

Annual General Meeting

14 April 2004 - Melbourne Convention Centre

Thank you Rick and good morning everyone.

I am going to present a brief review of our progress in 2003 and say a few words about the outlook for 2004 and beyond.

As Rick has said, the operating environment improved significantly during the second half of 2003 and I am pleased to say that this, together with the emerging benefits of the change programmes that we have been working on over the last four years, have led to both strong financial results and significant strengthening of our market positions.



Group profit after tax and before non-recurring items, excluding profits from the Health business which we disposed of in February 2003, reached a record level of \$537 million. Profits have more than doubled over the last four years and we have seen particularly strong growth since 2001, a year in which investment earnings suffered from the sharp fall in global equity markets.

As you will be aware our profit after tax is significantly affected by our investment earnings – that is the earnings we receive on our invested shareholder capital – which are quite volatile. Perhaps a more meaningful measure of the results of the underlying performance of the business is our Operating Earnings which represent the profits emerging from our products, from our wealth management and financial protection business and from our efforts in reducing expenses.



In 2003 Operating Earnings, excluding the Health business, were \$301 million. As you can see from this chart we have seen steadily increasing Operating Earnings over the last four years despite the negative impact in 2003 of the weakening of the US dollar which impacts the translation of the earnings from our Hong Kong business. In Australian dollar terms Operating Earnings have increased by around

14% per annum compound over the last four years which I believe is a good result in what, in the main, has been a difficult market environment.

I would now like to say a few words about our operations in Australia and New Zealand.



In April 2000 we launched our K5 transformation programme to strengthen and reposition the Australian and New Zealand businesses.

- At that time our market share in the fast growing investment and superannuation markets had steadily declined for a number of years and was well below where it had been historically for National Mutual.
- We were still a market leader in most risk insurance segments but income protection was unprofitable.
- Key aspects of the management of the AXA aligned networks was not under our direct control
- Our service and product offer was poorly perceived by non-AXA aligned distribution channels and we had low market penetration in anything other than capital guaranteed products
- The perception of our investment capability and investment performance in key asset classes was poor
- We had high costs relative to our competitors, and
- Underpinning many of these issues was the fact that, although the company had demutualised in the mid 90's, the culture had not really demutualised.



So in April 2000 we set out to all our people 5 clear, simple and aspirational goals – the K5 programme.

K1 – To double the value of new business

K2 – To get into the top 5 for net retail funds flows

K3 – To reduce our expense ratio by 50%

K4 – To get into the top quartile in the Assirt rankings of service to financial advisers

K5 – To get into the top quartile in the AXA global Scope survey of employee satisfaction

These objectives were underpinned by 7 strategic imperatives which gave the organisation direction and focus on the areas where we needed to improve our performance.

So how have we performed against these objectives? Well I am pleased to say that I believe we have made strong progress.



Looking first at the financial performance in Australia and New Zealand, Operating Earnings have grown by around 20% per annum compound since we launched K5.

We have seen strong growth in earnings from financial protection – that is our life insurance, term, trauma and income protection products – to \$56 million in 2003. And we have seen earnings from wealth management – that is investments, superannuation, master trusts and advice – nearly double since 2000 to \$91 million in 2003.



We have moved from having a weak, locally based asset management capability to being able to bring to the market the capabilities of a global asset management business through our joint venture with Alliance Capital and Bernstein.

We have built on this stronger foundation by re-launching most of our investment product range and introducing a range of new funds.

This has underpinned growth in funds under management and administration of 75% since the end of 2000 to \$44 billion at the end of 2003.



We have moved from having a well regarded but sub scale platform in Summit, to being in the top 5 for funds under administration in master trusts and portfolio administration platforms.

Funds under administration have grown 60% to \$16 billion.



Our K2 objective – to move into the top 5 in net retail funds flows – was the one that was widely seen to be the most challenging and we are particularly pleased with the very strong progress we have made here.

In 1999 we had net retail funds flows of around \$300 million. This doubled in 2000 to \$648 million and nearly trebled in 2001 to \$1.8 billion.

2002 was a very difficult year for everyone in the retail investment business and our net fund flows were flat. But 2003 saw a strong return to growth with total net flows, including those of our joint venture partner Alliance Capital, up to \$3.7 billion.



This performance has led, I am pleased to say, to us achieving our K2 objective. In both the recently published Assirt and Plan For Life Market Share Reports we were in the top 3 for net retail fund flows. We were well outside the top 10 in 1999, so getting into the top 3 in 2003 is a tremendous achievement. But we are realistic – we know that we need to improve further to sustain this position.



