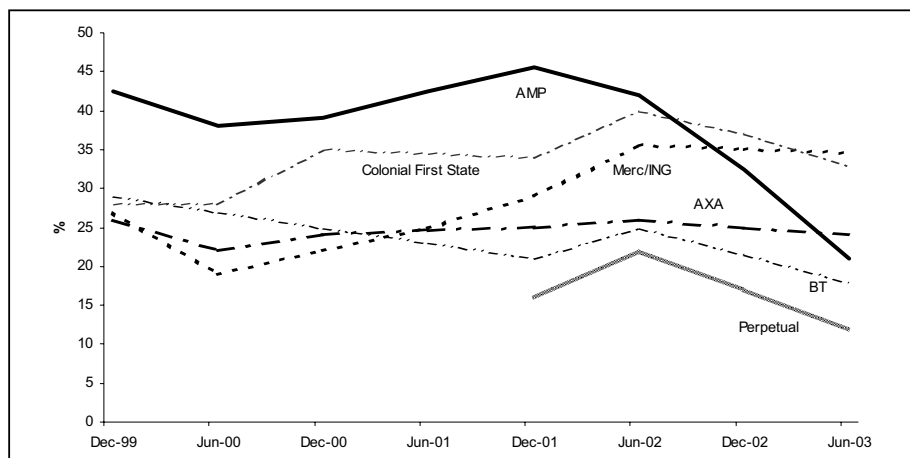
- the potential further damage to the AMP brand in Australia and New Zealand caused by the ongoing challenges in the UK life business;
- the insulation of AMP from any continuing demands for capital from HHG;
- the operational synergies being along geographic rather than business lines;
- the benefits of senior management focus;
- the different strategic positions of AMP and HHG in their respective markets; and
- the differences between the UK and Australian wealth management markets.

These drivers are considered in further detail below. In our view, the potential damage to the AMP brand in Australia is the most significant factor.

Protection of the AMP brand in Australia

Critical to any decision by an investor on where to place funds will be, inter alia, investment performance, pricing, service levels and the brand. The relative importance of these factors will vary from time to time and from individual to individual but the strength of the brand can be expected to be a significant influence in decision-making.

Market research and empirical data demonstrate that the AMP brand has suffered serious damage since the start of 2002. Surveys of both financial planners and retail customers have highlighted a major deterioration in the confidence and trust placed in AMP. While AMP is not alone in losing the trust of its customers (as can be seen from the chart below based on recent research conducted by Newspoll), its brand image has declined further than its principal competitors.



Source: Commonwealth Bank (Newspoll Survey – Fund Manager Preferences, June 2003). Retail investors were asked “Would you invest with us?”

The underlying cause for this would appear to be the instability surrounding AMP which has been reflected in its share price. This is supported by the strong correlation between the movement in AMP’s share price and the ratings given to AMP by its customers in quarterly market research conducted on behalf of AMP.

There is no doubt that the share price fall has, in turn, been largely precipitated by the problems faced by AMP in the UK and we would therefore suggest that there is a causal link between AMP’s UK problems and the damage to the AMP brand in Australia (the contagion effect).

We would expect the contagion to the Australian business caused by the UK problems to manifest itself in three specific areas in the Australian business: fund flows, persistency ratio and financial planner numbers. These are considered below:

- AMP’s market share of gross retail managed funds inflows fell from 6.0% in 2002 to 5.1% in the first half of 2003;
- AMP’s market share in total retail managed funds was approximately 11% as at 30 June 2003; it maintained this market share in net inflows for the year to 30 June 2003, achieving higher net inflows than some of its major competitors including CBA, National and Westpac; however, for the March and June 2003 quarters (which were poor quarters for the industry as a whole) AMP’s net inflows were close to zero;
- AMP’s persistency ratio has fallen from 84.8% in the first half of 2002 to 82.5% in the first half of this year; and
- AMP’s self employed planner numbers in Australia have declined marginally from 1,625 at 31 December 2002 to 1,615 at 30 June 2003; the number of leavers during the first six months of this year was 102, which is consistent with the experience of recent years.

The overall implications of this data are that whilst perceptions of AMP have fallen significantly, commercial damage to the Australian business has been felt but it is not as severe to date as it might have been. However, what the data cannot show is the opportunity cost associated with AMP’s recent difficulties i.e. the incremental business which AMP might have gained if the UK problems had not arisen. More critical still is the lasting commercial damage that could be caused by any continuing instability deriving from the UK, which is not out of the question given the weak regulatory capital position of UK Life Services.

The ultimate long-term impact to AMP of any lasting brand damage should not be underestimated. As an illustration of the potential magnitude of continued brand damage, a 1% decline in persistency would result in a decline of nearly \$300 million in the appraisal value of AFS as at 30 June 2003 (assuming a 15x

multiple of annualised new business). The Demerger of the UK business should help to protect AMP from further value erosion arising from brand contagion.

Insulation of AMP from further capital demands from HHG

While the global equity market conditions are looking more benign today than in April of this year, when the Board took the decision to propose the Demerger, we cannot rule out the possibility of the UK stockmarket again falling substantially at some stage in the future. Both this and FSA requirements could trigger further demands for capital in HHG. Under such a negative scenario, shareholders in AMP would be protected from having to contribute further capital into HHG - in contrast to the current group structure where commercial and regulatory pressures could influence AMP to continue financial support for the UK operations.

Operational synergies along geographic rather than business lines

The intra-regional links between the respective AMP group entities in Australia and the UK are strong: in Australia, approximately 65% of ACI's funds under management is sourced internally (mostly from AFS), while UK Life Services is the principal source of Henderson's funds under management in the UK. By contrast, the cross border ties between the Australian and the UK life insurance business are negligible, and only 14% of ACI's funds under management have been placed with Henderson (which is set to decline following the announcement in late August 2003 that ACI is outsourcing the management of its international active equities). As a consequence there are few opportunities for shared resources, systems or experience.

Senior management focus

The principal focus of attention of senior management over the last year has been on addressing the problems faced by the UK life business and their impact on the Australian business. A decoupling of the UK business will allow AMP senior management to devote more time to the challenges in the Australian and New Zealand markets for AFS and ACI while the HHG management team can concentrate exclusively on developing Henderson and maximising value from the closed life books in run-off.

Different strategic positions of the UK and Australia and New Zealand businesses

Notwithstanding the problems which AMP has recently been facing, it is an icon in the Australia and New Zealand markets. It is the largest life insurance company both in Australia and in New Zealand (measured by total assets), it has the largest distribution network in Australia and it is the second largest asset manager. By contrast, the UK life books are closed to new business, and Henderson is one of a number of mid-market fund managers in the UK, being neither a large-scale nor niche player. As a result, the business linkages and, in particular, the ability to leverage the asset gathering experience and capabilities in the two markets are limited.

Differences between the life insurance and wealth management markets in the UK and Australia

When AMP expanded its UK business through the acquisition of London Life in 1989 and Pearl the following year, the UK life and savings market was poised for substantial growth. At that time, the products offered in the UK and Australia were similar as were the distribution channels, and the legal and regulatory approach was familiar. Since then, the UK and Australian life insurance and wealth management industries have developed different profiles (as explained in Section 4), while the legal and regulatory environment in the UK is arguably more intrusive.

9.3.2 Forms of decoupling

All of the above drivers support the decoupling of the UK business from the Australian and New Zealand business of AMP. The decoupling could, however, take a number of forms – a trade sale of HHG to a third party, organisational and corporate separation of HHG within the existing AMP group, and a demerger of HHG.

