

Annual General Meeting

Les Owen

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Melbourne Exhibition & Convention Centre

Thank you and good morning everyone.

I am going to present a brief review of our progress in 2005 and say a few words about the outlook for 2006 and beyond.

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As our Chairman has said, 2005 was the first year in which we adopted the Australian equivalents of the International Financial Reporting Standards, and in order to aid comparison, we have restated our 2004 results on this basis. Total profit after tax and before non-recurring items increased 18.1% to \$542 million continuing the encouraging trend that we have seen since 2002.

As you will be aware, however, the total profit after tax of a company like ours, where we have significant invested shareholder capital to back our insurance businesses, is quite volatile as it is affected by short term changes in equity markets and interest rates.

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Accordingly a more meaningful measure of the underlying performance of the business is our Operating Earnings, which represent the profits emerging from our products, platforms, asset management and advice operations.

In 2005 I am pleased to say that our Group Operating Earnings were up 23.1% to a record level of \$377 million. This is a very pleasing result and further evidence of the strong position we now have in our major markets of Australia, New Zealand and Hong Kong.

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Our strategy in Australia and New Zealand is to be a leader in all parts of the financial protection and wealth management value chain.

We have structured our business around:

- asset management through our joint venture with AllianceBernstein
- financial protection, investment, superannuation and savings products where we have a leading position
- Mastertrust, wrap and administration platforms where we are continuing to grow strongly
- adviser services – that is the licensing and dealership services provided to the AXA aligned networks – AXA Financial Planning and Charter and our sales and marketing organisation that delivers new business from non-AXA aligned advisers. We have one of the largest and most professional financial adviser networks in Australia
- and finally, financial advice through ipac in Australia and Spicers in New Zealand

Let's look briefly at our progress in some of these areas.

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Over 5 years ago we made the important strategic move of merging our asset management operations with those of AllianceBernstein, a fellow member of the AXA Group, through a 50/50 joint venture structure.

This makes us one of the few companies that brings truly global asset management scale and capability to the Australian and New Zealand markets.

We have seen very strong growth in funds under management and administration which over the last four years, have more than doubled to \$70 billion. We saw 34% in 2005 alone. Within this we have seen growth from AXA retail funds, AllianceBernstein sourced funds, and from our advice businesses.

Based on Plan for Life data we are now the fifth largest fund manager in Australia and over the last 3 years we have been growing faster than most of the major players.

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Turning to net fund flows – that is new money invested with us less payments out, we have seen very strong growth here as well. We are now firmly ranked in the top 5 having moved from well outside the top 10 five years ago.

In 2005 net retail fund flows were up 71.7% to just over \$5 billion. We had strong growth in AllianceBernstein retail mandates, particularly into our award winning Global Equity Value Fund. We also had good underlying performance in most other segments, particularly in platforms.

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Turning now to products. Five years ago we were a leader in market share terms in financial protection but were losing money in one of the most important segments – income protection. Having improved the profitability of financial protection over the last 4 years, we have increasingly been turning our attention to regrowing our market share, but on a profitable basis and not at the expense of value.

In 2005 individual financial protection new business was up 12.7% to \$79.9 million. Within this however, new business from brand new policy sales was up very strongly by 26.4% to \$23 million following a campaign earlier in the year to target the over 45 market, and some product improvements we made in July. I am confident that we will continue to see above market growth in new financial protection business in 2006.

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A combination of continuing improvements in our cost to income ratio, above market growth in higher margin product segments, and a turn around in the profitability of our income protection product range, have all contributed to strong growth in the value of new business over the last 4 years. Using a

10% discount rate which is equal to our assumed long term equity earnings rate, the value of new business in 2005 increased 27.8% to \$114 million.

Within this the value of wealth management new business grew by 26%, and the value of new financial protection business by 37%. This demonstrates that the improvements made to our financial protection products are delivering good growth in value.

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And as Rick mentioned earlier, our strengthened market position and the improvement in the fundamental drivers of value are clearly coming through and in 2005 delivered exceptionally strong growth in Operating Earnings.

Operating Earnings for Australia and New Zealand were up 42.3% to \$204 million. Within this wealth management Operating Earnings were up 52% and financial protection Operating Earnings up 27%.

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You will recall that in April 2004 we announced a new set of aspirational objectives for the Australian/New Zealand business which we called AXA 6 with the objective of taking AXA from being a “player” to a “leader”. I am pleased to say that, nearly half way through the AXA 6 journey, we are making good progress.

Firstly AXA 1 – to double the value of new business which you can see on the top left. We are well on track due to strong growth in platforms and investment management, and continuing improvements in our cost to income ratio.

AXA 2 – to be consistently in the top 5 for net fund flows, which you can see on the top right. 2005 was a very good year and overall we are ranked fourth by Standard & Poors. If we can increase our traction in Australian equities then there is no reason why we should not remain on target.