One of the most important of our strategic imperatives was to increase penetration of the non-AXA aligned distribution channels and the independent self-licensed channel.

Although AXA aligned distribution channels – AXA Financial Planning and Charter – were and remain sources of strategic and competitive advantage, the fact is that in the late 90's we were over reliant on these channels. Our success in increasing our penetration of non-AXA aligned channels and IFA's over the last 4 years means that we now enjoy much more balanced distribution. In 2003 about a third of fund sales came from AXA aligned channels, 40% from non-AXA aligned and 25% through our advice businesses, ipac and Monitor Money. In fact 2003 was the first year ever in which sales in absolute terms through non-AXA aligned channels exceeded those through AXA aligned channels.



Despite this growth in our business we have reduced costs significantly and have been successful in improving our expense ratio. Total management expenses have reduced by an average of 10% per annum since 2000. Importantly this has allowed us to increase the levels of reinvestment that we are making in developing the business.



In summary we have made very good progress against our K5 objectives.

K1 – to double the value of new business. We achieved 93% of our target. Bearing in mind the difficult market conditions I have no hesitation in claiming this one as a success.



K2 – to get into the top 5 for net retail funds flows. This was the hardest and we have done it as measured by both ASSIRT and Plan for Life.



K3 – to reduce our management expense ratio by 50%. Ironically this was probably, at the start, the one people thought we were most likely to achieve and yet this is the one where we haven't achieved our objective. However the reality is that we have exceeded our cost target measured in absolute dollar terms, and it has been the overall decline in fund flows across the market as a result of the difficult equity markets over the last 2 or 3 years that have meant that our ratio has not fallen as much as we had expected. Nonetheless we have reduced our expense ratio by 40% which I think is a creditable outcome and I believe that we are now at least in line with the average of our major competitors in contrast to the position we were in 4 years ago.



K4 – to get into the top quartile in rankings of service to advisers. In the Assirt survey in 2003 we were ranked 5th out of 26 having been something like 20th out of 24 in 1999.

And in New Zealand in the AC Nielsen survey we were ranked 1st in 2003. So we have clearly achieved the K4 objective.

And finally the SCOPE survey of staff attitudes. In 2003 AXA Australia and New Zealand was at the 16th percentile in the global AXA survey - so we have met our K5 objective.



I believe that the repositioning and strengthening of the business in Australia and New Zealand over the last 4 years has put us in a position where we are taken seriously by the market and where we are able to compete with the best. We are now a player but we have more to do if we are to become a leader.

We have the right focus for our business – to be a leader in wealth management and financial protection – both strong growth segments.

Our vision and strategy are right and do not need changing.

The success of our K5 programme over the last 4 years has demonstrated that we have 3 points of sustainable competitive differentiation.

- Global Scale as part of AXA, one of the largest and most successful insurance groups in the world
- Our execution capabilities and record of delivery as demonstrated by the K5 programme,
- And of our focus on quality financial advice both as a business in itself and as a means distributing our products

We are committed to building on our improved position and moving from a player to being a leader.

We believe we have the right strategy, we believe we have the right focus and we believe that we have been measuring and setting objectives for the right things.



What we need, therefore, to move from being a player to a leader is not a new strategy or different sorts of objectives, but a raising of the bar. Accordingly we

have, over the last few weeks, set out to all our staff, and to the market, new aspirational goals which we are seeking to achieve by the end of 2007.

Firstly, to double the value of new business – again. Focus on profitable activity is vitally important. Too many companies in our industry chase market share for its own sake. Ultimately customers do not benefit from being with a company that loses money or gets into financial difficulty.

Having got into the top 5 for net retail funds flows our second objective is to remain there on a consistent basis.

Recognising the strategic move into the business of financial advice through our acquisitions of ipac and Spicers, our third objective is to double our funds under advice.

Whilst we have done well over the last 4 years in reducing our expense ratio by around 40%, we must think and act more and more like manufacturing businesses have done for a number of years, and look for continuous improvement in our cost efficiency. Accordingly our fourth objective is to reduce our cost to income ratio by a further one-third by the end of 2007.

Recognising that in an increasingly complex world, financial advice will remain of critical importance, our fifth objective is to be consistently in the top 5 for the service we give to financial advisers.

And finally, having got into the top quartile in the AXA Global Scope survey of employee satisfaction, our sixth objective is to stay there.

If we can achieve these objectives then we will have a good chance of meeting our new, overarching financial objective which is to increase our enterprise value by 65%. Enterprise value is a measure of shareholder value in life insurance and wealth management businesses that is being increasingly adopted by analysts and fund managers. Very simply, enterprise value is the sum of our net assets, the present value of future shareholder profits from our inforce business and the present

value of future shareholder profits from new business that we are selling. Our aspirational goal is to increase this by 65% by 2007.