Since the announcement of the proposed Demerger in May 2003, AMP has received conditional proposals from a number of parties to acquire all or part of HHG. We believe that a trade sale of HHG (in whole or in part) could deliver value to shareholders. As at the date of this report none of the conditional proposals is so advanced or so certain in its terms that it can be considered preferable to the Demerger proposal. The proposed Demerger will still leave open the opportunity for interested parties to put forward revised terms to the Board of HHG after the Demerger.

So far as an organisational and corporate separation of HHG is concerned, this would address, in whole or in part, four of the drivers for a decoupling of the UK business. What it would not do is insulate AMP from further capital demands from HHG and, more importantly, insulate AMP from lasting brand damage brought about by events in the UK. The Demerger should achieve this. In our view, the ongoing impact of the brand damage on the future operating and financial performance of AMP is a substantial risk to the business and could cause substantial value erosion. The prospective removal of this risk is a key benefit of the Demerger proposal.

9.3.3 Removal of structural impediments to a takeover

The rise in the AMP share price at the end of August 2003 (resulting from National Australia Bank announcing its interest in AMP's Australian businesses and acquiring shares in AMP on its own behalf) has highlighted the fact that AMP has a number of businesses which are attractive to third parties. However, the ability to realise full value from a takeover of AMP under its current structure is constrained, in particular, by its exposure to the risks and vulnerabilities of UK Life Services.

For AMP, its decoupling from these UK risks is likely to increase its appeal to a potential acquiror. This has already been demonstrated by a statement from National Australia Bank's Chief Executive that it "has no interest in acquiring AMP while AMP owns its UK business". AMP's strong market position in Australia could also be attractive to one of the other major banks in Australia which could well see advantage in merging AMP with its own wealth management business to create Australia's premier banking and wealth management group. Similarly, overseas life insurance companies and overseas banks are more likely to be interested in acquiring AMP after the Demerger rather than under its current structure.

For HHG, its separate listing will permit those parties who tabled a bid in the lead-up to the Demerger to revisit the situation and make a formal approach to take over the newly listed company if they feel so inclined. The UK Life Services division is only likely to be of interest to a small number of parties who have experience in managing the run-off of closed life books. On the other hand, Henderson is a respected brand name in the UK market and would be attractive, if Henderson was separately available, to many players in the investment management industry who are seeking to build scale in funds under management with a view to achieving operating efficiencies and greater brand awareness.

We are of the view that the removal of these structural impediments to a takeover of AMP is another key benefit of the Demerger.

9.3.4 AMP's different strategic positions in Australia and the UK

AMP's Australian and UK businesses have different strategic positions in their respective markets – AMP is a market leader in Australia, whilst its Henderson business is a mid-market player in funds management, and UK Life Services is closed to new business.

After the Demerger	Life Insurance	Financial Planning	Funds Management
AMP	<ul style="list-style-type: none"> Australia's largest by statutory assets and premiums 	<ul style="list-style-type: none"> Australia's largest network 	<ul style="list-style-type: none"> 2nd largest by FUM
HHG	<ul style="list-style-type: none"> Closed to new business 	<ul style="list-style-type: none"> Mid tier 	<ul style="list-style-type: none"> Top 10 by FUM

As a result, the risk/ reward profiles of these businesses are different:

- the earnings from AMP's Australian businesses are likely to be of higher quality given its scale in life insurance and financial planning, whereas the returns from the UK businesses will depend upon release of capital through management of the run-off books and improving earnings from its funds management business;
- AMP's Australian businesses can be regarded as having a lower risk profile; and
- the tax consequences for shareholders in these businesses are different – for example, Australian shareholders are able to benefit from franking credits arising from AMP's Australian earnings which are largely unavailable to non-Australian shareholders.

9.4 Other benefits of the Demerger proposal

9.4.1 Access to new sources of capital

Following the Demerger the shares of HHG are intended to be separately listed in London. This would potentially enable that company to access the UK capital markets directly for both equity and debt. Listed shares may also provide an acquisition currency should the Board of HHG decide to pursue a growth strategy through acquisition or merger.

9.4.2 Realignment of investor base

The proposed Demerger will allow AMP's shareholders to choose to invest either in AMP or HHG or, indeed, both. In addition, the expected position of HHG in the FTSE250 Index in the UK can be expected to encourage new index-tracker and other funds on to its share register.

9.4.3 Greater transparency for investors

In addition to allowing investors greater choice in their investment exposure to the AMP group, the separation and UK listing of HHG should promote a more transparent valuation of the businesses.

In particular, the context of HHG in the wider UK financial services market can be expected to be better understood by UK analysts and investors than it currently is by Australian analysts as part of AMP. Financial reporting on the basis of UK GAAP will also facilitate the comparison with similar quoted companies in the UK.

9.4.4 Employee incentivisation

Separate compensation plans for AMP and HHG employees will enable incentivisation benefits to be structured around the operating and share price performance of the two listed entities. This will facilitate the better alignment of shareholder and employee interests.

9.4.5 Crystallisation of tax losses

For tax purposes, the Demerger will result in AMP disposing of HHG to its shareholders. This disposal is expected to give rise to a substantial capital loss for AMP. The ability of AMP to take advantage of this after the Demerger will, however, depend upon its ability to generate capital gains in the future.

Removal of the greater proportion of HHG's debt should also increase the likelihood of HHG utilising substantial tax losses incurred in the UK.

9.5 Key costs and consequences of the proposal to Demerge

While the rationale for the proposed Demerger is strong, there have been and will be a number of costs and consequences. In our view, the main drawbacks of the Demerger proposal are the need to change AMP's capital structure, the costs of raising new equity to implement the Demerger, the ongoing links between AMP and HHG, the potential loss in the value of UK Life Services, the dividend paying capacity of Henderson and the costs of the Demerger proposal itself.

9.5.1 Impact on the capital structure

As a result of the Demerger, a number of AMP's existing capital securities will lose part or all of their eligibility as regulatory capital under APRA's guidelines. Most importantly, AMP will not be entitled to treat all of the RPS as Tier 1 regulatory capital. To address this, AMP intends that the RPS will be redeemed at their face value for cash, funded by the proceeds from the AMP Rights Offer. If the AMP Rights Offer does not occur, AMP will explore other alternatives to redeem the RPS. If an alternative cannot be found, AMP may be required, under APRA guidelines, to convert the RPS into AMP ordinary shares.

Additionally, some of AMP's subordinated debt will not be allowable as Tier 2 regulatory capital. AMP intends to pay down \$600 million of outstanding subordinated and senior debt prior to 31 December 2003, subject to appropriate pricing and liquidity levels.

9.5.2 The costs of raising new equity capital

In the May 2003 announcement of the proposed Demerger it was stated that no further equity capital raising was required to facilitate the Demerger (other than the capital raising accompanying the announcement). However, the AMP Rights Offer will be an equity capital raising, the purpose of which is to fund the cash redemption of the RPS. While this only represents a change in the mix of AMP's capital base, it may be perceived by some investors and market commentators as standing in contradiction to the May statement and may therefore reflect on management credibility.

