



Investor Compendium

**For the six months ended
30 June 2004**

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1 AXA Asia Pacific Holdings

1.1 | Highlights

AXA Asia Pacific Holdings' profit after tax before non-recurring items was \$193.5 million for the six months ended 30 June 2004 (six months ended 30 June 2003 - \$276.7 million).

Operating Earnings, the key indicator of the underlying performance of the business, grew very strongly, up 20% to \$162.8 million (2003 - \$135.6 million).

Operating Earnings in Australia and New Zealand were up 32% to \$87.4 million (2003 - \$66.4 million). We have seen encouraging growth in each of our core business operations – Financial protection, Wealth management products and advice. Net retail funds flows were up 132% to \$1,639 million (2003 - \$708 million) and we maintained our top three market position. The value of new business was up 19% to \$39 million (2003 - \$33 million) and funds under management, administration and advice were up 12% to \$49.6 billion (31 December 2003 - \$44.2 billion).

We also saw strong growth in Hong Kong, where Operating Earnings in local currency were up 29% to HK\$432.8 million (2003 - \$335.0 million). New business grew by 13% and the value of new business for the six months grew by 29% to HK\$271 million (2003 – HK\$210 million).

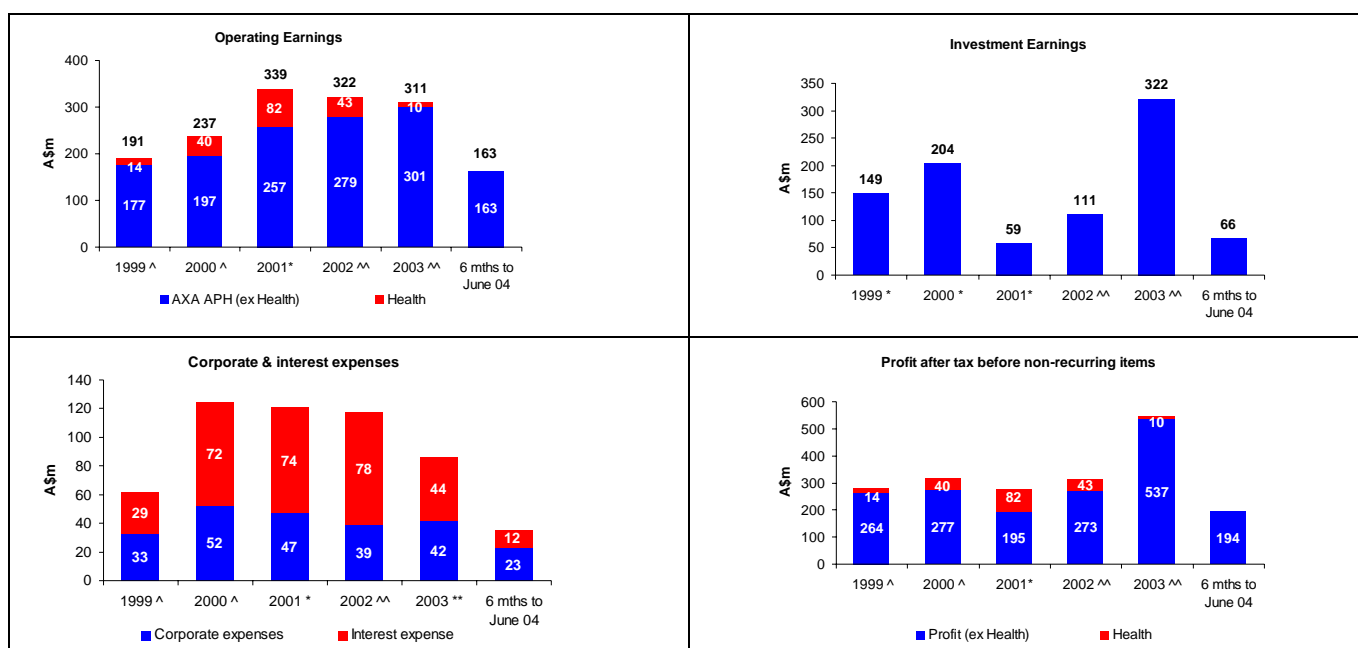
Investment Earnings for the Group were \$66.0 million (2003 - \$188.8 million). Investment earnings on invested shareholder capital are, by their very nature, volatile. Last year our US bond portfolio benefited from falling interest rates, narrowing corporate spreads and strong returns from global equity markets. In the first six months of this year, US interest rates rose, corporate spreads widened and equity performance was less strong.

Our capital position remains strong with no change to our gearing ratios and capital in excess of regulatory requirements increasing by \$71 million from 31 December 2003 to \$954 million.

The Directors have declared an interim dividend of 5.25 cents per share (15% franked) up 11% on the interim dividend in 2003 (4.75 cents per share).

Over the last four years we have refocused our business on financial protection and wealth management, have instilled more of a performance culture, strengthened management and improved operational efficiency. The last 18 months has seen very strong evidence that this repositioning is leading to improved operating and financial performance.

AXA Asia Pacific Holdings financial performance 1999 – 2004



^ 12 months ended 30 September (audited)

* 12 months ended 31 December (restated, but not audited for 2001)

^^ 12 months ended 31 December (audited)

1.2 | The six months at a glance

Financial performance

- Profit after tax (excluding Health) and before non-recurring items down 30% to \$193.5 million (2003 - \$276.7 million) relative to what was a good result in 2003
- Operating Earnings (excluding Health) up 20% to \$162.8 million (2003 - \$135.6 million)
 - Australia and New Zealand (excluding Health) up 32% to \$87.4 million (2003 - \$66.4 million)
 - in local currency, Hong Kong up 29% to HK\$432.8 million (2003 - HK\$335.0 million)
 - in Australian Dollars ("A\$"), Hong Kong and Singapore Operating Earnings up 9% to \$75.4 million (2003 - \$69.2 million)
- Investment Earnings of \$66.0 million (2003 - \$188.8 million), with Australia and New Zealand investment earnings of \$51.2 million (2003 - \$14.6 million). Investment earnings on invested shareholder capital are, by their very nature, volatile. Last year our US bond portfolio benefited from falling interest rates, narrowing corporate spreads and strong returns from global equity markets. In the first six months of this year, US interest rates rose, corporate spreads widened and equity performance was less strong
- Corporate and interest expenses down 26% to \$35.3 million (2003 - \$47.7 million)
- Group gearing, measured by debt to total capital resources, remained unchanged from 31 December 2003 at 13%
- Total Group assets under management ("AUM"), administration and advice up 12% to \$57.3 billion (31 December 2003 - \$51.1 billion)
- Interim dividend of 5.25 cents per share, up 11% on the interim dividend for 2003 (4.75 cents per share) franked to 15%

Australia and New Zealand

- Wealth management product Operating Earnings (excluding advice businesses) up 11% to \$37.2 million (2003 - \$33.4 million)
- Operating Earnings from advice businesses now represent 16% of total Australia and New Zealand Operating Earnings (2003 - 15%), up 37% to \$13.6million (2003 - \$9.9 million)
- Financial protection Operating Earnings up 58% to \$36.6 million (2003 - \$23.2 million)
- Net retail funds flow up 132% to \$1,639.1 million (2003 - \$707.6 million)¹, maintaining top 3 ranking (based on Plan For Life and ASSIRT data for the 12 months ended 31 March 2004)
- Value of new business up 19% to \$39 million for the six months ended 30 June 2004 (2003 - \$33 million)
- Funds under management, administration and advice up 12% to \$49.6 billion (31 December 2003 - \$44.2 billion)
- Funds under advice up 10% to \$4.6 billion (31 December 2003 - \$4.2 billion)
- Cost to income ratio down 4 percentage points
- Well positioned for further growth – AXA 6 aspirational goals launched

¹ Excluding inflows and outflows from third party business taken on through the Sterling Grace acquisition and where contracts have been terminated.

1.2 | The six months at a glance (ctd)

Hong Kong

- Operating Earnings up 29% to HK\$432.8 million (2003 - HK\$335.0 million)
- New business index (regular premiums plus 10% of single premiums) up 13% to HK\$542 million (2003 – HK\$480 million); excluding general insurance, new business index grew 14%
- Value of new business for the six months ended 30 June 2004, up 29% to HK\$271 million (2003 - HK\$210 million)
- Net funds flow up 15% to HK\$3.9 billion (2003 – HK\$3.4 billion)
- Funds under management (“FUM”) up 4% to HK\$41.8 billion (HK\$40.1 billion at 31 December 2003), despite the impact of rising interest rates on the market value of the bond portfolio
- US 10 year Treasury yields (4.62% at 30 June 2004) moving towards our long term assumption of 5.2%
- Business retention levels further improved with the aggregate discontinuance rate down to 7.9%, below the aggregate long term assumptions in our product pricing and illustrative enterprise value assumptions
- Agent productivity of HK\$25,000 average monthly sales, up 7% (2003 – HK\$23,400). AXA adviser productivity of HK\$60,000, up 15% (2003 – HK\$52,400)
- Advice businesses now operational in both Hong Kong and Singapore, using the ipac business model. As at 30 June 2004, total funds under advice amounted to HK\$143 million

China and SE Asia

- Total premium income up 64%² to \$206.0 million (2003 – \$125.6 million)
- New business index for the region up 15%² to \$32.2 million
- Value of new business for the six months ended 30 June 2004, up 148%² to \$14 million³ (2003 - \$6 million)
- Moving away from guaranteed, capital intensive products – investment linked now 77% of sales in South East Asia (ex Thailand)
- AXA Minmetals, our JV operation in China, continued to grow with new business up 33% and total premiums up 42%
- Shanghai total premium income up 24%; market was down by 10%
- Applications to open branches in Beijing and Foshan have been submitted to Chinese regulatory authorities
- Singapore business repositioning progressing, with 68% of new business through single premium investment linked products
- In Indonesia, our new bancassurance joint venture with Bank Mandiri is showing encouraging early results. We now have financial advisers in 215 bank branches and, on a combined basis, AXA businesses in Indonesia ranked 4th in new business market share for the first quarter of 2004, up from 11th in 2003
- Best practice agency blueprint launched in Philippines and Thailand

² Constant currency basis.