I would now like to turn to Hong Kong.

Although our Hong Kong business in 1999 was performing well, and in very much better shape than the business in Australia and New Zealand, there were, nonetheless, a number of challenges. I think the catalyst for major change was the agent poaching that took place in 2000 and early 2001.

Our M6 transformation programme in Hong Kong was launched in 2001 and so we still have a little under a year to run before we can make the final assessment. As in Australia, we set out a number of strategic imperatives to support the M6 objectives and these were focused on modernising the management system of our traditional agency channel, broadening our distribution and product range, carefully managing our asset liability mix to ensure that we deliver the target returns for participating business, and preparing for strong growth in savings and investment markets in Hong Kong.

2003 has been a year in which we have seen good performance across all the major indicators, and very clear signs that the M6 transformation programme, like K5, is working and delivering results.



Operating Earnings in HK dollars grew by 21% to HK\$800 million, a very pleasing performance. This growth was helped by a change in the profit carriers relating to our participating business which increased our Operating Earnings by \$73 million in 2003. On a like for like basis Operating Earnings grew by 10%.



New business also grew strongly with total sales on an index basis of new regular premiums plus 10% of single premiums increasing by 14% to just over HK\$1 billion. Our market share has grown in the second half of 2002 and throughout 2003.



We are now well down the path of restructuring and modernising the management system and processes in our successful traditional agency channel. A new agency management Blueprint was launched to the leaders, the managers and the agents in January. This represents a fundamental change from a “franchise” model – where much of the power and influence was in the hands of individual agency leaders – to a “career agency” model where the leaders are still leaders but where they operate within a tighter, management controlled business system.

Blueprint has introduced remuneration structures and practices for agents and leaders which are fully aligned with our strategic goals and with the creation of shareholder value.

And we have enhanced technology support and, training, and changed the incentives for managers to recruit and retain quality agents.

I can report that the rollout has been very positively received and supported by the agency leaders and it appears that one of the major risks – the reaction of the agency leaders – has been very well managed by our Hong Kong management team.

Blueprint has also been rolled out in China and this is one of the main reasons why we have seen such strong new business growth in China in the second half of 2003 and we plan to roll it out in Thailand, Philippines and Indonesia in 2004.



We have made further progress in diversifying our distribution base. Of total new business index in 2003 of just over HK\$1 billion, salaried advisers accounted for 12% and brokers and direct channels 18%. As in Australia we are moving towards a more balanced distribution mix.



Aggregate persistency has improved for the third year in a row. The aggregate rate in 2003 was 8.8%. We have exceeded the target we set ourselves 3 years ago.

We have at the year-end made some minor changes in the long-term assumed persistency rates in our embedded and appraisal values; our current experience supports those long-term assumptions.



For many years the Hong Kong market has been a traditional life insurance market. However there are growing signs that this is changing and that we are going to see strong growth in retail savings and investments.

In April we launched a unit-linked retirement savings plan and have achieved HK\$30 million of new regular premium sales.

Despite the difficult equity markets in the last 2 or 3 years, 28% of our individual life sales were unit linked, a much higher percentage than the market average and if we have stable equity markets, I would expect the unit link proportion to grow in 2004.

We retained our 5% share of the MPF market with over HK\$3 billion funds under management. Whilst we are 6th or 7th in the market we do have the scale for sustainable profitability and this is a market that is forecast to grow from around HK\$60 billion today to HK\$500 billion by 2015.

Importantly, our investment performance is strong. In 2003, 3 out of our 4 rated MPF funds were in the top quartile.

And in anticipation of a growth in demand for financial planning in the high net worth segment we have launched the ipac financial advisory business.



In summary we are making good progress in Hong Kong towards the M6 goals.

The enterprise value in HK dollars increased strongly in 2003 helped by a significant increase in the value of new business, further improvements in persistency, strong investment earnings and further reductions in expenses. We are well on track to meet our objective here.



We have fallen behind our target of HK\$10 billion for total premiums. This is entirely due to the fact that our single premium sales are lower than we had originally planned. Investment markets have made the sale of unit linked single premium plans difficult, although this may change in 2004, and the pricing of structured guaranteed bonds in such a low interest rate environment is not attractive. We will not follow the path of some of our competitors in selling large volumes of single premium participating business with guaranteed surrender values as we regard this as high risk to shareholders if interest rates rise.

We are doing a lot of work on investigating profitable single premium product designs to take advantage of the very low rates being paid on bank deposits and I hope that we will be able to increase the rate of sales during 2004.