Additionally, HHG intends to conduct an equity capital raising by 30 June 2004 to raise at least £100 million with support to be provided in the interim by way of an issue of convertible loan notes to an investment bank. If this capital raising does not occur, for example as a result of a material adverse change to HHG's business, AMP will be required to acquire the HHG loan notes. In these circumstances, AMP may be required by APRA to conduct an equity capital raising itself. The HHG capital raising and the contingent capital raising by AMP may be regarded in the same light as the AMP Rights Offer and similarly reflect on management credibility.

The equity capital raisings will also have a number of direct costs such as underwriting and professional fees. For example, the AMP Rights Offer will cost around \$18 million (before tax).

9.5.3 Ongoing links between AMP and HHG

Although one of the purposes of the Demerger is to decouple HHG from AMP, there will be a number of ongoing links between the two companies:

- AMP will still retain a 15% shareholding in HHG at least until the release of HHG's financial results for the six months to 30 June 2004; this could have a depressant effect on the share price performance of HHG, as AMP will not be regarded by the market as a long-term shareholder;
- AMP may be required to acquire the convertible loan notes in HHG if a material adverse change to the business of HHG occurs; if AMP holds the loan notes to maturity, it may elect to convert the notes into HHG ordinary or preference shares;
- there will be two directors common to both boards; and
- there will be other linkages which will continue after the Demerger (eg. certain indemnities).

9.5.4 Potential loss of value in UK Life Services

When life insurance companies close to new business or announce significant corporate change, they may experience an increase in the number of policies surrendered (known as the lapse rate). UK Life Services has experienced materially higher lapse rates in 2003 than historically. The loss of policyholders can have a detrimental effect on the value of UK Life Services, but the loss can be mitigated in some cases by a release of regulatory capital previously required to support policyholder liabilities. However, UK Life Services is experiencing an increase in the number of policies surrendered, in particular those without market value adjuster clauses, which deprives UK Life Services of the opportunity of any capital release and impacts on financial strength on a realistic basis.

There are a number of inter-related reasons for this increase in lapse rates and the increase in surrenders. These include the announcement of the closure of Pearl's direct sales force last year, the closure to new business in mid 2003, policyholders' reaction to the lower equity backing ratios and action by IFAs to transfer client funds out of UK Life Services. The announcement of the Demerger and the attendant publicity may have heightened awareness of these issues and contributed to a loss of value in UK Life Services.

9.5.5 Dividend paying capacity of HHG

Going forward, it is the intention of the HHG board to pay dividends to the extent that they can be funded by surplus cash earnings from the operating subsidiaries and/ or transfers from the life companies. As a result of a number of factors, including the uncertainty surrounding the impact of the anticipated future regulatory capital requirements of the life companies, it is not envisaged that there will be sufficient cash earnings or transfers arising at the holding company level to facilitate the payment of a dividend in the short term. Specifically, any material releases of capital from UK Life Services are unlikely to be made for a number of years. The absence of a meaningful dividend is likely to affect adversely HHG's market value.

9.5.6 Costs of the Demerger

The preparation and implementation of the Demerger proposal will involve costs estimated to amount to approximately \$214 million (before tax), of which it is expected that \$106 million will have been incurred by the time of the shareholder meetings.

AMP expects that cost savings from the simplification and greater transparency of the new corporate structures will be approximately equal to the additional costs from operating two separately listed companies. In our view, some of the cost savings could have been made in the absence of the proposed Demerger.

In addition to these Demerger costs, AMP will incur around \$57 million (before tax) in restructuring costs relating to redundancies, void space, key staff retention and business continuity payments.

9.6 Other disadvantages of the Demerger

9.6.1 Taxation of Australian shareholders

The disadvantages for Australian shareholders of AMP of the Demerger proposal are summarised below. It does not purport to represent formal tax advice regarding the tax consequences of the Demerger. Individual shareholders should consult their own professional financial or taxation adviser as to their personal circumstances.

Some Australian resident shareholders could be liable for capital gains tax on the cancellation of their AMP shares – but only if they have a tax cost base lower than the volume weighted average price of AMP shares for the ten business days prior to 9 December 2003. The deemed cost base for Australian tax

resident shareholders who were issued AMP shares upon demutualisation was \$10.43, which is significantly higher than the prevailing market price at the date of this report.

9.6.2 Loss on Demerger

The Demerger will result in a capital loss of around \$2.5 billion for AMP on a consolidated basis which will mean that AMP will require APRA's approval for future dividend payments until all accumulated losses have been recovered. However, dividends are declared by AMP and paid out of its own retained earnings rather than consolidated earnings. After allowing for the loss on Demerger, AMP will still have around \$1.4 billion in retained earnings on an entity basis from which future dividends can be paid.

9.7 Risks of the Demerger

There are a number of risks associated with the proposed Demerger.

9.7.1 Regulatory risk

APRA will be the regulatory body supervising AMP, while the FSA will be the regulator for HHG. Both these organisations have the power to intervene in the management of those businesses, including the ability to influence the dividend distributions and capital requirements of both companies. This is particularly relevant for HHG.

The prudential guidelines of UK life insurance companies are undergoing a period of change, which could increase this capital requirement. The Consulting Actuary's realistic balance sheet assessment indicates that UK Life Services has little free capital after satisfying its risk capital margin, being the excess assets required to support the business in adverse conditions.

APRA and the FSA have given their approval in principle to the Demerger and related restructuring steps set out in the Explanatory Memorandum.

9.7.2 Listing of HHG on the London and Australian stock exchanges

Listing of HHG is being sought on both the London and Australian stock exchanges. The application for a listing of HHG shares in the UK and Australia is subject to a number of risks and uncertainties, and is still to be approved by the relevant authorities.

9.7.3 Possible failure to insulate AMP from HHG

In the event that HHG were in the future to be the subject of a legal action eg. from policyholders or regulators, there exists a risk that AMP, as its former parent, may be joined in that legal action. In addition to any actual liability, AMP could suffer further brand damage from being involved in any such legal action.

9.8 Implications of the Demerger not being implemented

Should the Demerger not be implemented as a result of the shareholder vote, the Board of AMP has proposed that the corporate structure envisaged by the Demerger be retained. If shareholders do not vote in favour of the Demerger proposal:

- AMP shareholders will not receive shares in HHG;
- costs of around \$108 million in relation to the Demerger will not be incurred;
- the RPS will remain outstanding, the tax benefits of the RPS structure will not be fully utilised and the AMP Rights Offer will not proceed; and

- the \$1.7 billion raised in mid 2003 will continue to be primarily used to reduce the financial interdependence between AMP and HHG and reduce external corporate debt.

A vote against the Demerger could have the following consequences:

- in the short term the share price of AMP could fall from its current level;
- AMP could still be exposed to the adverse financial consequences of a further deterioration in brand image, associated with the problems in the UK;
- the AMP Board could decide to reopen discussions with parties who previously expressed an interest in acquiring HHG (in whole or in part);
- AMP's credit rating could change;
- the morale of senior management within both AMP and HHG could be adversely affected; and
- a vote against the Demerger could be viewed as a vote of no confidence in the Board of AMP.

9.9 Valuation considerations

9.9.1 Introduction

It is our view that the particular circumstances of this Demerger are better suited to a qualitative assessment, rather than a quantitative valuation, of the two listed entities after the Demerger. However, we do set out below the key factors which are likely to influence the market capitalisations of AMP and HHG when separately listed. Underlying this qualitative approach is our view that any meaningful valuation of the two businesses should be carried out by reference to the price at which the underlying shares might trade immediately upon listing. This trading value will, however, be subject to a number of special factors specific to this Demerger, in particular, the various influences on the HHG share price once it is listed. These factors and other general considerations affecting valuation are considered below.