³ 100% share

1.3 | Financial summary

A more detailed financial summary of the last three half-year periods is provided below:

(A\$ million, unless otherwise stated)	6 months to/ as at 30 Jun 04	6 months to/ as at 30 Jun 03	% change	6 months to/ as at 31 Dec 03
Financial performance				
Operating Earnings (excluding Health)	162.8	135.6	20%	165.2
Investment Earnings	66.0	188.8	(65)%	133.3
Corporate expenses	(23.4)	(20.8)	(12)%	(21.2)
Interest expense	(11.9)	(26.9)	56%	(16.9)
Profit after income tax (ex Health) and before non-recurring items	193.5	276.7	(30)%	260.4
Divested business – AXA Health ¹	0.0	9.8	n/a	0.0
Non-recurring items	0.0	368.4	n/a	10.7
Profit after income tax and non-recurring items	193.5	654.9	(70)%	271.1
Shareholder returns				
Earnings per share (before non-recurring items) (cents)	11.1	16.5	(33)%	15.0
EPS (after non-recurring items) (cents)	11.1	37.6	(70)%	15.6
EPS – “normalised” Investment Earnings (cents) ²	13.9	10.8	29%	n/a
Dividend per share (cents)	5.25 ³	4.75 ³	11%	5.50 ⁴
Dividend franking level	15%	60%		60%
Ordinary shares on issue (million)	1,740	1,740		1,740
Weighted average number of ordinary shares (million)	1,740	1,740		1,740
Return on capital ⁵	9.0%	9.3%		10.7%
Return on capital – “normalised” Investment Earnings ⁶	9.6%	7.6%		n/a
Return on equity ⁵	12.1%	14.3%		16.2%
Return on equity – “normalised” Investment Earnings ⁶	12.9%	11.2%		n/a
Financial position				
Shareholders’ equity (ex outside equity interests)	3,845	3,573	8%	3,688 ⁷
Hybrid debt	944	970	(3)%	894
Corporate debt	733	729	1%	712
Capital resources (ex outside equity interests)	5,522	5,272	5%	5,294
Debt/total capital resources	13%	14%		13%
Capital				
Solvency requirement	1,914	} 2,773 ⁸		1,923
Additional capital adequacy requirement	877			707
Excess assets (including target surplus)	954	817	16%	978
Outside equity interests	64	352	(82)%	430
Net assets	3,909	3,942	(1)%	4,038
Funds under management, administration & advice				
Funds under management & administration	57,339	48,731	18%	51,109
Funds under advice	4,577	3,542	29%	4,158

(1) The sale of AXA Health was completed on 28 February 2003

(2) Calculated after deducting \$9.8m Health Operating Earnings from 2003 profit, and replacing Investment Earnings with “normalised Investment Earnings” of \$114m (2004) and \$100m (2003), adjusted for capital and currency impacts

(3) Interim dividend

(4) Final dividend

(5) On a rolling 12 month basis

(6) Calculated after deducting \$27.3m Health Operating Earnings from profit for 12 months ended 30 June 2003, and replacing Investment Earnings with “normalised annual Investment Earnings” of \$228m (2004) and \$200m (2003)

(7) Adjusted in accordance with changes to Australian Accounting Standard AASB 1044 “Provisions, Contingent Liabilities and Contingent Assets”

(8) Only total regulatory capital was previously disclosed, being \$2,773 million at 30 June 2003 and \$3,075 million at 30 June 2002

1.3 | Financial summary (ctd)

Financial performance

Profit after tax (ex Health) and before non-recurring items for the six months ended 30 June 2004 was \$193.5 million (2003 - \$276.7 million).

Financial performance (A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Increase/ (decrease)	6 months 31 Dec 03
Operating Earnings	162.8	135.6	20%	165.2
Investment Earnings	66.0	188.8	(65)%	133.3
Corporate expenses	(23.4)	(20.8)	(12)%	(21.2)
Interest expense	(11.9)	(26.9)	56%	(16.9)
Profit after income tax (ex Health) and before non-recurring items	193.5	276.7	(30)%	260.4
Divested business – AXA Health	0.0	9.8 ¹	n/a	0.0
Non-recurring items	0.0	368.4	n/a	10.7
Profit after income tax and non-recurring items	193.5	654.9	(70)%	271.1

(1) The sale of AXA Health was completed on 28 February 2003. Earnings were only included in respect of the period 1 January 2003 to 28 February 2003.

We achieved very strong growth in **Operating Earnings**, up 20% to \$162.8 million (2003 - \$135.6 million).

Analysis of Operating Earnings (A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Increase	6 months 31 Dec 03
Australia & New Zealand	87.4	66.4	32%	80.9
Hong Kong	75.2	69.0	9%	87.9
Singapore	0.2	0.2	0%	(3.6)
Operating Earnings	162.8	135.6	20%	165.2

Hong Kong Operating Earnings (HK\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Increase	6 months 31 Dec 03
Operating Earnings	432.8	335.0	29%	465.3

We achieved very strong growth in Operating Earnings in Australia & New Zealand, up 32% to \$87.4 million (2003 - \$66.4 million). Improved investor confidence, rising retail net sales, and FUM growth have all had a favourable impact on our wealth management business. Financial protection products also benefited from favourable mortality experience on individual life products and improved claims experience on income protection products.

In Hong Kong, Operating Earnings in local currency were up strongly by 29% to HK\$432.8 million (2003 – HK\$335.0 million). When translated into A\$, Hong Kong Operating Earnings were up 9% to \$75.2 million due to higher average exchange rates. The positive result was driven by a more profitable sales mix, improved persistency, favourable mortality profits and the change in profit carrier for conventional business implemented last year.

The Singapore life business has moved into profitability over the last two years. Simultaneously, Singapore has commenced investing in start-up operations to benefit from the move to wealth management and financial planning.

1.3 | Financial summary (ctd)

Analysis of Investment Earnings (A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Increase/ (decrease)	6 months 31 Dec 03
Australia & New Zealand	51.2	14.6	251%	30.6
Hong Kong	14.5	172.7	(92)%	102.4
Singapore	0.3	1.5	(80)%	0.3
Investment Earnings	66.0	188.8	(65)%	133.3

Hong Kong Investment Earnings (HK\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Decrease	6 months 31 Dec 03
Investment Earnings	83.8	838.5	(90)%	564.2

Investment Earnings for the Group decreased to \$66.0 million (2003 - \$188.8 million). The main drivers of this were:

- a 36 basis point increase in US 10-year bond yields and 10 basis point widening of corporate spreads, compared to last year's 26 basis point decrease in US 10-year bond yields and 56 basis point contraction in corporate spreads
- lower growth in equities this year (3.8% in six months to 30 June 2004) compared to 11.4% growth in the MSCI World Index (USD) last year (six months to 30 June 2003).

Lower Investment Earnings in Hong Kong were partially offset by stronger Investment Earnings in Australia & New Zealand due to strong growth in domestic equity markets and a \$6 million foreign exchange translation gain from assets held in New Zealand. In the same period last year, there was a foreign exchange translation loss of \$9 million.

A key driver of Investment Earnings is the performance of investment markets, particularly in the US and Australia. Due to the volatile nature of investment markets, there can be wide fluctuations from period to period in Investment Earnings as under AGAAP assets are all held at market value.

"Normalised" Investment Earnings are the earnings on shareholder capital assuming the average asset mix over the relevant period, and expected long term investment assumptions.