Next AXA 3 – to double funds under advice which is the chart on the bottom. As you can see we are on target here as well assisted by strong equity market growth.

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Next AXA 4 which is to reduce our cost to income ratio by one-third. In 2005 it reduced by 8.1 percentage points to 73.7% so, once again, we are on track.

AXA 5 – to be consistently in the top 5 for service to advisers. Well here we are on track on New Zealand, which is the red line, but the position in Australia, - the blue line, is disappointing where we have slipped in the WA Taylor rankings to ninth. In 2006 we intend to move back towards our targets through focussing on improving Summit service, starting a programme of significant investment in upgrading our Financial Adviser Network services and, rolling out our AXA GROW initiative to assist AXA aligned practices to manage their business growth and succession.

And finally AXA 6 – to be consistently in the top quartile in the global AXA Scope survey of employee attitudes. As you can see from the chart on the bottom right, we remain firmly in the top quartile.

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The overarching objective of AXA 6 is to increase the "illustrative enterprise value" – that is the embedded value of in force business plus the value of future new business – by 65% to \$6.5 billion by the end of 2007.

On the basis we use for tracking this, our "illustrative enterprise value" was up 17.8% to \$5.3 billion at the end of 2005, very much on target.

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We are in a fundamentally strong position now than we were 5 years ago, we have moved from being behind the game to being a serious player, and we are well positioned to make further progress going forward. Our priorities are:

- to leverage our strength and position in wealth management and our excellent investment performance to continue to grow both gross and net fund flows
- to continue to grow our financial advice businesses – ipac, Spicers and Monitor Money both organically and through acquisition
- to smoothly integrate the recently acquired investment arm of the Bank of New Zealand, and to increase sales through their branch network
- to grow our market share of financial protection but ensuring that it is on a profitable basis
- and to continue to improve our service to both advisers and our customers.

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Let me turn now to Asia.

Our strategy is clear.

We aim to achieve a top 5 position in each of our markets by the time they enter the growth phase.

As a result of growing affluence and greater consumer sophistication, the more developed Asian markets of Singapore and Hong Kong are evolving and, drawing on our expertise in Australia, we aim to be at the forefront as these markets move to financial planning. Our strategy is to drive profitable growth through using a single business model and platform.

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Let me turn first to Hong Kong where, like Australia and New Zealand, we have encouraging momentum. The broadening of our distribution channels has driven strong sales growth, up 20.6% in 2005. All our channels are growing, and non agency now accounts for around 40% of life sales. 2005 saw further improvements in agent and adviser productivity, and broker sales grew by 35% mainly through life and wealth management products. The development of bank distribution agreements is starting to pay dividends with good early progress.

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This encouraging momentum is clearly showing through in improving market share. Although we have consistently put a health warning on the market share statistics in Hong Kong it would, nonetheless, appear that we have performed very well in 2005. Against our peer group of the largest six players we grew our market share on both a total new business index basis and particularly so in the higher margin regular premium life segment.

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This strong growth in sales has not been at the expense of profit margins.

Using a risk discount rate of 10.5% equal to our assumed long term equity return rate, the value of new business in 2005 was up 13.3% to HK\$756 million.

As you can clearly see from this chart, the management team in Hong Kong has been very successful at delivering strong and consistent increases in value of new business over a number of years, and the Hong Kong market remains a very attractive one with significant further growth potential.

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And as in Australia and New Zealand, this increase in new business value is coming through into solid Operating Earnings performance. Operating Earnings grew by over 10% into 2005 to HK\$1,012.1 million. We have seen particularly encouraging growth in Operating Earnings since the period of depressed equity markets in 2002.

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As you know we announced on 21 February the acquisition of MLC's Hong Kong and Indonesian life insurance operations for a purchase price of \$575 million.

This is a strategically attractive opportunity which is consistent with accelerating growth in Asia.

Hong Kong is a market we know well. We have been operating there for 20 years and are already strongly positioned. Margins in life insurance are very high by the standards of other developed countries and, with high savings ratios, there is further growth potential for life insurance, investment products and wealth management.

In Indonesia AXA has grown strongly over the last 2 years, particularly through our joint venture with Bank Mandiri. The MLC Indonesia acquisition increases our agent numbers from 600 to over 1500 and will move us to second place in the market for new business, with a market share of around 12%.

This transaction represents an attractive opportunity to strength our position and offers significant value upside over the next 2 to 3 years as we integrate these businesses and implement our product and distribution blueprints. The acquisition will be broadly EPS neutral in 2006 before the impact of one off integration costs, and accretive in 2007. We will be giving more information on our integration plans and targets at the Strategy Day on 10 May.

The acquisition will be funded from existing capital resources.

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Let me now say a few words about the rest of Asia where we also have a picture of encouraging momentum. We have seen strong growth in new business from both bank and agency channels. Our agency business is benefiting from the bedding down of the blueprint models we have implemented over the last 18 months, and we continue to grow new business through the branches of our bank joint venture partners.

