

**GROUP CHIEF EXECUTIVE'S SPEECH**  
**AGM - MELBOURNE CONVENTION CENTRE**  
**THURSDAY 18 APRIL 2002**

Thank you Rick and good morning everyone.

This morning I am going to give you a brief summary of our results for the 15 months ended 31 December 2001, give an overview of our activities over this period and then finish by saying a few words about our priorities over the next 12 months.

As Rick has said it is pleasing that we have seen strong increases in operating earnings. This is the part of our result that is directly under the influence of management and gives the strongest signals as to how we are getting on in running your business.

Total operating earnings for the 15 months were \$398 million and we saw good increases in both Australia and New Zealand, where operating earnings increased to \$211 million and in AXA China Region where operating earnings were \$198 million. You can see, as has been the case over the past couple of years, that operating earnings are reasonably evenly balanced between our operations here in Australasia and those in Asia.

Reflecting the turbulent events around the world and their effect on world stock markets, our investment earnings fell. Investment earnings in Australia

and New Zealand were \$63 million and in AXA China Region \$56 million. Both down on the same period last year but again you can see that we are well balanced between Australasia and Asian operations.

And finally allowing for interest on our borrowings and some corporate expenses our overall profit after tax and before non recurring items was \$366 million compared to \$318 million for the 12 months to September 2000.

As the Chairman said this has enabled us to declare a total dividend for the period of 12.25 cents up from 9.5 cents for the 12 months to September 2000.

Earnings per share was 20.8 cents for the 15 months to December 2001 compared to 18 cents for the 12 months to September 2000.

And on an annualised basis return on equity, although a little down on 2000 due to the fall in investment earnings, was 9.9% which is, I think, a satisfactory result bearing in mind the economic turmoil over the period.

And if we look at the other element of the return we have delivered to shareholders - the movement in the AXA Asia Pacific shareprice - we also see, I believe, a quite satisfactory result. Our price, like that of all insurance and investment related stocks, was hit by the terrible events of 11 September. However as you can see our price has recovered steadily from the low point in October last year. If we take the average price for the 20 days ending yesterday compared to the average of the 20 days prior to last year's AGM, our shareprice has increased by around 11%. This increase, together with the

dividend, does we believe represent a very acceptable return to shareholders over a difficult economic period.

I would now like to say a little more about the operating performance of our major businesses. Firstly let us look at Australia and New Zealand where we have seen continued improvement in operating earnings in all three of our major areas of activity - risk insurance, health insurance and funds management.

As you can see operating earnings have increased steadily each year over the last 3 years. Encouragingly earnings from our funds and wealth management operations have increased quite strongly as have those from our health insurance operations which I will talk about a little later on. Whilst we have also seen increases in earnings from risk insurance these have, as we reported last year, been affected by poor experience on our income protection portfolio which, again, I will talk about in a few minutes.

Total funds under management advice of administration have grown 26% since September 2000 and totalled \$43 billion as at the end of 2001.

Again we have seen steady increases over the last 3 years despite the fall in international stock markets. Very encouragingly our strategically important MasterTrust and portfolio administration platform - Summit -has been enjoying particularly strong growth.

As shareholders will know, whilst we are one of the top fund managers in Australia we have, in recent years, not seen the growth in new fund inflows that are necessary to ensure that we remain a major player. Indeed improving retail net fund flows is one of our strategic imperatives.

Again it is encouraging to see that we are making very good progress in this regard.

Compared to 1999 net retail fund flows almost doubled in 2000. They almost doubled again in 2001 and if we allow for the acquisition of Stirling Grace towards the end of last year we are now, in Australia and New Zealand, delivering new retail fund flows of around \$1.5 billion. We still have quite a way to go to meet our objectives in this regard but again, I think you will agree, this is encouraging progress.

If we look at an area of the market where we are the leader - risk insurance - we have seen further growth in our new annual premiums. In the 15 months to December 2001 we saw \$164 million of new risk annual premiums. Up on the previous year despite us having to increase our prices for our income protection portfolio.