The long term investment assumptions are:

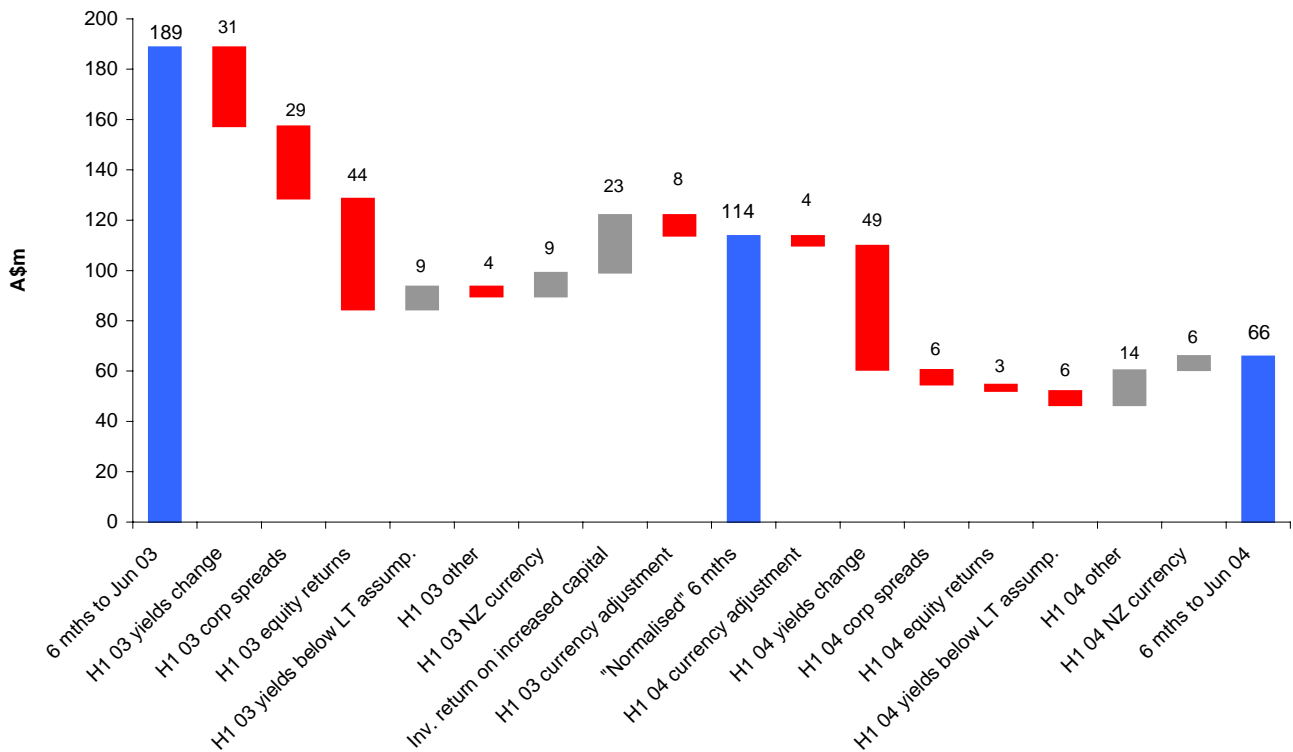
	Equities	Fixed interest ¹	Property	Cash
Australia & New Zealand	10.00%	5.75%	7.75%	5.25%
Hong Kong	9.60%	5.70%	7.50%	2.50%

(1) These rates relate to the entire portfolio

These investment assumptions are consistent with the long term assumptions used in the AXA APH Group illustrative enterprise value calculations for December 2003. For Hong Kong, the equity return reflects the weighted average of the long term assumption across a number of countries, as shareholder capital is invested in the US, Hong Kong and other countries.

1.3 | Financial summary (ctd)

The following graph compares the Investment Earnings for the six months ended 30 June 2003 and 2004 with the “normalised” half-year Investment Earnings.



The key drivers behind June 2004 Investment Earnings being below the “normalised” returns were:

- US Treasury yields increased by 36 basis points, leading to a decrease in the market value of AXA China Region’s US\$ bond portfolio. However this moved yields closer to our long term assumption
- US corporate spreads widened by 10 basis points, leading to a decrease in the market value of AXA China Region’s US\$ bond portfolio
- US 10 year Treasury yields remained below the long-term investment assumption
- Lower growth in equities compared to long term assumptions – 3.8% growth in MSCI World Index (US\$).

The key drivers behind June 2003 Investment Earnings being above the “normalised” returns were”

- US Treasury yields decreased by 26 basis points, leading to an increase in the market value of AXA China Region’s US\$ bond portfolio
- US corporate spreads narrowed by 56 basis points, leading to an increase in the market value of AXA China Region’s US\$ bond portfolio
- US 10 year Treasury yields remained below the long-term investment assumption
- Higher growth in equities compared to long term assumptions – 11.4% growth in MSCI World Index (US\$).

1.3 | Financial summary (ctd)

Corporate expenses of \$23.4 million were slightly higher than last year due to increased development spend in the first half of the year.

Interest expense of \$11.9 million was 56% lower than last year reflecting favourable interest rate differentials on our increased proportion of US\$ denominated debt, the appreciation of the A\$⁴, and lower debt levels due to repayments last year following the sale of non-core assets.

As previously advised, assessments totalling \$127 million have been received from the Australian Tax Office in respect of the profit on sale of AXA Health. These assessments remain in dispute. Based on Senior Counsel's opinion we have received, no provision for this amount has been made for the payment of the tax in the half-year accounts as the payment of this tax is considered, based on advice, to be unlikely.

With the 2003 full year results we indicated that we would be carrying out a review of capital management as part of the continuous monitoring of our capital structure. Consequently, we have decided to:

- increase the interim dividend to 5.25 cps, up 11% (2003 - 4.75 cps), to reflect the confidence we have in our strong Operating Earnings growth
- defer a decision on a possible share buy-back
 - retaining flexibility to pursue strategic growth opportunities that may arise in China and Asia
 - awaiting finalisation of IFRS
- continue to consider lowering our cost of debt by replacing existing senior debt with the possibility of a hybrid debt raising in New Zealand.

⁴ Translated at average exchange rates over the period. Average rates applied are A\$1 = NZ\$1.132160; HK\$5.741578; SG\$1.252796; US\$0.736969

2 Australia and New Zealand

2.1 | Operational review

Introduction

Four years ago AXA was underperforming on most aspects of its business in Australia and New Zealand. In April 2000 the K5 transformation programme was launched to turn around our operating performance. At its centre, the programme had five operational targets, the K5 goals. K5 was a balanced scorecard measuring profitable sales growth, market share in retail funds, cost efficiency, the quality of service to advisers and employee engagement.

We completed the K5 programme in December 2003. It was successful in achieving the objective of turning around operating performance. Four of our five aspirational goals were met in an environment that was arguably one of the toughest in our industry for many years.

AXA now enjoys a stronger position in the market. We are now a credible player in wealth management and financial protection. The challenge today is to improve our position further and become sustainably a leader in an increasingly competitive market.

During March 2004 we launched our AXA 6 programme. The overarching theme is to raise the performance bar and move AXA from being a player to a leader, consolidating the gains made under K5.

Our vision, strategy and AXA 6 measures

AXA's global vision is to be a leader in wealth management and financial protection. We share that vision for Australia and New Zealand. We are well positioned in the attractive wealth management and financial protection markets which present us with significant growth opportunities. Through the K5 programme we sold non-core businesses and used the proceeds to invest further in wealth management and financial protection.

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

- in product manufacturing
- as a provider of service to advisers
- as a direct provider of advice

and where possible to integrate activities over more than one part of that value chain.

The rationale for this strategy is threefold:

- we have the ability to leverage scale as part of the global AXA Group and scale plays an important role in product manufacturing
- there is likely to be margin squeeze in our industry and players in each part of the value chain will try to take margin from each other. We are better placed to respond to this by positioning ourselves across all parts of the value chain
- our products and services will continue to be delivered through advice-based distribution. Quality advice is more important now than it has ever been. This belief underpins our strategic move into the advice business over recent years and places us closer to end customers.

Our strategy remains unchanged under AXA 6 and we are better placed today to deliver on it. Through the K5 programme we have improved our offerings in each part of the value chain.

With the right vision and strategy in place, the challenge in developing our AXA 6 programme was to determine what should be measured to assess our performance in 2004 and beyond.

2.1 | Operational review (ctd)

Under K5 we established five key measures. They remain in our view the key measures and we have retained them in AXA 6 but have raised the bar on each of them. Importantly, we have also introduced a new target recognising our strategic move into advice.

Our AXA 6 goals are by the end of 2007 to:

- AXA 1** Double the value of new business
- AXA 2** Be consistently in the top 5 in net retail fund flows
- AXA 3** Double funds under advice
- AXA 4** Reduce the cost to income ratio by one third
- AXA 5** Be consistently in the top 5 in service to advisers
- AXA 6** Be consistently in the top quartile position in the AXA Global SCOPE survey of employee satisfaction

The overarching target under AXA 6 is to increase Australia and New Zealand enterprise value by 65% by the end of 2007. This target focuses on shareholder value, and is the appropriate overarching measure as it takes into account all of the key value drivers.

Further information regarding each of the goals is provided below.

AXA 1 – To double the value of new business

AXA 1 is measured as the present value of future profits generated from the new business that we write, including additional sales on existing policies. The factors used to calculate AXA 1 will be updated at least every half-year to reflect any changes in price, cost performance etc.

The key differences to the previous K1 measure are that AXA 1 will:

- exclude the value of automatic policy increases as this does not represent “new” business activity
- be based on more frequently updated value factors than the previous K1 measure.

AXA 2 – To be consistently in the top 5 in net retail fund flows

AXA 2 is net funds flow generated from retail customers into AXA products and platforms where AXA receives a profit margin. AXA 2 excludes cash management trusts but includes Alliance Capital institutional mandates sourced from retail fund of fund and multi-manager arrangements.

We will primarily be using Plan for Life data to measure our performance.

AXA 3 – To double our funds under advice

AXA 3 is an additional measure to those that existed under K5. A key part of our wealth management strategy has been to move beyond the manufacture and distribution of products and provision of adviser services, to the full provision of financial advice. The acquisition of Spicers in 2001 and ipac in 2002 represented important moves to execute this strategy. As such AXA 3 now recognises that we compete in the advice business.

AXA 3 measures the business growth from advice-based activities where we own the advice margin. Our advisory businesses also increase the quality of our earnings by providing direct access to valuable and enduring customer relationships.

Funds under advice includes retail funds which are sourced from:

- ipac and its equity partners
- Spicers
- Monitor Money.

AXA 4 – To reduce the cost to income ratio by one third

AXA 4 is our cost to income ratio. AXA 4 includes all costs other than direct commissions paid to advisers. AXA 4 measures income from fees and charges from wealth management business, expense loadings, and planned profit margins for life insurance business.