By the end of 2005 we were operating in 70% of the retail branches of our partners, and we aim to achieve 100% penetration over the next 2 years.

The opportunity here is enormous – we still have less than 1% of the customer base of our joint venture bank partners, as AXA customers.

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Over the last 2 years we have implemented regional blueprints across Asia based on the successful business model and processes used in Hong Kong. These blueprints, which include product approval and development, agency remuneration, bancassurance and risk management, are enabling us to achieve sustainably profitable new business growth across the region.

On a constant currency basis, the value of new business increased by 31.1% in 2005 to \$38 million.

The AXA APH share of this new business value is \$20.6 million which now represents 8% of our total Group value of new business. So you can see that our smaller Asian operations are starting to become material to Group value.

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Last year we announced plans to commence operations in India and Malaysia and we are on track to be up and running around the middle of 2006.

In India we have signed an exclusive distribution agreement with Bharti Televentures, the leading mobile phone company, with a customer base of over 16 million people.

Our expected capital commitment over the first 3 years is in the range of \$35-65 million depending on the rate of growth and the relative mix of distribution channels.

In Malaysia our entry is via the acquisition of the life portfolio of Tahan Insurance through a joint venture with Affin Holdings, a leading Malaysian banking group. Our share of the purchase price was \$22 million.

Our expected capital commitment here is in the range of \$20 million to \$35 million over the first 3 years.

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In May 2005 we launched a new set of aspirational goals for our Asian operations which we called Asia 6 – to be achieved by the end of 2008.

We are about a year into the Asia 6 programme and, although it is still early days, I am pleased to say that we have started well. We saw an encouraging increase in Asia 1 (top left) – to more than double the value of new business - through strong sales growth in Hong Kong and across the region.

Asia 2 (bottom left) – to grow total inflows 2.5 times. We have made progress in 2005 but we do need to accelerate our growth if we are to meet this target. In particular we need to increase our penetration of bank distribution channels.

Asia 3 (on the right) – to increase our new business index 2.5 times. Strong growth in Hong Kong and the region means that we are very much on track here.

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Our fourth objective is to reduce our management expense ratio to below 5% in Hong Kong and to below 20% in the smaller Asian operations. We are making good progress here.

The fifth objective – Asia 5 which you can see on the bottom right is to improve our 13 month persistency ratio to 80%. We saw good improvement in 2005 and we are not far from our target. Importantly current persistency experience is already better than our pricing and value assumptions.

And finally Asia 6 – to achieve the top quartile Scope score. Our absolute scores improved in 2005 but not quite as fast as those in the rest of the AXA group and we rank at just a little better than average. So clearly more to do here.

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The overarching goal is to double the “illustrative enterprise value” of our Asian operations to \$8 billion by the end of 2008. This was up 20.7% in 2005 to \$4.8 billion, very much on track.

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Looking forward our priorities in Asia are:

- to continue to deliver strong growth in both new business and new business value
- to continue to broaden our distribution channels and to be in the vanguard of the developing wealth management markets, particularly in Singapore and Hong Kong
- to continue the good progress over the last couple of years and further penetrate the customer bases of our bank partners
- to commence operations in India and Malaysia utilising our bancassurance, agency and product blueprints and
- to smoothly integrate the recently acquired MLC Hong Kong and Indonesia businesses and to deliver our targeted value

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I will close with a few words about our capital position which strengthened further during 2005. Total capital resources at 31 December 2005 were \$4.81 billion.

Of this, just over \$2 billion, represented by the two grey segments, represents our required regulatory capital mainly backing our significant life insurance operations in Australasia and Hong Kong. In addition to this, \$1.235 billion – the red segment - represents purchased goodwill, mainly the buyout of the minorities in Hong Kong in early 2000, and our purchases of ipac and Spicers.

We also hold a level of target surplus, which is capital in addition to regulatory requirements, and this was \$535 million at the end of the year. That leaves an excess over target surplus – represented by the light blue segment – of \$876 million. \$575 million of this is being used for the MLC Hong Kong and

Indonesia acquisitions. So after taking these acquisitions into account we held we held \$300 million in excess of our own target which will be used to support our planned growth, particularly in Asia, over the next couple of years. Overall we have a very strong capital position holding \$1.4 billion above regulatory capital requirements.

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In summary I believe that our target markets have attractive long term fundamentals.

We have significant momentum in Australia and New Zealand and all our operations in Asia are growing strongly.

As you have seen we are progressing well towards both our AXA 6 and our Asia 6 aspirational goals. We are accelerating growth in Asia as evidenced by the acquisition of MLC Hong Kong and Indonesia.

And finally we have a very strong capital and financial position and can take advantage of attractive growth opportunities when they are available.

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I would like to thank all our shareholders for their support of the Company and the management team, and I am confident that we can continue to deliver attractive returns.