Income protection has been, as I mentioned a few minutes ago, a problem area for the company over recent years due to poor product design and underwriting. We did have to further strengthen our reserves in September last year but I am pleased to say that the action that we have been taking,

which again I will cover in a little more detail in a few minutes, has meant that in the final quarter of last year our income protection experience was stable a position which has continued through the first quarter of 2002.

Losses in each of 1999, 2000, 2001, reaching break even in the final quarter.

And finally on our financial performance we have continued to make good progress in reducing our management expenses. These have steadily reduced over the last 3 years. For the 12 months to September 2001 recurring management expenses in Australia and New Zealand were \$385 million down from \$441 million in 2000. And as you can see we are planning for further improvements this year. In the final quarter of 2001 recurring management expenses were \$87 million a run rate well down on the average for the year.

You will recall that around 2 years ago I set out seven strategic imperatives that we needed to address if we were to return the company in Australia and New Zealand to a position of market leadership.

- To grow our market share of retail investment and superannuation
- To improve retention of our existing funds under management
- Recognising the importance of advice as the means to distribute our products, to increase the size and productivity of advisers in dealerships aligned to AXA

- Recognising also the growth in Australia of open architecture and of independent financial advice, the fourth imperative was to increase our penetration of the non-aligned financial planning market
- Fifthly, clearly one of our imperatives was to return our income protection portfolio to profitability
- To improve our operational effectiveness and reduce expense ratios
- And finally, recognising that our products and services are delivered through our people and their relationships, to improve our organisational capability through our people

We set out five very tough aspirational objectives in April 2000 to paint a picture of what success for the company would look like and to ensure that our efforts were focussed on getting the right results.

We called this K5.

K1 was to double the value of our new business

K2 was to get by 2003 into the top 5 in net retail funds flows

K3 was to reduce our expense ratio by 50%

K4 was to move into the top quartile for service delivery as measured by the Assirt Service ranking, and

K5 was to be in the top quartile in the global AXA Group Staff Attitude Survey, Scope

So how have we been getting on?

It was an essential precursor to growing our market share of retail investment and superannuation to transfer our asset management capability and perception.

At last year's annual general meeting we announced the formation of joint venture partnership with Alliance Capital, a fellow member of the global AXA group and one of the world's leading asset management companies. Over the last 12 months we have completed the integration of our asset management businesses and we are now, I believe, uniquely positioned in the Australian market to offer world class scale and capability in the management of money.

Recognising that it was unlikely that we could be one of the top five managers of property in Australia and therefore would find it difficult to recruit and retain the best people. We have entered into a partnership in property management with Deutsche Asset Management. We continue to offer property backed products in the market but the management is now carried out by Deutsche. Deutsche is now the biggest manager of commercial property in the world.

This transformation in our asset management capability was followed by a complete redesign and relaunch of our retail and mezzanine mutual fund products last year. Very encouragingly we have received excellent ratings from Assirt and Van Eyk and the other research houses for these products. We probably have the best set of ratings now that we have had for many

years and the potential of our joint venture partnership was highlighted when Alliance Capital was awarded Mercers New Zealand Fund Manager of the Year Award recently.

Another important factor in growing our market share in this area is the strength of the AXA brand.

Following the very successful "What is an AXA" tv campaign in the year 2000, and then our global kids and Ross Greenwood campaigns more recently, prompted awareness of the AXA brand is now at over 90% compared to our original target of around 80%. And if we ask consumers which financial services company do they most associate with being global over 40% say AXA compared to only around 20% naming AMP and BT and much lower numbers for the banks. Why do we believe that this important - well it is because increasingly our business is globalising, increasingly Australian investors are investing significant proportions of their assets in international markets, and increasingly when smaller companies from time to time run into financial difficulty, customer are looking for the financial strength that global scale brings. So we are making excellent progress in this area.

Our second strategic imperative is to improve the retention of the existing funds we have under management.

One of our major product lines from the nineteen eighties is the retirement security plan where we have over \$3.5 billion in funds and 1/4 million clients.

Last year we upgraded this product, modernised the fund links and benefits and offered new conversion options and discounted financial planning advice.