It is important to note that AXA 4 is not directly comparable to the published cost to income ratios of most other financial institutions. There are some differences between how we measure cost to income and how many other institutions look at this measure:

- AXA's definition of income excludes Investment Earnings, as these are volatile, distort the underlying trend in cost performance and depend on the amount of capital held, which is not a cost management issue
- AXA's definition of costs excludes commission to advisers but includes all other costs (ie. recurring management expenses, GST, commission related expenses and investment management fees)
- AXA's revenues are on an after tax basis. Some companies count gross revenues and some gross up the net revenues at a notional rate of tax

AXA 5 – To be consistently in the top 5 in service to advisers

AXA 5 will be based on a new survey undertaken by the research firm WA Taylor rather than the ASSIRT service level survey used previously for K4 in Australia and the AC Nielsen survey previously used in New Zealand. The rationale for changing to a new survey is:

- larger sample sizes minimising sampling variations. The previous small sample sizes meant we were susceptible to fluctuations in our ranking on a year by year basis, for no significant reason
- a shorter lag between the completion of surveys and results becoming available which allows timely implementation of initiatives before the next wave of fieldwork begins
- more detailed reporting around aligned and non aligned adviser levels of satisfaction with us
- we already use WA Taylor for some internal analysis of our life insurance service levels. Extending this to Wealth Management and Platforms means we will have consistency across our measures
- changing New Zealand from AC Nielsen to WA Taylor brings more consistency with Australia.

The surveys for 2004 will be completed in the second half of the year so we will present the results with our full year results.

AXA 6 – Be consistently in the top quartile in the AXA Group SCOPE Survey

The measurement of AXA 6 remains the same as the previous K5 measure, using the AXA Group Score Survey. It measures the attitude and motivation of our people compared with the other companies in the global AXA Group.

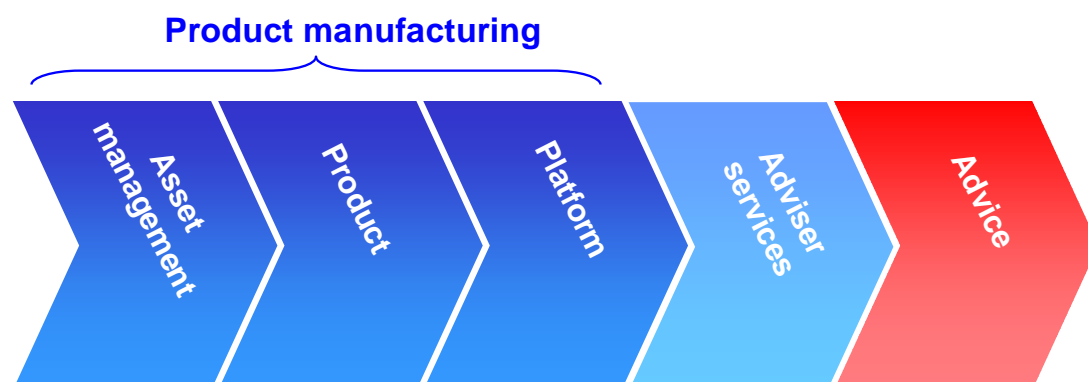
We operate in all parts of the wealth management and financial protection value chain

AXA’s strategy in Australia and New Zealand is to be a leader in all parts of the wealth management and financial protection value chain:

- in product manufacturing
- as a provider of service to advisers
- as a direct provider of advice

and where possible to integrate activities over more than one part of that value chain.

This value chain is illustrated below.



Asset management

We continue to strengthen our capability in asset management, through our joint venture with Alliance Capital/Bernstein. Our Australian Equity Funds, Growth and Value, have achieved top quartile performance.

Fund	6 months June 04		12 months June 04		Research rating (Van Eyk/ASSIRT)
	Return	Quartile	Return	Quartile	
Global Equity – Growth	9.7%	3	12.7%	4	AA/4 stars
Global Equity – Value	11.9%	2	19.8%	2	A/5 stars
Aust. Equity – Growth	9.7%	1	20.3%	3	Fund Watch/4 stars
Aust. Equity – Value	11.2%	1	24.3%	1	B/3 stars
Aust. Monthly Income	3.1%	2	5.9%	2	A/5 stars
Aust. Property Fund	9.5%	1	13.7%	1	A/5 stars
Selected Equities Trust (NZ)	6.0%	3	18.0%	1	5 stars (MS)

Source: Mercer Investment Consulting and Morningstar [NZ]. Returns are before tax and after management fees.

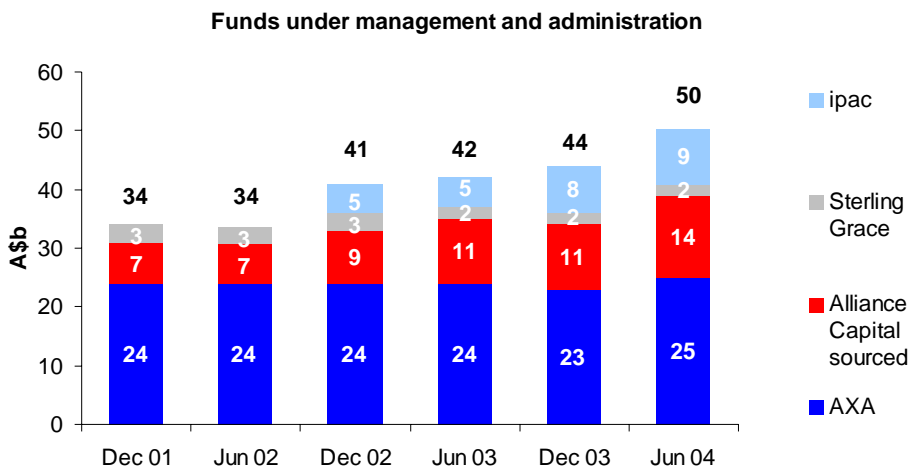
We have introduced a number of changes to improve our investment performance in Australian Equities Growth. Short term performance is improving with the fund outperforming its benchmark over the last six months. The Australian Equity Value Fund managed by Bernstein has delivered very strong investment returns, also outperforming its benchmark over the last six months.

During February an initiative to improve the marketability of the Alliance Capital managed Global Growth Fund was successfully implemented. This change has delivered key benefits including improved product ratings (AA rating from van Eyk), and increased representation on approved product lists.

2.1 | Operational review (ctd)

The first six months of 2004 provided strong asset growth for Alliance Capital Australia and New Zealand. The joint venture started with \$22 billion AUM in February 2001. AUM in Australia and New Zealand topped \$35 billion for the first time during June, up 16% since the end of last year (31 December 2003 - \$30.1 billion). Australian AUM is up 15% to \$30.5 billion (31 December 2003 – \$26.5 billion). New Zealand AUM now stands at over \$4.5 billion, up 18%.

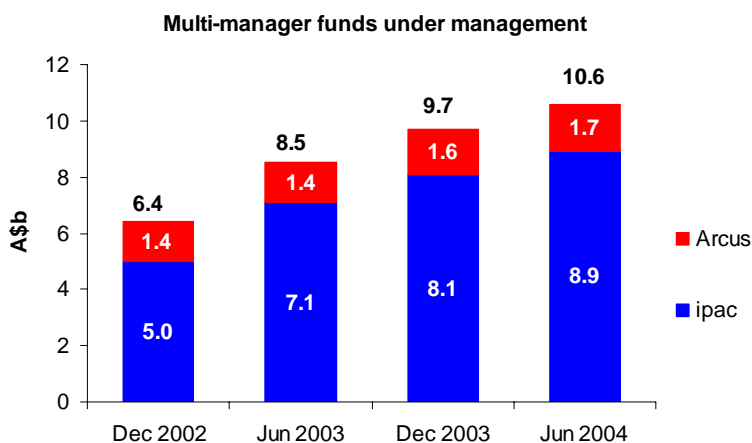
The following chart illustrates AXA's strong progress with regards to total funds under management and administration. Overall FUM for AXA (including funds under administration) is up 12% to \$49.6 billion (31 December 2003 - \$44.2 billion). The chart includes ACM institutional FUM and generally reflects strong organic growth from both retail and institutional segments.



Source: AXA APH

Note: ipac December 2003 FUM includes \$2 billion transferred from AXA

Within this we manage approximately \$10.6 billion of FUM in multimanager portfolios through ipac investment management in Australia and Arcus in New Zealand. Both ipac and Arcus have shown strong growth, as demonstrated in the chart below, with ipac now the second largest multimanager in Australia. ipac's FUM includes ipac retail funds and FUM for AXA's Super Directions and Summit Select products.