9.9.2 AMP after the Demerger

Investor interest

AMP will continue to be listed in Australia and New Zealand, with strong Australian retail and institutional investor interest expected to continue after the Demerger. Offshore institutional interest from investors with an Asia-Pacific focus is likely to increase, as the Demerger will distance AMP from its UK businesses.

Broker analyst and media coverage of AMP is also likely to continue.

Control premium

The share price of AMP after the Demerger could be affected by the existence or absence of third party interest in acquiring control of AMP.

Index weighting

AMP is likely to be included in the ASX 50 Leaders Index, as well as being included in other key indices used by fund managers to benchmark their investment performance.

Australian institutions underweight

As at 31 July 2003, an analysis of AMP's share register suggests that Australian institutions, as a whole, are underweight in AMP. At that date they owned approximately 30% by value of AMP shares, which compares with their estimated 40% to 50% holding by value of the ASX 200 Index. They are likely to want to increase their weighting in AMP following the Demerger for a number of reasons, including the removal of the potential for further negative effects from AMP's UK life business, the removal of the uncertainty around the Demerger process and the potential takeover interest in AMP.

Market comparators

The market is likely to measure AMP's financial and operating performance against that of ASX listed comparable stocks, including AXA and the life insurance and wealth management operations of ANZ (ie. its joint venture controlled by ING), CBA, National and Westpac. An important difference between AMP's life insurance and wealth management business and these comparators is that it has a higher level of earnings from its mature business, which is essentially in run-off. The performance of AMP's funds management operations (ie. ACI) will be measured against that of its listed comparators, primarily Perpetual.

Earnings impact of the AMP Rights Offer

On the basis of the 2003 forecast pro forma profit after tax before goodwill amortisation for AMP after the Demerger (adjusted for the annual borrowing costs of the RPS), we do not expect the AMP Rights Offer to give rise to a significant dilution, if any, in earnings per share for that year. The actual impact on earnings will be dependent upon the price at which AMP shares are issued pursuant to the AMP Rights Offer.

9.9.3 HHG

Investor interest

Immediately after the Demerger, HHG will seek a primary listing on the London Stock Exchange, with a separate listing on the ASX (where CDIs rather than ordinary shares will be traded). As a UK based company, it is likely that over time interest will increase from UK investors and decrease from Australian investors.

Register transition

The initial trading value of HHG is likely to be influenced by "flowback", which involves the transition of HHG's current shareholders (largely Australian domiciled) to its "natural" shareholder base (likely to be largely UK domiciled). As part of the share register transition, undue selling by Australian domiciled shareholders could place pressure on HHG's share price, particularly in the short term. Important factors which could affect flowback include whether HHG is listed on the LSE, HHG's valuation, its ability to pay dividends and potential corporate interest. The extent of flowback could be mitigated by a number of factors, including HHG's Australian index weighting and some inertia on the part of retail shareholders in Australia.

Index weighting

HHG is likely to be included in the ASX 200 and ASX 300 Indices. On the basis of a primary listing in London, HHG's index weighting in Australia is expected to decline over time for a number of factors, including the expected reduction in the number of shares owned by Australian shareholders and a reduction in liquidity of HHG on the ASX. Index weighting in the UK is expected to begin in March 2004, when, subject to liquidity and other factors, HHG should be included in the FTSE 250 Index.

Market comparators

The market is likely to value HHG by reference to its listed UK based peer group. One of the key measures of comparison will be the dividend distribution. HHG's capacity to pay dividends is uncertain and this is likely to have a negative influence on the share price. The financial and operating performance of UK Life Services is most comparable to Britannic Assurance, given that both businesses are managing life funds in run-off. Comparisons with other listed UK life insurance companies are likely to be less useful. The financial and operating performance of HHG's funds management business will be compared with that of listed UK based competitors such as Aberdeen Asset Managers, Isis Asset Management, Schroders and Amvescap.

Relative to its peers, the value of the HHG funds management business is likely to be influenced by two specific factors. First, a significant part of its funds under management is sourced from UK Life Services.

As UK Life Services is closed to new business, such funds could be expected to decline over time. Second, its value may be discounted because of the substantial minority shareholding held by the Pearl shareholders' fund - dividends paid by Henderson to Pearl could potentially be trapped in Pearl as it would require FSA approval to pay these dividends to HHG.

Market-consistent embedded value

"Market-consistent embedded value" is a new actuarial valuation method which is gaining currency in the UK as a refinement to the traditional embedded value method of valuing life insurance companies. It attempts to calculate economic value more precisely by incorporating the cost of risk in a way that is more directly and specifically connected with the way financial markets price risk e.g. for the cost of mismatch risk and the cost of options and guarantees given to policyholders. The Consulting Actuary's Report in the Explanatory Memorandum contains a discussion of market-consistent embedded value, including a reconciliation to traditional embedded value.

Investors in the UK and other markets recognise the limitations in the traditional embedded value approach to valuing life companies with significant and complex risks or for those with closed books which tend to trade at a higher discount to their traditional embedded value. Over time, UK investors may adopt market-consistent embedded value in assessing the value of UK life insurers. At present, however, this method is not widely used and HHG will be one of the first life insurers to publish its market-consistent embedded value. The market consistent embedded value of HHG's UK Life Services division is likely to be seen as a better guide to the value of UK Life Services by investors.

Impact of regulatory changes in the UK

The major regulatory change in the UK is the move towards "realistic" assessment of a life insurer's regulatory capital requirements. The exact impact of "realistic" reporting is unknown since the rules are still being formulated by the FSA (Consultation Paper 195 was issued in August 2003). However, to the extent life insurers appear less well capitalised, "realistic" reporting could have an adverse effect on perception of the value of life assets such as those in HHG. The Consulting Actuary's realistic balance sheet assessment indicates that UK Life Services has little free capital after satisfying the risk capital margin, being the excess assets required to support the business in adverse conditions. As a result, the stock market is likely to apply a discount to the market-consistent embedded value of UK Life Services.

Provisions

HHG had provisions at 30 June 2003 of approximately \$3 billion (£1.25 billion), mainly in the Pearl 90:10 life fund, to cover a number of possible future events, including pensions mis-selling, mortgage endowment costs and guaranteed annuity options. Investors will seek comfort as to the adequacy of these provisions.

AMP's 15% shareholding in HHG

AMP will hold 15% of HHG's ordinary share capital immediately following the Demerger and will be subject to certain restrictions with regard to selling this shareholding. However, this shareholding is likely to be seen as an overhang on HHG's share price, as AMP will not be regarded as a long-term shareholder in HHG.

External debt and future capital raising

HHG will have a £100 million convertible loan note facility which will be drawn down to £50 million at the time of the Demerger. HHG intends to conduct a capital raising to raise at least £100 million in equity by 30 June 2004 to repay the outstanding balance of the convertible loan note facility. This is likely to be a further overhang on HHG's share price until the convertible loan note facility is repaid.

Impact of UK GAAP

HHG is seeking to have its primary listing in the UK and as a result will report its future earnings according to UK GAAP. The change in the reporting framework will have an impact on the reported

earnings of HHG. UK GAAP tends to be more conservative in its recognition of profit, operating as it does against a “prudent” yardstick. It is likely that HHG’s profits will be lower in the first few years following listing, particularly in relation to UK Life Services’ profitability, than they would have been if reported under Australian GAAP.