These initiatives are already being successful with the rate of funds outflows from RSP declining over the last 6 months.

We are also looking at our range of superannuation products and have implemented retention campaigns here and are, this year, further developing our customer relationship management strategy. Our aim, over the next 3 years, is to retain funds of over \$1 billion that we might otherwise have lost.

#### Super Investment Review/Summit

As I said earlier we believe that financial advice from trusted advisers will remain critically important in the distribution of financial protection and wealth management products. AXA has one of the largest adviser networks in the country with over 1100 advisers in Australia. Adviser productivity has grown by 15% over the year and we have a target to grow this by a further 25% over the next 2 years.

Our next imperative is to increase our penetration of the non-aligned dealership sector. We made a major strategic move in December when we acquired Sterling Grace a leading advisory service in New Zealand under the Spicers name and also trading in Australia under the Monitor Money brand. As well as increasing funds under management - indeed this places AXA

number 1 in New Zealand - this is also a major move for us to participate in the independent financial advice business. Acquiring similar financial planning practices in Australia is something that we are interested in but we will consider only those of the highest quality.

We are making progress in this area of the market - last year non-aligned distribution channels accounted for 35% of our new investment sales.

Income protection has been a major preoccupation of management over the last couple of years. Whilst this has been a difficult area for the whole market, AXA, as market leader, has had an important role to play in leading the market back to sensible principles of product design, underwriting and claims management. Clearly we are in the business of providing protection and paying claims. Too frequently, however, we have seen failure to disclose pre-existing conditions at the point of underwriting. Failure to provide full details on earnings and, I regret to say, too frequently we see dubious or, in some cases, fraudulent claims. It is in the interests of our customers that this business is operated properly and prudently. In December 2000 we redesigned and repriced our products for new business. The evidence over the last 12 months is that the new business we have been writing is profitable.

We have also devoted a great deal of attention to improving our underwriting and claims management processes and capability. Whilst it was necessary to further strengthen our reserves in September 2001 experience over the last 6 months has been encouraging. There is still quite a time to go before we can

say with confidence that the problems are behind us. However we have not incurred further losses over the last 6 months and recent trends remain in line with our expectations.

And our 7<sup>th</sup> strategic imperative was to improve our operational effectiveness and to reduce our management expense ratios. We have made good progress in these areas and we have very clear plans for further improvements over the next 2 years. Contrary to what some people think there is absolutely no conflict between cost efficiency and service. Indeed it is poor service that is expensive - the cost of dealing with complaints and correcting errors for example - and good service is usually the most cost effective. We are investing heavily in this area in further building and improving our net based support for advisers and for end customers. This is of course an ongoing process and there will be further changes to our organisational structure over the next 2 years.

The nature of a financial protection and wealth management business is different to that of, for example, manufacturing companies. When you buy our products you cannot take them home and open them up and use them. Customers experience of our products and services is through our people, through advisers and through AXA's service and support staff. If we don't have skilled and motivated people then we cannot provide the products and services that our customers are looking for.

We have been particularly pleased, that despite major change in the organisation over the last 2 years, the measures that we take of employee attitudes though the Scope surveys have shown improvements in almost all areas. In company image for example in overall morale in the way in which senior managers are appraising and recognising and developing our staff and in a range of other areas. This does give me enormous encouragement that AXA is up to the task of coping with the further change that is necessary to meet our objectives.

I would now like to say just a few words about our very successful health insurance business.

Helped by government reforms contributions have grown strongly over the last 15 months. We are the market leader in South Australia and the second largest in Victoria with very significant market shares. Nationally we are the third largest health fund.

We are also, I believe, the best managed health fund in Australia. Our overall claims ratio over the last 15 months was around 77%, one of if not the lowest in the industry. And our management expense ratio of 8.7% was significantly lower than the industry average of 11.6%.

This advantage in operating effectiveness meant that we only needed to increase premiums by around 1.5% - the first increase for over 2 years - a level of increase which is much lower than our competitors. It is very clear to

us that the disciplines that we have in place as a for profit health fund, compared to the rest of the market which is mutual, are delivering real benefits to our customers.