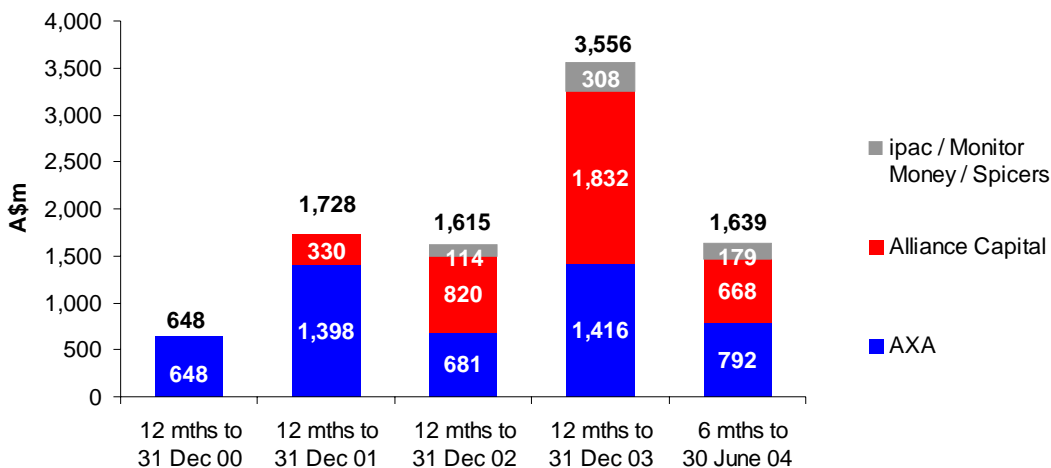


Source: AXA APH

Product

We continue to improve our product offerings in both wealth management (ie. investments, superannuation and retirement products), and financial protection. In wealth management this has enabled us to continue to grow our net retail funds flow (AXA 2). Net retail funds flow for the six months to June 2004 was \$1,639 million, nearly double that in the same period last year.

Net retail funds flows (excluding cash and Assure third parties)



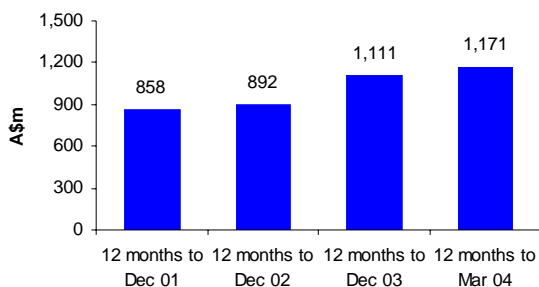
Source: AXA APH Management

Note:

- (1) Net inflows of \$254 million and net outflows of \$277 million in relation to terminated Assure third party contracts have been excluded from the 12 months ended 31 December 2002 and 2003 respectively
- (2) Cash management trusts excluded

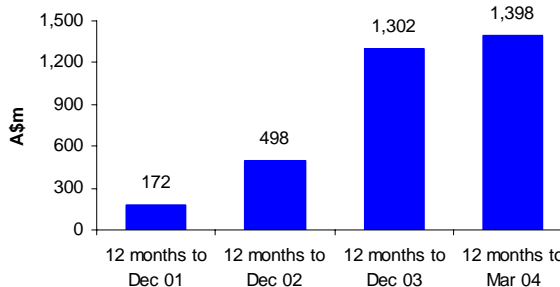
We have retained our top three position for the 12 months ended 31 March 2004 under both ASSIRT and Plan for Life surveys.

Plan for Life - AXA Australia net retail funds flow



Rank	10	7	3	3
Share of market net flow	3.4%	5.5%	14.9%	11.9%

ASSIRT - AXA Australia net retail funds flow



Rank	19	8	2	3
Share of market net flow	1.0%	4.5%	16.2%	14.7%

Note: Plan For Life and ASSIRT figures for June 2004 were not available as at publication of this document

Plan for Life historical data has been amended: Assure and ipac have been taken out of AXA flows for periods prior to 1 January and 1 October 2002 respectively

In Q3 2003, ASSIRT added AXA's platforms (Summit, Assure and ipac iselect) to the retail section of their report. This is in line with competitors such as ING/ANZ, CBA/Colonial and Skandia. ASSIRT do not back date

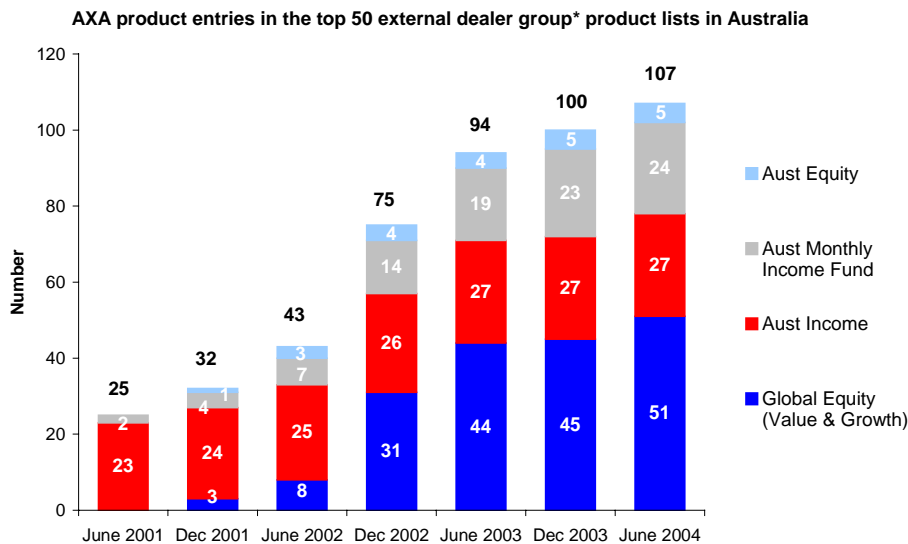
A more detailed analysis of progress in wealth management and financial protection products is provided below.

2.1 | Strategic overview and highlights (ctd)

Wealth management - Australia

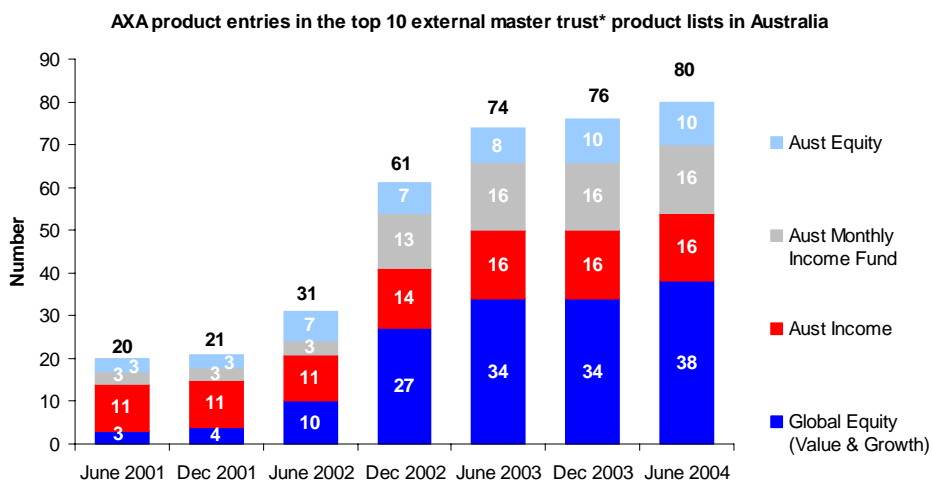
Overall the improvements we have made to our wealth management products over the last three to four years have enabled us to significantly increase our penetration of the approved product lists of the top dealership groups and master trusts in Australia.

We have continued to achieve rapid penetration of our international equity products, Global Equity Value and Global Equity Growth. We now have 51 global equity product entries on the top 50 external dealer group approved product lists (up from 45 at December 2003) and 38 global equity product entries on the top 10 external master trust product lists (up from 34 at December 2003).



Source: AXA APH management

(* Top 50 dealer groups as per Rainmaker information, less AXA networks (AXA Financial Planning, Charter and ipac) as at 31 December 2003. For each period, penetration is tracked against the top 50 dealer groups. Historical data in this chart may differ slightly from that previously reported due to changes in the top 50.



Source: AXA APH management

(* Top 10 external master trusts excluding Summit as at 31 December 2003. For each period, penetration is tracked against the top 10 master trusts. Historical data in this chart may differ slightly from that previously reported due to changes in the top 10.

Our flagship business superannuation offering, Super Directions for Business, was awarded an AA rating by independent research house Rainmaker and was ranked 7th out of 26 large superannuation funds in the KPMG Public Offer Superannuation Fund Index, up from 26th out of 29 for the corresponding period last year. Our business superannuation strategy is to focus on the up to \$40 million segment of the defined benefit corporate superannuation market and position ourselves in readiness for the launch of "choice of fund" in July 2005.

Retirement income serves as a critical component in providing retirement solutions. Participation in this market positions AXA as a provider of a full range of superannuation and retirement income solutions. Our strategy is to price for profit and not seek higher market share at the expense of profit.

Our activity in allocated pensions has focussed on marketing. We have rolled out a number of campaigns targeting members of our superannuation funds who are nearing retirement age. These campaigns will continue for the next 12 months and are aimed at ensuring members consider their retirement plans earlier than they may otherwise do. We are also currently developing an offer to position us in the "Term Allocated Pensions" market that will be launched in September 2004. The Government has introduced new legislation in this area.

Wealth management – New Zealand

Both approved product listings and the number of third party distributors using AXA products has increased. Approved listings have increased from 147 to 154, primarily through the AXA Australasian Equity Fund, which was the Morningstar Australasian Fund of the year in 2003 for the first time. Distribution groups using AXA products have increased from 48 to 50.

The core retail and workplace superannuation product is being restructured to simplify the offer. The number of participating investment managers is being reduced from 13 to 7 and the fund options from 28 to 15.

AXA has been appointed as one of the three product providers for the new State Sector Superannuation Retirement Scheme. The new scheme sponsored by the State Services Commission has been established as the primary superannuation vehicle for State Sector employees. Over the next three years the scheme will be offered to over 100,000 employees. We anticipate that over 7,000 new members will join the AXA scheme in 2004 contributing NZ\$10 million in regular contributions.