9.10 RPS Preference Share Cancellation

The RPS Preference Shares were issued to the trustee of the RPS Reset Preference Share Trust to hold on trust for the RPS holders in the event that the RPS are exchanged into RPS Preference Shares. The RPS Preference Shares are unpaid, and whilst they remain unpaid, they do not have any economic interest in AMP nor any voting rights. Furthermore, they are not subject to, nor affected by, the Demerger proposal.

If the Demerger proceeds, AMP proposes to cause the redemption of all the RPS on issue. If the RPS are redeemed, there will no longer be any reason for the RPS Preference Shares to remain outstanding. In our view, the RPS Preference Share Cancellation is fair and reasonable for AMP shareholders as a whole since they will no longer have any purpose after redemption of the RPS.

10 IMPACT ON CREDITORS

10.1 Introduction

Under the Demerger proposal, a part of AMP's share capital will be cancelled so as to facilitate the transfer of direct ownership of HHG from AMP to its shareholders. The Board of AMP is required, for legal reasons, to form an opinion as to whether the capital cancellation (and, by implication, the Demerger) materially prejudices AMP's ability to pay its creditors. Separately, the Board has asked Rothschild for its views on the issue.

Although implementation of the Demerger will mean that the net assets and the earnings of HHG will no longer be available to AMP, we do not believe that this is materially prejudicial to AMP's ability to pay its creditors. Our reasoning is set out below.

10.2 AMP's balance sheet and earnings

Following the Demerger, AMP will continue to be a substantial Australian company by most measures. It is expected to be ranked within the top 50 Australian companies by market capitalisation and will have around \$3.5 billion in shareholders' capital.

The key pro forma balance sheet and embedded value details as at 30 June 2003, as well as AMP's forecast earnings for the 12 months to 31 December 2003, are set out below:

AMP pro forma after Demerger	
Total assets	\$64.3 billion
Corporate debt and Income Securities	\$2.6 billion
Shareholders' capital	\$3.4 billion
Traditional embedded value	\$5.4 – 6.1 billion
Forecast earnings (12 months to 31 December 2003)	
- Operating margins	\$410 – 448 million
- NPAT before interest and goodwill amortisation	\$525 – 658 million

Source: AMP and Independent Accountant's Report.

Note: Embedded value is for AFS (excluding AMP Banking) and assumes 6-3% discount margins over long term Government bond rates.

A comparison of AMP's balance sheet before and after the Demerger is also set out in the table below.

	Before Demerger 30 June 2003	Pro forma after Demerger
Total assets	\$141.2 billion	\$64.3 billion
Corporate debt, RPS and Income Securities	\$4.5 billion	\$2.6 billion
Shareholders' capital	\$7.0 billion	\$3.4 billion

Source: AMP and Independent Accountant's Report.

A reconciliation of the two balance sheets is set out in the Independent Accountant's Report.

The corporate debt and Income Securities are guaranteed by AMP Group Holdings Limited, a direct subsidiary of AMP and the holding company for all of AMP's interests following the Demerger (other than AMP Banking).

The RPS are to be redeemed out of the proceeds of the AMP Rights Offer. If the AMP Rights Offer does not occur, AMP will explore other alternatives to redeem the RPS. If an alternative cannot be found, AMP may be required by APRA to convert the RPS into AMP ordinary shares.

10.3 HHG's earnings and dividends

Based on HHG's recent earnings and dividend history, the Demerger of HHG is unlikely to materially prejudice AMP's ability to pay its creditors since the offshore earnings contribution to AMP has been substantially negative and the dividends remitted have been relatively minor in the context of AMP's overall cash flow. For instance, over the 12 months to 31 December 2002 and the six months to 30 June 2003, HHG's actual profit after tax before borrowing costs was strongly negative, at -\$483 million and -\$2,414 million respectively, both largely due to significant asset writedowns. These losses more than offset HHG's actual profit after tax in the two prior years.

Moreover, no ordinary dividends have been paid by HHG to AMP in 2001, 2002 or in the six months to 30 June 2003. AMP has, however, received preference share dividends of £29 million and £24 million from HHG in 2001 and 2002. No preference share dividends were paid for the six months to 30 June 2003.

By contrast, AMP injected around \$1.4 billion in additional capital into HHG in 2002. AMP will not be required to provide ongoing financial support for HHG following the Demerger.

10.4 Interest cover

Creditors of AMP are also expected to benefit from the fact that, following the Demerger, AMP will continue to have acceptable interest cover of 3.9 to 4.9 times on a pro forma basis.

AMP pro forma after Demerger	
Forecast earnings (12 months to 31 December 2003)	
- NPAT before interest and goodwill amortisation	\$525 – 658 million
Pro forma interest costs after taxation (on assumed debt level of \$2,627 million)	\$135 million
Pro forma 2003 interest cover	3.9 to 4.9 times

Source: AMP; Rothschild analysis.

10.5 Gearing

AMP will have an acceptable pro forma gearing ratio of around 44% following the Demerger. Gearing is defined here as corporate debt (including subordinated debt and the Income Securities) divided by total capital (which includes ordinary equity as enlarged by the AMP Rights Offer and corporate debt). This definition of gearing is used by AMP and is consistent with Standard & Poor's guidelines and, together with other measures, is used in assessing balance sheet strength (see the section below on Credit Ratings).

AMP pro forma after Demerger	
Corporate debt and Income Securities	\$2,627 million
Total capital	\$6,027 million
Gearing	43.6%

Source: AMP.

10.6 Available standby facilities

As at 30 June 2003, AMP Group Holdings Limited had £450 million of standby facilities which will be renegotiated and restructured as part of the Demerger. These facilities were undrawn as at 30 September

2003. AMP expects the magnitude of these facilities to be reduced significantly to reflect the reduced requirement for the AMP group.

10.7 Cash resources and potential for further debt reduction

Following the Demerger, AMP expects it will have available cash resources in excess of \$200 million to support creditors. In addition, external corporate debt may be reduced in late 2003 or in 2004 as AMP is currently reviewing options to realise value from Cobalt and the closed reinsurance and commercial insurance portfolios (principally Gordian and TGI). A further reduction in AMP's external corporate debt could be achieved from the potential sale of AMP's 15% shareholding in HHG after the expiry of the escrow period.

If completed, the proceeds from both of these sales would be likely to reduce external corporate debt from around \$2.6 billion to below \$2 billion, further strengthening the company's credit standing.

10.8 Credit ratings

According to Standard & Poor's general ratings guidelines, an insurance company with a BBB rating is expected to have a fixed charge cover (which is broadly equivalent to interest cover as set out above) of between 3 to 5 times, and a gearing ratio of between 35% to 45%. Whilst the company would appear to meet these broad criteria based on pro forma financials as at 30 June 2003 it is important to note that Standard & Poor's has not conducted a ratings evaluation of AMP since the Demerger proposal was announced. Whilst AMP may meet Standard & Poor's guidelines for a particular credit rating, its actual rating will depend upon a comprehensive review of AMP's overall financial position and outlook.

Based on these general rating guidelines, AMP continues to target to maintain its existing investment grade credit rating after the Demerger.

10.9 APRA's position

In its assessment of the Demerger, APRA is primarily concerned with protecting the position of AMP's policyholders and deposit holders. As part of this assessment APRA considers the financial viability of AMP following the Demerger. APRA has given its approval in principle for the Demerger. Specifically, APRA has consented to the capital structure proposed by AMP in respect of AMP after the Demerger. However, as part of APRA's approval for the Demerger, it requires AMP to manage its level of gearing and reduce it over a period of time to a level which is acceptable to APRA.