There has been much publicity in recent months about the health industry and about our health business. We have made it clear that our strategy is to optimise value to our shareholders. We have an excellent business producing very acceptable profits and we are happy with this. If there are alternative strategies which will improve shareholder value then, clearly, we will look at them.

In summary for Australia and New Zealand we are making pretty good progress towards our aspirational K5 objectives.

K1, to double the value of new business. The value of new business has steadily improved since we launched the K5 program. As you can see from the graph on the top left though we do need to increase the rate of growth if we are to meet our objective by the end of 2003.

We are also making progress on the critically important objective of growing our net retail funds flows. The green bars here show our gross flows and the light blue bars show outflows with the blue circles representing the difference - the net inflows. Again you can see that the trend is in the right direction but you can also see that we need to increase the rate at which inflows are growing if we are to meet our target.

As I have said we are on track to achieve our management expense ratio target by 2003 and we are making sound progress in improving our ranking in the Assirt surveys both in Australia and New Zealand.

And finally, as I mentioned, we are very much moving in the right direction with the objective of getting into the top quartile within the global AXA group for staff satisfaction.

I would now like to turn to our international operations and in particular to look at our very successful business in Hong Kong - AXA China Region.

As you will know there have been difficulties in the market over the last 2 years with an outbreak of agent poaching and it is therefore pleasing that we have managed to grow operating earnings to \$198 million from \$134 million in the 12 months to September 2000.

As with Australia and New Zealand we have seen steady growth in operating earnings from our Hong Kong business over the last 3 years.

Increased 60% since 1999.

After 2 difficult years where a combination of agent poaching and new regulatory requirements has seen a fall in the number of agents, and a consequential fall in new business, it is pleasing to see that, particularly in the

last quarter of 2001, we have returned to growth. The agent poaching has involved some of our competitors paying agency leaders obscene sums of money to defect with their agents and then to twist enforced policies to the detriment of customers. This is something that we have steadfastly refused to take part in and there are now clear signs that our strategy has been vindicated. The financial cost of this strategy is becoming clear to those who have adopted it and the poaching seems to have come to an end. We have not lost agents through this for over a year now.

We have over this period broadened our distribution channels and sought to reduce our reliance on the traditional agency model.

Agent numbers are now growing and the trend you see on this slide has continued during the first quarter of 2002. Very encouragingly agent productivity, which was already amongst the best in the market, has improved further.

Broadened wealth management MPF. Single premium investment

On this slide the red bars show single premium investments, and the green and brown bars show inflows into our new mandatory provident fund products. Obviously the introduction of the mandatory provident fund represented a major opportunity and we have seen growth in inflows due to this. But even leaving this aside you can see that we have over the last 3 months seen a

return to growth in new regular premiums in the Hong Kong market and, most encouragingly, strong growth in single premium investment products.

And finally total fund under management continued to increase. At the end of 2001 we had over \$HK 30 billion under management.

We have also set out a number of strategic imperatives in AXA China Region

- to increase the number and productivity of our agency force
- recognising the changes in the market, to build profitable new distribution channels and to diversify and broaden our distribution capability
- to build AXA as the preferred brand of choice
- recognising the traditional nature of much of our business in Hong Kong, to ensure that we deliver the investment returns necessary to meet crediting rates to policyholders but also to deliver the 1% margin required to meet our financial objectives for shareholders
- the poaching over the last 2 years has led to an increase in lapse rates and it is important that we bring persistency back to target levels
- whilst the market in Hong Kong is still, by Australian standards, very traditional there is no doubt that as the market matures it will become more sophisticated and we will see a growth in the need for savings and investments and in financial planning. Whilst the traditional agency force remains the fundamental driver of our business we must prepare for these market changes and build the advice based distribution and operate .. excellence necessary for success.

Following the lead in Australia we have set 6 clear and aspirational objectives to be achieved in Hong Kong by 2004. Overall our objective is to increase the enterprise value i.e. the underlying shareholder value of the operation by 55%. I won't go through each one of these objectives in detail but the M6 program sets out a very clear picture of what success would look like and would enable to management and staff to focus on our priorities.