Financial protection

In financial protection, claims experience and profitability on our income protection portfolio remains positive. However we have lost new business market share over the last three years as a consequence of our focus on returning to profitability and our challenge now is to regain market share but on a profitable basis.

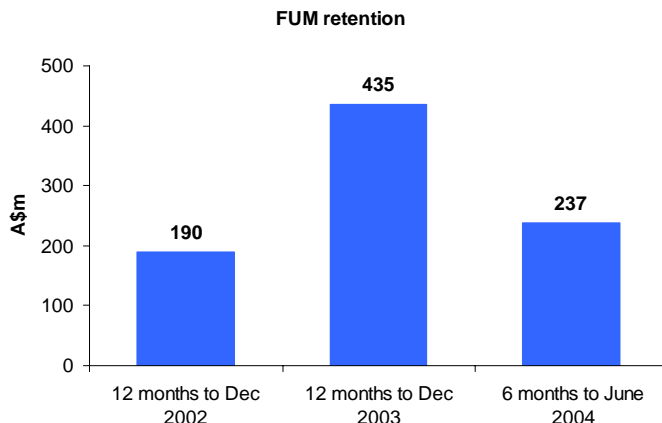
We have just introduced a number of new features on both our income protection and life assurance offers in Australia and New Zealand this year. Product enhancements include some selective reduction in rates, expansion of our trauma definitions, simplified underwriting and improved application procedures. This combination of product features and service improvements is expected to have beneficial results across our financial protection product range. In addition, increased promotion of our financial protection products is planned through a number of our CRM campaigns.

In New Zealand, our in-force market share for financial protection was 13.4% as at the end of March 2004, placing us third behind Sovereign and AMP. We are also third in new business market share, behind Sovereign and AIA with a market share of 11%. Sales have been improving as the result of new financial protection product pricing in December 2002 which has resulted in AXA gaining the type of business it has targeted over the past 18 months, that is higher sums insured and delivery into the broker market. This commitment to developing a presence in the broker distribution channel has increased our share of this business. The introduction of a field underwriting capability has meant we are more responsive to market needs.

Customer retention initiatives

Since the start of our CRM programme in 2002, we have delivered more than \$860 million in FUM retained, cross-sold and up-sold.

So far this year, we have focussed our campaigns mainly on wealth management product lines, although our retention teams in our call centres in Australia and New Zealand address the full range of AXA products. Our retention campaigns in 2004 are 20% ahead of the same period in 2003. We have retained \$216 million in FUM (2003 - \$183 million) and generated \$21 million FUM (2003 - \$14 million) from cross-sell and up-sell initiatives. In the second half of 2004, we will be placing a greater focus on opportunities with financial protection annual premium products.

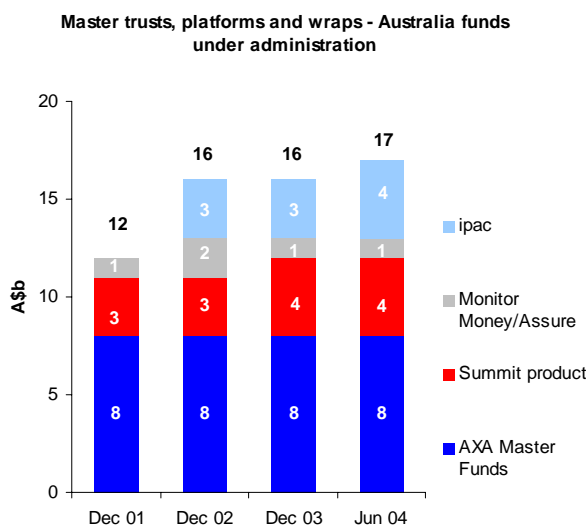


Our approach has been to avoid large scale information system investments and prove new capability before expanding on successful initiatives. This includes leveraging successful initiatives across Australia and New Zealand. We have successfully implemented a campaign automation system, which will lead to reduced costs of campaigns and much higher levels of client targeting.

Platforms

Over 80% of total retail inflows in Australia are now into platforms. Platforms are an integral part of our industry’s adviser value proposition and AXA’s Summit platform is critical to our relationship with advisers. We are committed to retaining control of the key elements of our platform offer – price, functionality and service – as a key element of our strategy. Our development focus is on building a single technology platform for all wealth management new business, and on consolidating existing funds when it is economically justified.

We now have more than \$17 billion funds under administration on our platforms.



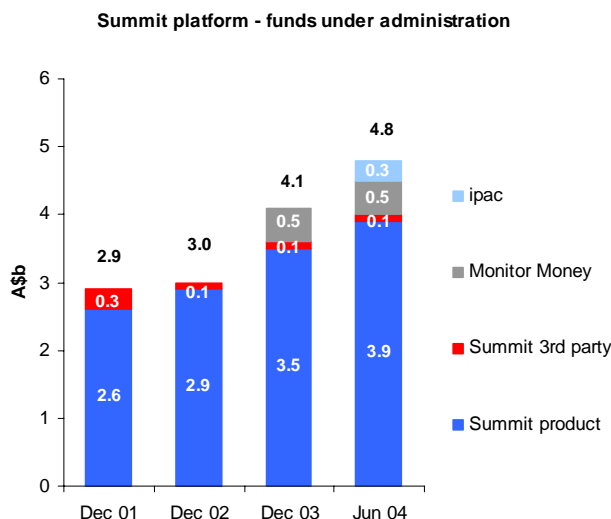
Source: ASSIRT Master Trusts, Platforms and Wraps (Dec 01 – 03); AXA APH (June 04)

2.1 | Operational review (ctd)

AXA's master trusts, platforms and wraps are at present managed on three separate systems infrastructures. A superannuation infrastructure supporting older style bundled superannuation products, the Summit platform and BT wrap which supports the ipac strategic service.

Our future development activity will be focussed on building capability on the Summit platform. The Monitor Money product offers were migrated to the Summit platform in May 2003. ipac's new service, iAccess, was launched on the Summit platform in late 2003 and has already achieved funds under administration of \$250 million.

Funds under administration on the Summit platform totalled \$4.8 billion as at 30 June 2004.



Source: AXA APH

The platform market continues to be very dynamic, with the latest trend being the introduction of 'light function' platforms at lower cost to clients. We are launching our own offering, to be branded 'Generations', in August this year. This offer will have a select investment menu and simple pricing. It has been built on our Summit infrastructure which will provide advisers and clients a single "window" to their investment and superannuation portfolios with consolidated reporting and a single access point for service, and will contribute to improving the scale efficiencies of our platform.

In the last six months we have implemented the last phase of a new client communications infrastructure on Summit to support the growth of the business and lower costs in the future, while providing quality communications to advisers and investors. Our development programme, aimed at improving the scalability of the platform administration and operations function, is critical to the success and growth of Summit and is likely to continue to be a priority for the next six to twelve months. A continued focus will be on improvements to the Summit market offer to provide advisers with more practice efficiency tools, higher quality reporting and improved integration with the advice process.

Other priorities over the next six months will be in the area of product development to cater for the significant changes occurring as a result of legislation, for example government co-contributions, term allocated pensions, safety in superannuation and choice legislation.

In New Zealand the direct investment component of the Assure platform is being expanded to include pre-set portfolios of direct New Zealand bonds. The new AXA PAS platform is now attracting adviser support with over NZ\$30 million FUM invested. The PAS platform will be developed over the next three months to include a superannuation offer for both lump sum and regular savings investors.

Adviser services

AXA provides services and distributes its products through AXA aligned adviser networks, adviser networks aligned to other manufacturers, and through self-licensed advisers. We have continued to broaden our distribution base and have seen rapid growth in sales through external adviser networks. At the same time we have grown the sales productivity of AXA advisers in the AXA Financial Planning and Charter networks.

We have achieved this growth by offering a full range of options for advisers to do business with AXA that meet the needs of both the adviser and the customer. Advisers can choose to make AXA their business partner for most of their support services such as compliance, training, technical advice and technology, or at the other end of the scale they may limit their relationship to one of merely recommending and using AXA products.

We deliver support in the field through our business development managers ("BDMs"), who focus on product and marketing support, and our practice development managers, who support the adviser in developing their professional practices. The introduction of a small team of telephone-based BDMs has delivered a cost-effective way to enable greater penetration of third party aligned advisers.

As has been previously reported, the quality of the AXA field staff and the central office support staff is amongst the best in the industry. In the 2003 ASSIRT service level survey, AXA was ranked 1st out of 26 for the support provided by its BDM's. AXA obtained the highest score for the knowledge levels of its BDM's, and ranked 5th for technical service support. In addition, four AXA BDMs ranked in the top 10 for the 2004 Money Management BDM of the Year Award, and eight were nominated in the top 50.

AXA adviser networks

Our financial advice networks - AXA Financial Planning and Charter in Australia, and the AXA network in New Zealand – are among the largest networks in Australasia, and represent a significant strategic strength. At 30 June 2004 we had 1,332 advisers (31 December 2003 - 1,306).

Overall the number of AXA aligned advisers in Australia has declined by 2% since June 2003. This is in part due to our rigorous education and compliance requirements. In Australia, we terminated 37 advisers who no longer met our standards. A further 67 advisers have left the Australian advice network although we retained the client base to be on-sold to new advisers, to existing AXA advisers, or the client base has been retained within the practice. A smaller number of advisers (21) were lost to competitors or obtained their own license. In total 107 advisers were recruited during the last six months to fill most of the losses.