10.10 Effect of Demerger on debt facilities

AMP believes that the proposed Demerger and associated restructurings will not trigger events of default under its various external corporate debt facilities. Additionally, AMP does not believe that there are any special terms in these debt facilities which will place AMP in a more onerous position (for example, through a higher rate of interest being payable) as a result of the Demerger.

10.11 Spread on AMP bonds

The spread on outstanding AMP bonds over the equivalent risk free rate fluctuates in line with bondholders' assessment of the credit risk involved in holding those bonds. The spread on these bonds has narrowed since the announcement of the Demerger in May, which indicates that the assessed risk is now lower than it was previously. This lends support to the view that the Demerger is not materially prejudicial to AMP's ability to pay its creditors.

10.12 AMP's future capital requirements

We have been advised that AMP does not require a significant amount of additional capital in the short term to fulfil its current strategic plan (other than that raised as part of the Demerger).

We note that AMP may be required to acquire up to £100 million in HHG convertible loan notes in mid 2004. If this occurs, APRA may require AMP to conduct an equity capital raising subject to AMP's financial resources at that time.

10.13 AMP Banking

The deposits placed with, and debt funding provided to, AMP Banking are not guaranteed by AMP. Accordingly, the credit status of such depositors and debt financiers will remain unchanged by the Demerger.

10.14 Obligations to policyholders

AMP believes that policyholders in its life funds are not creditors of AMP merely by virtue of the entitlements under their policies. Accordingly, we have not been asked to assess the ability of AMP's life funds to meet their obligations to policyholders.

10.15 Important notice

Rothschild makes no express or implied warranty on the potential recoverability of any of the AMP group's existing debts. Current and future creditors should make their own assessment of the financial position of AMP.

11 ADJUSTMENT TO OPTIONS

11.1 Introduction

AMP has in the past granted options over AMP shares to its executives and employees under the Executive Option Plan ("Executive Plan") and the Employee Option Plan ("Employee Plan"). Option plans are typically provided to incentivise the management and employees of a company by aligning their interests with shareholders through providing direct participation in the benefits of future company performance. It is intended that AMP staff be incentivised under the two option plans by reference to the performance of AMP shares after the Demerger.

AMP staff

Under the Demerger proposal, a part of AMP's capital will be cancelled to facilitate the transfer of direct ownership of HHG from AMP to its shareholders. This will consequently reduce the asset base of AMP, and, as a result, reduce the value of the various options granted under the two option plans. AMP intends to reduce the exercise prices of these options by adopting a methodology (the "Adjustment Methodology") which is intended to ensure that the Demerger does not unfairly disadvantage optionholders, whilst putting them in no better position than they would have been if the Demerger did not occur.

HHG staff

AMP intends to exercise its discretion to permit employees of HHG after the Demerger to continue to hold all or a part of their options over shares in AMP. The exercise prices of these options will be adjusted in the same way as for AMP staff.

ASX requirement for independent expert report

The ASX has asked AMP to commission an independent expert's report on the effect of the proposed adjustment on the exercise price of options over AMP shares, and whether the Adjustment Methodology is fair and reasonable to AMP ordinary shareholders.

Set out below is our analysis of the effect of the proposed adjustment and our opinion as to whether the Adjustment Methodology is fair and reasonable to AMP ordinary shareholders. It should be noted that the exercise price of the options will also be reduced as a consequence of the AMP Rights Offer but we have not been requested to give our opinion on this since the basis for the reduction is required by the rules of the Plans and is permitted by the ASX Listing Rules.

11.2 Description of options

As at 30 June 2003, AMP had around 22 million options granted to 5,687 current and former employees under its Executive Plan and its Employee Plan (together the "Plans"). We have been advised that no further options over AMP shares have subsequently been granted.

Generally, each option under the Plans gives the optionholder the right to be issued one fully paid AMP ordinary share upon payment of the relevant exercise price during certain defined periods. All options under the Plans are currently out of the money, with exercise prices ranging from \$14.28 to \$20.46 and with maturity dates up to February 2012.

Around 75% of the 12.6 million options under the Executive Plan are subject to performance hurdles which are required to be met before they may be exercised. The performance hurdles relate to AMP's total shareholder return over a three to five year performance period when compared to the performance of the top 50 companies by market capitalisation in the S&P/ ASX All Industrials index. None of the 7.9 million options under the Employee Plan is subject to performance hurdles.

Details of the options as at 30 June 2003 are set out below; further information on the options are also set out in the Explanatory Memorandum.

Grant Date	No. of Options	Exercise Period Start	Exercise Period End	Exercise Price	Performance Hurdle
Executive Options					
26/06/1999	2,361,853	26/06/2002	25/06/2009	\$16.13	YES
28/08/1999	167,944	26/06/2002	25/06/2009	\$15.80	YES
30/10/1999	247,000	30/10/2002	29/10/2009	\$15.47	YES
18/12/1999	40,000	18/12/2002	17/12/2009	\$16.10	YES
01/01/2000	90,000	01/01/2003	31/12/2009	\$16.77	YES
22/01/2000	335,000	22/01/2003	21/01/2010	\$16.13	YES
19/02/2000	30,000	19/02/2003	18/02/2010	\$14.33	YES
30/06/2000	4,958,416	30/06/2003	29/06/2010	\$16.41	YES
26/08/2000	235,000	26/08/2003	25/08/2010	\$17.94	YES
28/10/2000	200,000	28/10/2003	27/10/2010	\$17.37	YES
09/12/2000	110,000	09/12/2003	08/12/2010	\$19.03	YES
27/02/2001	110,000	27/02/2004	26/02/2011	\$19.29	YES
21/03/2001	43,308	21/03/2004	20/03/2011	\$19.77	YES
19/05/2001	20,000	19/05/2004	18/05/2011	\$19.29	YES
21/07/2001	4,454,180	21/07/2004	20/07/2011	\$20.46	YES
15/12/2001	60,000	15/12/2004	14/12/2011	\$18.26	YES
23/03/2002	100,000	23/03/2005	22/03/2012	\$19.44	YES
30/11/2002	100,000	30/11/2002	29/11/2003	\$14.28	NO
31/12/2002	35,000	31/12/2002	30/12/2003	\$16.13	NO
31/12/2002	50,000	31/12/2002	30/12/2003	\$16.49	NO
	13,747,701				
Employee Options					
26/06/1999	1,743,274	26/06/2002	25/06/2009	\$16.13	NO
28/08/1999	75,235	26/06/2002	25/06/2009	\$15.80	NO
01/01/2000	1,486,841	01/01/2003	31/12/2009	\$16.77	NO
30/06/2000	3,294,917	30/06/2003	29/06/2010	\$16.41	NO
28/10/2000	51,406	28/10/2003	27/10/2010	\$17.37	NO
09/12/2000	10,000	09/12/2003	08/12/2010	\$19.03	NO
21/07/2001	1,784,864	21/07/2004	20/07/2011	\$20.46	NO
25/08/2001	9,000	25/08/2004	24/08/2011	\$19.57	NO
15/12/2001	30,000	15/12/2004	14/12/2011	\$18.26	NO
	8,485,537				
Total	22,233,238				

Source: AMP.