We are well on track to achieve our goal for total assets under management. Obviously the strong recovery in equity markets in the second half of 2003 has helped us here and we have also enjoyed strong net fund flows – around HK\$3.7 billion.



The AXA Kwok Wei brand remains strong with 100% brand recall and 75% unaided awareness and, as in Australia and New Zealand, employee satisfaction is in the top quartile of the SCOPE survey.



And finally M6 – to grow the value of new business to HK\$750 million in 2004. A very good year in 2003 with value of new business up 33% and we are also on track to meet this target.



In summary Hong Kong remains a very attractive market for profitable growth and we are well positioned with a multi channel and multi-product approach.

Operating results in 2003 were strong with good performance from all the key value drivers.

- New business sales grew and our market share increased
- Value of new business grew strongly
- Importantly we more than achieved the target 1% spread in assets for shareholders, very important in meeting our long term profit objectives
- As in Australia, management expenses reduced and cost efficiency improved further, and
- Discontinuance rates, which are also very important for long term profitability, improved further and are in line with our targets.

Overall I am pleased with the progress in Hong Kong and we are on track to deliver most of the M6 aspirational targets that we set 3 years ago.



I would now like to turn to the Group capital and financial position, and to some key measures of shareholder value.

Over the course of the year our capital position strengthened.

All measures of gearing improved. In particular the ratio of senior debt to total capital resources halved to 13%. This followed the repayment of debt from the proceeds of the sale of AXA Health and Members Equity.

As at the 31st December 2003 we had total capital resources of \$5.3 billion. This comprised \$3.7 billion of ordinary equity, up \$628 million on 2002, \$894 million of hybrid equity, and \$712 million of senior debt.



This slide illustrates how our capital is used. Total regulatory capital requirements as at 31st December 2003 were \$2.6 billion. Regulatory capital requirements consists of the solvency requirement of \$1.9 billion, and the additional capital adequacy reserve, which was \$707 million as at December 2003.

In addition to regulatory capital, \$1.7 billion of capital represents the excess of market value over net assets of subsidiary companies – in particular relating to the

buy-out of the minorities in AXA China region at the beginning of the year 2000 and our more recent acquisitions of ipac and Sterling Grace.

We do however also aim to hold an additional level of capital resources over and above the regulatory requirements which we call target surplus. Our target surplus as at the 31st December 2003 was \$615 million. This is held to provide a buffer over regulatory capital requirements in periods of market volatility.

In fact, at the end of 2003 we actual held \$883 million of capital above the regulatory requirements, \$268 million in excess of our own target surplus. This, we believe, represents a strong capital position and is one of the reasons we enjoy AA- and AA financial strength ratings by S&P and Fitch respectively.



So what about returns to shareholders? I am pleased to say that over the last 12 months our share price has increased strongly. For the 12 months to 8th April 2004 – that is the last trading day before Easter – the AXA Asia Pacific Holdings share price had increased by 61% compared with 33% for the S&P/ASX 200 Insurers Index and 19.1% for the S&P/ASX 100 Index.

Over the 4 years since we launched the K5 programme in Australia and New Zealand, our share price has increased by 32.5% compared to a reduction of 12.6% in the Insurers Index and an increase of 9.7% in the S&P/ASX 100 Index.

Clearly our share price has outperformed our peers and the market generally over the last 4 years.

This is tangible evidence of the progress we have made over the last 4 years and, in particular, during 2003.



Looking forward I believe that there are a number of reasons to be positive about AXA Asia Pacific Holdings and our prospects.

Firstly we operate in growth markets – financial protection and wealth management. The ageing populations will mean strong growth and demand for our products and services for many years to come. We also operate in growth geographies. Although Australia and New Zealand are relatively mature markets, the low savings ratios mean that these markets will continue to grow significantly faster than GDP and AXA has the opportunity to increase our market share further.

We have a very clear and focused strategy in our core areas of operation. We have demonstrated, by the sale of non-core assets and the reinvestment of the proceeds in our core business activities, that we are focused and we intend to remain focused on what we can be world class at; namely wealth management and financial protection.

We are also focused on delivering shareholder value and we believe that our results in 2003 have demonstrated this.



We have set out very clear objectives for all areas of the business. Over the last 3½ years with the K5 and M6 programmes in Australia and New Zealand and Hong Kong respectively, and over the next 3½ years with the recent launch of AXA 6 in Australia and New Zealand.

I think I can say that we have, in the main, delivered what we said we would.

We have strong management teams in Australia and New Zealand and in the Asian region and we have demonstrated that we have first class capability to execute the change programmes that we have been engaged in.

In summary ladies and gentlemen I can assure you that we have no intention of standing still.