In New Zealand, various recruitment initiatives launched late in 2003 have resulted in an overall increase in the number of aligned advisers. We have had an increase in the number of new practices as well as the expansion of existing practices. Recruitment has been particularly successful in Auckland, with 25 new advisers joining the AXA aligned network due to targeted activity to lift our presence in that market.

Whilst the New Zealand market conducts business in a less regulated environment we have implemented strong education and training requirements. The accreditation programme run in 2003 has resulted in all AXA advisers now being fully accredited to advise on and sell AXA products. We continue to invest in lifting the standards of advice offered in the NZ environment.

2.1 | Operational review (ctd)

Number of advisers at	30 Jun 04	31 Dec 03	30 Jun 03	Change June to June
Australia				
Charter	403	375	348	16%
AXA Financial Planning	486	545	546	(11)%
Altus ¹	-	-	30	-
Jigsaw ²	39	27	25	56%
Total AXA Australia advice networks³	928	947	949	(2)%
Total New Zealand advisers	404	359	348	16%
Total	1,332	1,306	1,297	3%

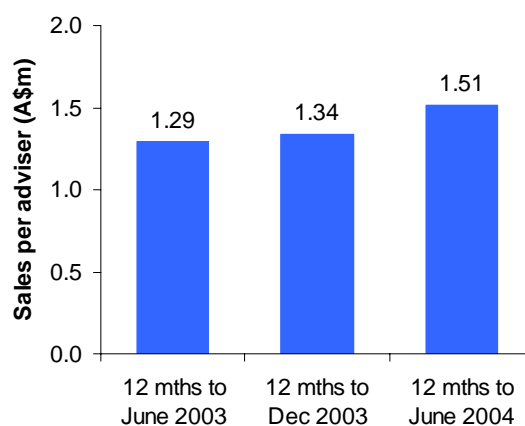
Source: AXA APH management

- (1) Altus Financial Planning was closed on 31 December 2003. 48% of Altus advisers transitioned to either Charter or AXA Financial Planning
- (2) Advisers operating in self licensed practices under their own brand and using the licensee services provided by AXA Financial Planning under contractual agreements
- (3) June 2004 adviser figures for the AXA Australia advice network include only 'authorised representatives' as defined by the Financial Services Reform Act (FSRA). The June 2003 investor compendium included a further 196 advisers who are no longer considered to be authorised representatives under the Act. Of these, 139 were accountants who referred clients (December 2003: 158), 27 were paraplanners (December 2003: 19), 28 were accredited advisers (December 2003: nil) and 2 were risk specialists (December 2003: 1)

We continue the implementation of specific initiatives such as Lifestyle Financial Planning and the Discovery programme in Australia and now in New Zealand. Our Lifestyle Financial Planning training resulted in nearly 400 AXA licensed advisers learning the ipac advisory process that includes software specifically designed to assist with the initial client engagement process. Through the Discovery programme we package client bases from retiring or existing advisers to provide initial cash flow and a leads base for new high quality recruits into our financial advice network. This initiative has attracted 53 advisers and over \$90 million in sales since its launch in 2003, including \$65 million in 2004.

As a consequence of these initiatives, the productivity of our network has been further enhanced. Since June 2003, productivity of the aligned network in Australia has increased by 17%. Analysis of our top practices shows that they are moving towards a corporatised model with an increasing ratio of support staff to advisers. This improves cost efficiencies and allows skilled new business advisers to focus on growing the business while the better technical advisers service clients.

Aligned adviser productivity in Australia



Services to other adviser networks

Our success in building relationships with external networks of advisers is demonstrated by the continued increase in the number of AXA products on third party approved product lists (see page 17).

We provide a range of value-added services to the advisers of external networks as a way of building loyal and enduring commercial relationships. These services include:

- adviser sales training
- business and practice management coaching
- partnership programmes
- professional development and technical training events.

In addition, our extensive field sales force provide on-going technical support on the AXA product range.

In the first half of this year, we offered 94 sales training courses attended by 1,121 advisers and support staff, including 378 advisers from other networks. We launched the “AXA Elite Adviser Programme” offering specific tailored training courses to selected advisers. The programme includes training on sales concepts and methods, product education, and practice development.

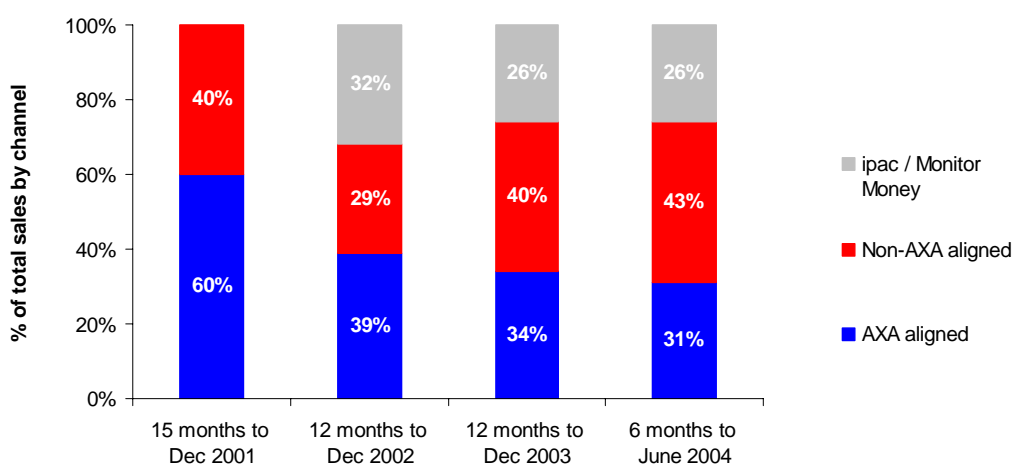
Our business and practice management coaching offer includes a “business health check programme”. The programme includes a review of the practice strategy and management, provides peer benchmarking and recommendations for improving client experience, advice quality and the overall success of the practice. The programme was trialed in Victoria and is currently being expanded to New South Wales.

We have a partnership programme with 15 large adviser networks representing 2,400 advisers under which we provide technical and product education.

We organise quarterly funds management and financial market briefings. 1,182 advisers attended these briefings in the past six months. We also offer twice a year adviser forums aimed at developing product knowledge. In July, over 1,200 advisers attended our last forum on financial protection held in nine locations across Australia.

Our increased penetration of external adviser networks together with AXA’s move into the advice business, means we have well balanced distribution in Australia.

Sales by channel (single premium wealth products)



Advice businesses

We have developed a strong position in the advice business through ipac and Monitor Money in Australia and Spicers in New Zealand. These businesses all use models that are efficient in cost of client acquisition, cost of client service, client retention and sustainable growth. These models enable advice and the business to be:

- corporatised – providing consistency of quality which is a traditional constraint for growth
- scaleable – client experience anchored in a process not an individual, which supports organic growth and acquisition strategies
- focussed on advice, not on product or investment – a more standardised implemented advice solution leverages resources and provides scale benefits.

The result is that these businesses deliver superior performance with higher productivity per new business adviser. New business advisers are supported by servicing advisers who maintain ongoing client relationships and fee revenue. The business model enables efficient implementation by using multi-manager portfolios that are tailored to client needs and centrally implemented.

Superior adviser productivity benefited both ipac and Spicers in the first half of 2004 as new business writers generated strong funds flow given the improved market conditions.

(A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Change June to June
Inflows			
ipac	473.5	297.8	59%
Monitor Money	14.1	31.9	(56)%
Spicers	83.5	58.7	42%
Total inflows	571.1	388.4	47%

Over the last six months we have restructured the terms and conditions of Monitor Money advisers and, as a result, a number of advisers retired and one joined a competitor. This had a negative short term impact on new funds flows but we have retained 94% of the client business and established a stronger platform for future growth.

The table below details the adviser numbers in ipac, Monitor Money and Spicers.

Number of advisers at	30 Jun 04	31 Dec 03	30 Jun 03	Change June to June
Australia				
ipac – salaried advisers	37	34	32	16%
ipac – other advisers ¹	56	53	52	8%
Monitor Money	21	25	27	(22)%
Total Australia	114	112	111	3%
Spicers	63	66	68	(7)%
Total Australia & New Zealand	177	178	179	(1)%

Source: AXA APH management

(1) Includes advisers employed by businesses operating under a partnering agreement with ipac.

In New Zealand, some planned retirements have reduced the Spicers adviser numbers, otherwise numbers remain unchanged. The environment for recruiting has remained challenging. However, the high standards required for advisers remain. We continue to actively seek recruitment opportunities.

2.1 | Operational review (ctd)

Funds under advice and administration (our AXA 3 measure) increased 29% to \$4.6 billion, from \$3.5 billion in June 2003.

As at (A\$ million)	30 Jun 04	31 Dec 03	30 Jun 03	Change June to June
Funds under advice				
ipac	2,954.5	2,552.1	2,048.0	44%
Monitor Money	503.5	543.0	535.0	(6)%
Spicers	1,119.4	1,062.9	958.7	17%
Total	4,577.4	4,158.0	3,541.7	29%

In the period, ipac announced a strategic alliance with the financial planning arm (Prosperitus) of leading Brisbane accountancy firm, MGI White Hancock. Prosperitus advises on \$100 million for clients and the deal will see this business use ipac's practice management support and implementation platform.

An acquisition was completed with a Sydney based financial planning business that has \$30 million in funds under advice. This business will be merged into ipac's Sydney office. This is an example of the succession planning solution ipac can provide to smaller practices, with the ipac advice model able to integrate these businesses cost-effectively.