11.3 Effect of the Demerger on the options

The AMP share price is an important determinant in the value of the options. If the AMP share price falls following the Demerger, as it is expected to do as a result of the transfer of HHG from AMP to AMP shareholders, the value of the options will also fall. The magnitude of the fall in the value of the options under the Plans is to be calculated by reference to the share price of AMP and HHG once they are listed as separate entities.

11.4 The Adjustment Methodology and its effect

AMP proposes to compensate optionholders for the loss of value of their options caused by the Demerger. The compensation is to be effected by a reduction in the exercise price of the options and is to be calculated as follows:

- the Black-Scholes option pricing model will be used to determine the value of the options both before and after the Demerger;
- to determine the value of the options before the Demerger, AMP intends to adopt the following assumptions for each tranche of options:
 - the term will remain unchanged;
 - the dividend yield will be based on the dividends paid in the 12 months prior to the last day on which AMP shares trade with an entitlement to HHG shares ("Cum Entitlement Date");
 - the risk free rate of interest will be the closest Australian government bond rate on the Cum Entitlement Date corresponding to the remaining term;
 - the volatility will be based on the average of the mid-point of the implied volatilities for options over AMP shares with terms closest to the term of the relevant option; and
 - the share price will be calculated using the aggregate of the volume weighted average prices ("VWAP") of AMP and HHG for the five business days following the Demerger; and
- the value of the options after the Demerger will be similarly calculated using all the same inputs, except that it will only use the VWAP of the AMP share price for the five business days following the Demerger which will no longer include the value of HHG.

The rationale for the Adjustment Methodology is that the value of an option both before and after the Demerger should remain unchanged.

By way of example, the value of an option with an exercise price of \$16.41 and an expiry date of 29 June 2010 could be worth \$0.74 in advance of the Demerger. Following the Demerger, that option might be worth around \$0.32, reflecting the expected fall in value of the AMP shares. To compensate optionholders for the fall in value of their options, the exercise price of that option would be reduced to around \$9.00, thereby preserving the theoretical value of the option. These numbers are illustrative only – the actual values of the options will depend upon the assumptions used after the Demerger.

The valuation of options is a complex exercise. Further details on the mechanics of the Adjustment Methodology are set out in the Explanatory Memorandum.

11.5 Rationale for the Adjustment Methodology

In our view, the methodology of the Adjustment Methodology does not confer a material incremental benefit to optionholders to the detriment of AMP shareholders, for the reasons set out below.

No change to value of options

The Adjustment Methodology is not intended to change the value of options to optionholders. The Adjustment Methodology only alters the exercise price as compensation for the loss of value represented by the transfer of HHG to AMP shareholders, with all other terms and conditions under the Plans remaining unchanged, including the outstanding performance hurdles required to be met.

Reduction of risks under employment laws

AMP believes that if there was no change to the options granted under the Plans, there is a material and unacceptable risk of claims being brought by AMP employees against AMP, for example under the unfair contracts provisions of the Industrial Relations Act. A reduction in litigation risks, particularly from a large number of AMP executives and employees, would benefit shareholders.

Other alternatives to the Adjustment Methodology

The majority of recent Australian demergers have incorporated a restructuring of options which is designed to have the effect of preserving the economic entitlements of optionholders after the demerger has been implemented. Precedent demergers have adopted different methodologies to restructure their options. The principal alternatives to the Adjustment Methodology proposed by AMP are:

- the payment of a cash amount to the optionholders as compensation for the reduction in the value of the options – this would, however, provide the optionholders with an immediate benefit which would be payable whether or not the performance hurdles are satisfied or whether the options are “in the money”;
- the granting of additional options to the optionholders – this would, however, increase the dilution effect on AMP ordinary shareholders;
- the granting of options over HHG shares to AMP employees – this would, however, give rise to a misalignment of incentives; and
- a simple reduction in the exercise price of the options by the equivalent value of HHG shares that AMP shareholders receive – this would not take into account the “option value” itself of the HHG business.

In our opinion, the Adjustment Methodology proposed by AMP for the option exercise prices is fair and reasonable to AMP ordinary shareholders.

11.6 Important notice

Rothschild makes no express or implied opinion on the effect of the Adjustment, or its fairness or equity, for any optionholder. AMP optionholders should make their own assessment of the proposed Adjustment.

12 CONCLUSIONS

- We have concluded that the Demerger is the strategic option most likely to deliver maximum value to AMP shareholders over time, based on our assessment of the benefits, costs, disadvantages and risks inherent in the Demerger. This conclusion is predicated on the basis that as at the date of this report no offer has been made to acquire HHG (in whole or in part) on terms which can be considered preferable to the Demerger proposal. In the event that such an offer is made, Rothschild reserves the right to reconsider its opinion.
- Subject to this, it is our opinion that the proposed Demerger is in the best interests of AMP shareholders as a whole.
- It is our opinion that the ordinary share capital cancellation is fair and reasonable to AMP shareholders as a whole.
- It is our opinion that the share capital cancellation does not materially prejudice AMP's ability to pay its creditors.
- In relation to the proposed adjustments to the exercise price of the options issued under AMP's executive and employee option plans, it is our opinion that the methodology of the adjustment is fair and reasonable to AMP ordinary shareholders.
- It is our opinion that the RPS Preference Share Cancellation is fair and reasonable to AMP shareholders as a whole.

APPENDICES

1. Qualifications

N M Rothschild & Sons (Australia) Limited, the holder of Investment Adviser's Licence number 10844 issued by the Australian Securities and Investments Commission, is a member of the Rothschild group, an independent global investment bank with a presence in 27 countries employing around 700 corporate finance professionals. The preparation of this report has drawn on the expertise and experience of senior bankers from both Australia and the United Kingdom. The individuals principally responsible for the preparation of this report were Tony Ferguson MBA BEng (Hons) BSc, Tony Stuart BSc (Hons) ACA, Jonathan Eddis MA (Hons) ACA, Danny Huang LLB (Hons) BEc (Hons) ASIA, John Paul McGrath MA (Cantab), Martin Nosek BCom BEc ASIA, James Ankers BA (Hons) ACA and Renato Mota BCom (Hons) BBus (EcoFin). Each of the above is an authorised representative of the Rothschild group in their respective jurisdictions.

Rothschild believes that the experience of its representatives qualifies it to provide the independent expert's report sought by AMP.

2. Declarations

This report has been prepared by Rothschild with care and diligence and the statements and opinions contained in the report are given in good faith and in the belief, on reasonable grounds, that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Rothschild, its related bodies corporate or any of their respective directors, officers, employees or consultants for errors or omissions however arising in the preparation of this report, although this does not absolve Rothschild from liability arising from an opinion expressed recklessly or in bad faith.

During the course of the engagement, Rothschild provided draft copies of this report to the AMP Board and management for their comments as to the factual accuracy of the report, as opposed to the opinions contained in the report which are the responsibility of Rothschild. Changes made to this report as a result of AMP's review have not changed the opinions reached by Rothschild.

It is not intended that this report be relied upon for any purpose other than as an expression of Rothschild's opinion as to whether the Demerger is in the best interests of AMP shareholders, whether the Capital Adjustment is fair and reasonable to AMP shareholders as a whole, whether the Capital Adjustment will materially prejudice AMP's ability to pay its creditors, whether the RPS Preference Share Cancellation is fair and reasonable to AMP shareholders as a whole and whether the Options Adjustment is fair and reasonable to AMP shareholders. Rothschild expressly disclaims any liability to any AMP shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

While this report contains an opinion as to whether the Demerger will materially prejudice AMP's ability to pay its creditors, Rothschild makes no representation or warranty as to the potential recoverability of existing or contingent debts owed by AMP to its creditors as at the date of this report or at any subsequent time. Future creditors must rely on their own investigations of the financial position of individual companies in the group with whom they conduct business.