Looking at distribution we now have the largest team of salary advisers in the Hong Kong market.

We have also been changing the management processes in our traditional agency operation. We are moving from having our agents managed by self employed agency leaders to having more of them managed by salaried company employees. Indeed at the end of the last year 28% of our total agency force was company rather than agent leader managed.

We are also building our presence in the broker market. Brokers are now providing 80% of our sales in the corporate market and new business from broker is increasing very strongly.

Prompted name awareness of AXA Kwok Wei in Hong Kong is close to 100% and the company has enormous respect in the market as exemplified by the fact that we were, for the second consecutive year, named Magazines Best Insurance Company.

Last year we made further changes to our investment portfolios and increased the percentage of assets that we have in equities. Recognising the relatively high level of guarantees of policies in Hong Kong we do need to maintain a significant percentage in bonds but, following a reduction in crediting rates, we are very satisfied that our asset liability management can deliver at least the 1% investment spread that we need to deliver the target levels of shareholder profitability.

It is very pleasing to note that the enormous efforts that have been put in to retain inforced policies are paying off and our persistency levels have improved very significantly over the last 6 months and in recent months are very close to the long term levels that we assume in our financial projections.

And finally we are making good progress in improving operational and cost efficiency in Hong Kong. There was some increase in cost in the year to September 2000 as we resisted the poaching efforts of competitors but, as you can see, operating expenses reduced in the year to September 2001 and the run rate in the December quarter demonstrates that we will be achieving further improvements this year.

I would now like to finish by saying just a few words about our other international activities.

As mentioned at last year's AGM we have now implemented a new Asian regional management structure based in Hong Kong which is responsible for

all our south east Asian businesses. This will enable us to leverage the skills and experience of our Hong Kong business in areas such as IT development, sales management, product design and financial and asset liability management. This new structure was implemented in December and is now fully operational.

We have further strengthened our management in the region and made two new CEO appointments in recent months. The Singapore is evolving rapidly and we have made the strategic decision to launch a financial planning business there. This should be operational later this year.

And we continue to see strong new business growth in our South East Asian operations.

I am not going to go through this slide in detail but it does show that in Singapore, Indonesia, Thailand and the Philippines we are continuing to experience strong new business growth. Our partnership with Metrobank in Philippines is delivering tremendous results and we are now number 1 for single premium investment business in the Philippines.

As you know AXA Asia Pacific has a 25% economic interest in AXA Minmetals, our joint venture partnership in China.

Our Shanghai operation was established in 1999 and in 2000 we launched our first products. We have achieved brand awareness in Shanghai of 40%

and we now have over 1300 agents and inforce life premiums totalling 64 million RMB.

We were one of the few foreign life insurers to be granted licence extensions last year and we are in the process of submitting a business plan to start our second operation in Guangzhou.

China is a tremendously exciting opportunity - it is the only market forecast to move into the world's top 20 in the next 10 years and we are well positioned to benefit from this.

In closing can I say that in Australia and New Zealand we intend to retain our market leadership position in financial protection but our focus over the next 2 years will be very much on growing our wealth management business.

As well as growing sales we need to further improve our retention of funds under management. We will be developing our distribution capability both organically and, if the opportunities exist, through acquisition.

Income protection will remain an area of close management attention and we will further improve our cost effectiveness and to develop a performance culture.

In summary we have done much to build and improve our capability over the last 2 years. We must now use that improved capability to build profitable growth.

In Hong Kong we have a very strong and successful business but we do now need to recognise that the market is changing and maturing and we need to change if we are to remain a leader. Our priorities are to modernise the management structure of our traditional agency force, to diversify distribution and to become even more cost effective.

There is still huge potential in Hong Kong and significant opportunities to further grow shareholder value.

The last 2 years have, undoubtedly been challenging but I can say to you that I am enjoying the challenge and I am encouraged by the progress we have made. I expect to be able to tell you at next year's AGM that we remain on track to meet our objectives. Thank you for your attention