Rothschild has had no involvement in the formulation of the Demerger proposal, the RPS Preference Share Cancellation proposal, the Options Adjustment proposal or the preparation of the Explanatory Memorandum and has not verified any of the contents of the Explanatory Memorandum. Rothschild does not accept any responsibility for the contents of the Explanatory Memorandum other than this report.

In preparing this report, Rothschild has conducted its work in accordance with the guidelines and practices for the preparation of independent expert's reports in Australia. This report has not been prepared in

accordance with guidelines or standards which may be applicable for reports of this nature in the United Kingdom or any other jurisdiction. Accordingly, this report should not be relied on as if it had been prepared in accordance with guidelines and standards applicable in the United Kingdom or any other jurisdiction.

3. Interests

The Investment Banking division of Rothschild has prepared this report with the assistance of personnel in the Investment Banking division of its UK affiliate. Neither of these divisions has had any commercial dealings with AMP over the last two years.

Rothschild and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with AMP except that:

- AMP Henderson currently has a \$10 million participation in a \$40 million mezzanine facility provided by Rothschild to DCA Agedcare Group;
- AMP Global Investors Limited as responsible entity for the AMP Structured High Yield Fund acquired in May 2003 from Rothschild and another party (arranged by Rothschild) a \$30 million participation in a Letter of Credit facility provided to a wholly owned subsidiary of Abigroup Limited. Rothschild has an on-going role in relation to AMP's participation in that transaction as Debenture Manager and Security Agent;
- Rothschild is acting as financial adviser to the Principal Hotel Group in relation to the restructuring of the REIL Hotel bonds issue in which AMP Life Limited is the sole bondholder;
- Rothschild has entered into a conditional agreement to sell an interest in one of its subsidiaries, Arrow Systems Pty Ltd, to the Infrastructure Equity Fund, a fund managed by AMP Henderson, for an undisclosed sum;
- Rothschild acquired in July 2002 and continues to hold as part of its ordinary money market activities, bonds issued by AMP Bank Limited with a face value of \$10 million and a 5.5% coupon, with a maturity of April 2004. Rothschild has over the last two years acquired and sold an AMP bond with a face value of \$5 million (as part of ordinary business activities, Rothschild purchases short dated paper issued by AMP Bank);
- Rothschild Australia Asset Management Limited ("RAAM"), now known as Sagitta Wealth Management Limited, may have in the last two years acquired or dealt in securities of the AMP group or entities managed or controlled by them. The Rothschild Group disposed of its interests in RAAM in June 2002 to the Westpac Banking Group;
- Rothschild has issued negotiable certificates of deposit, which may now or have in the past been held by the AMP group or entities managed or controlled by them;
- a UK based associate of Rothschild has a €2 million equity investment and €2 million senior note investment in Melchior CDO SA, a special purpose vehicle managed by Henderson Global Investors Limited;
- a UK based associate of Rothschild acted as financial adviser and arranger to a bond issue by Sea Containers in which AMP Henderson was a bond holder. The bonds have now been redeemed;
- a Channel Island based associate of Rothschild has over 1998 to 2002 made loan facilities available to private clients of Towry Law Asia HK Limited, a subsidiary of the AMP group. No new loan facilities have been made available since June 2002;
- a US based associate of Rothschild manages certain funds for AMP Henderson Global Investors Limited; and
- a number of executives of Rothschild or their associates hold shares in AMP.

Rothschild does not believe that the above and/or these security holdings could reasonably be viewed as capable of affecting Rothschild's ability to provide an independent opinion in relation to the Demerger, the RPS Preference Share Cancellation or the Options Adjustment.

Rothschild is entitled to receive a fixed fee of \$2.0 million (plus the reimbursement of out of pocket expenses) for the preparation of this report. This fee is not contingent on the outcome of the Demerger or the RPS Preference Share Cancellation or the Options Adjustment and Rothschild will not receive any other benefit from the preparation of this report.

4. Consent

Rothschild consents to the issue of this report by AMP in the form and context in which it is to be included in the Explanatory Memorandum to be sent to AMP shareholders.

Neither the whole nor any part of this report nor any reference to it may be included in or with or attached to any document, circular, resolution, letter or statement without the prior written consent of Rothschild to the form and context in which it appears.

5. Responsibility

Rothschild has prepared this report on the basis of information available as at the date of this report. Rothschild has considered and relied upon information provided by AMP (in particular, Rothschild has relied upon the reports prepared by other experts commissioned by AMP for inclusion in the Explanatory Memorandum). AMP Services Limited, a wholly-owned subsidiary of AMP, has warranted to Rothschild in writing that the information provided was complete, accurate and not misleading by omission or otherwise. Rothschild has no reason to believe that any material facts have been withheld. Rothschild has not attempted to independently verify the completeness, accuracy or fair presentation of any of the information provided to it, but has no reason to believe that any of the information provided to it is not complete, accurate or fairly presented.

The information provided to Rothschild included forecasts, forward looking statements and projections prepared by the management of AMP. These are based upon assumptions about events and conditions which have not yet transpired. As such, Rothschild cannot provide assurance, and does not warrant, that the estimates will be representative of the results actually achieved during the forecast period. Forecasts by their nature involve assessments of uncertain future events. Actual future performance may be significantly more or less favourable than the forecasts.

In preparing this report and forming the opinions in this report, Rothschild has assumed that:

- the information set out in the Explanatory Memorandum is complete, accurate and fairly presented in all material respects;
- the legal agreements required to give effect to the Demerger will be implemented in accordance with their terms; and
- the legal mechanics to give effect to the Demerger, the RPS Preference Share Cancellation and the Options Adjustment are appropriate and will be effective.

6. Indemnity

AMP Group Holdings Limited ("AMP Group Holdings"), a wholly-owned subsidiary of AMP, has, to the maximum extent permitted by law, indemnified Rothschild, its related bodies corporate and their respective directors, officers, employees and consultants (each an "Indemnified Party") in respect of any claim, action, damage, loss, liability, cost, charge, expense, outgoing or payment ("Loss") however arising made or brought against or paid, suffered or incurred by an Indemnified Party as a result of or in connection with (directly or indirectly) the preparation and issue of this report. This indemnity will not apply to the extent that any such Loss is held by a court, with all appeals exhausted, to be caused by the negligence, fraud or wilful misconduct of any Indemnified Party or by the breach of the terms of Rothschild's engagement by AMP.

AMP Group Holdings has also agreed to indemnify Rothschild for time spent by any Indemnified Party and reasonable legal costs and other out-of-pocket expenses incurred by any Indemnified Party, as a result of or in connection with the preparation and issue of this report, in relation to any inquiry or proceeding initiated by any person. Where, in respect of such an inquiry or proceeding, an Indemnified Party is found by a court, with all appeals exhausted, to have been negligent, to have engaged in wilful misconduct or to have been in breach of the terms of Rothschild's engagement by AMP, then Rothschild must reimburse to AMP Group Holdings that proportion of the fees, costs and expenses paid by AMP Group Holdings as is attributable to such negligence, wilful misconduct or breach.

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