In New Zealand, we purchased a practice with NZ\$55 million funds under advice.

Integration and business support

While we have competitive offers in every part of the value chain, we are also improving the integration of our capabilities across the value chain. This involves paying more attention in the design of our products to how portfolios are constructed by advisers, how advice is given, and to end customer communications. This provides important opportunities to differentiate AXA, increase sales and protect margins. The acquisition of advice businesses, ipac and Spicers, has significantly grown our ability to add value through integration.

We have embraced the support of quality advice as a key theme underpinning our efforts at integration across all our activities, not just the advice businesses. This recognises that ultimately our products have most value if they produce better quality outcomes for advisers and their end customers.

Our integration initiatives aim to make our advisers more effective in their businesses, allowing them to spend more time with their clients to provide better quality advice. It means our products and services are packaged to assist advisers to help their customers achieve their lifestyle planning goals, while improving their ability to build, run and exit their businesses.

People

We are focussing on a number of other key initiatives in support of our strategy to take AXA from being a player to a leader in our industry. Major progress has been made on building leadership capability, and three new leadership programmes targeted at distinct management groups have been established. In addition, we continue to develop activities that aim to improve our ability to attract, develop and retain superior performers.

In June 2004, more than 98% of employees in Australia and New Zealand participated in the AXA Group Scope survey of employee satisfaction, the measure of our AXA 6 goal. Initial analysis of the results for Australia indicates improved performance in all the key areas measured by the survey. Both Australia and New Zealand ranked in the top quartile, and Australia was ranked no. 1 amongst the large companies in the Group.

We are increasingly leveraging one of our competitive advantages – the ability to use the global capabilities of the AXA Group. In the first half of 2004 we continued to outsource some non-customer facing administration functions from the Australian and New Zealand Operations to AXA Business Services ("ABS").

AXA 6 – Targets and early progress

The table below summarises our position at the start of AXA 6 and the aspirational goals we will strive to achieve by December 2007. It also provides an early indication of the progress against them as at 30 June 2004.

	Aspirational goal	Dec 2003	June 2004	Target Dec 2007
AXA 1	To double the value of new business ¹	\$70 million	\$76 million	\$140 million
AXA 2	To be consistently in the top 5 in net retail fund flows	3 rd	3 rd ²	Consistent top 5
AXA 3	To double funds under advice	\$4 billion	\$4.6 billion	\$8 billion
AXA 4	To reduce the cost to income ratio by one third	88%	84% ³	59%
AXA 5	To be consistently in the top 5 in service to advisers	In top 5	- ⁴	Consistent top 5
AXA 6	To be consistently in the top quartile position in the AXA Global SCOPE survey of employee satisfaction	16th percentile	Top quartile	Consistent top quartile

(1) Calculated on a rolling 12 month basis

(2) At the time of releasing this Investor Compendium, Plan for Life had not released June data. As such, our ranking reflects our position at 31 March 2004

(3) As at May 2004

(4) The surveys used to determine our ranking on service delivery are conducted once a year with results usually available in the third quarter

2.2 | Financial summary

Financial performance (A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Increase	6 months 31 Dec 03
Operating Earnings				
Wealth management	50.8	43.2	18%	47.9
Financial protection	36.6	23.2	58%	33.0
Operating Earnings	87.4	66.4	32%	80.9
Investment Earnings	51.2	14.6	251%	30.6
Profit after income tax (ex Health) and before non-recurring items	138.6	81.0	71%	111.5
Health	0.0	9.8	-	0.0
Non-recurring items	0.0	0.0	-	(19.7)
Profit after income tax and non-recurring items	138.6	90.8	53%	91.8

Operating Earnings were 32% higher as a result of growth in both wealth management and financial protection businesses.

Wealth management Operating Earnings grew 18% to \$50.8 million (2003 - \$43.2 million). Retail and mezzanine funds benefited from positive net fund flows, notably into the Australian Monthly Income Fund and Global Equity Value Fund. Fee income on investment, administration and advice business, benefited from increased FUM, positive net fund flows and strong performance from domestic equities.

Financial protection Operating Earnings grew 58% to \$36.6 million (2003 - \$23.2 million) predominantly as a result of improved mortality experience on individual life products, continued solid experience in income protection and benefits of expense reductions over the last four years.

Investment Earnings (A\$ million)	6 months 30 Jun 04	6 month return %	6 months 30 Jun 03	6 month return %
Equities	21.2	7%	4.2	2%
Fixed interest	10.4	2%	12.9	3%
Property	2.1	6%	0.6	2%
Cash	2.0	2%	5.4	2%
Portfolio assets¹	35.7	4%	23.1	2%
Other assets	9.9	n/a	0.9	n/a
Foreign currency translation	5.6	n/a	(9.4)	n/a
Investment Earnings	51.2	n/a	14.6	n/a

(1) Weighted percentage return based on portfolio mix as at 30 June 2004 (outlined in section 5.3)

Investment Earnings were up significantly to \$51.2 million (2003 - \$14.6 million). Earnings from portfolio assets were higher largely due to improved domestic equity markets. Investment Earnings from **other assets** were \$9 million higher than last year, due to higher income from Sterling Grace and other subsidiaries.

The strengthening of the New Zealand dollar generated a \$5.6 million foreign currency gain on the translation of assets held in New Zealand, whilst last year's weakening resulted in a \$9.4 million foreign currency loss.

2.2 | Financial summary (ctd)

Expenses (A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Change	6 months 31 Dec 03
Total recurring management expenses	161.5	167.4	4%	172.4
Development expenses	42.8	37.9	(13)%	42.6
Total management expenses	204.3	205.3	0%	215.0
Total commission and related expenses	115.8	115.1	(1)%	132.9
Total expenses	320.1	320.4	0%	347.9

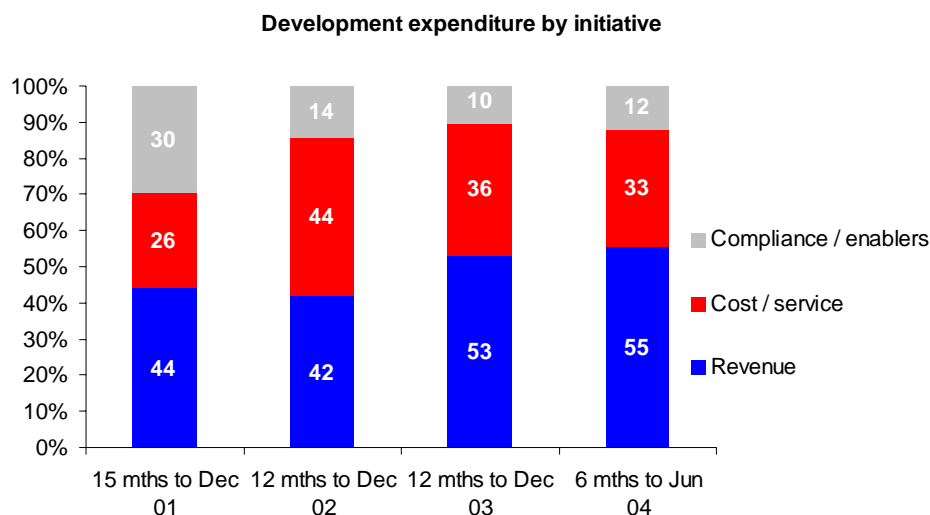
Total expenses were down slightly to \$320.1 million (2003 - \$320.4 million), whilst total recurring management expenses were down 4% to \$161.5 million (2003 - \$167.4 million).

The increase in development spend is mainly due to the calendarisation of expenditure. It is expected that development expenses for the full year will be in line with 2003.

The reduction in recurring management expenses has been achieved through initiatives implemented during the second half of 2003 along with new initiatives this period that have been identified and are being implemented.

A key benefit of the cost reduction programme is that it has enabled us to finance an increase in the proportion of development expenditure to total expenses.

We continue to direct more than 50% of development expenditure towards revenue generation initiatives and our wealth management products and platforms.



Source: AXA APH management

2.3 | Financial performance – Wealth management

General market conditions

Fee income on superannuation products and non-life wealth products is sensitive to changes in the level of funds under management, administration and advice. These were impacted in the first half of 2003 as a result of depressed stock markets and the resulting low investor confidence, which reduced inflows. Whilst investment markets grew more slowly in the first six months of 2004, we continued to experience the benefits of the significant equity market improvement in the second half of 2003 and strong increases in fund flows, driving FUM up.

Financial performance

The following analysis splits profits from within life company statutory funds, and therefore reported under Margin on Services (MoS), from those outside the life company environment.

Financial performance (A\$ million)	Wealth management (life company)	Wealth management (other)	Wealth management total
Operating Earnings (6 months to 30 June 2004)	32.1	18.7	50.8
Operating Earnings (6 months to 30 June 2003)	31.5	11.7	43.2

Wealth management (life company environment)

The table below analyses the financial performance from wealth management products within the life company statutory funds. This shows the planned profit margins released under MoS accounting rules for retirement income, superannuation and ordinary savings products as well as the key elements of experience profit and loss.

Financial performance (A\$ million)	Retirement income	Super- annuation	Ordinary savings	Total (life company)
Profit margins released	4.6	17.6	4.5	26.7
Experience profit (loss)				
Expenses	0.3	2.5	(2.2)	0.6
Investment	4.6	0.4	(0.1)	4.9
Other (incl. Underwriting & surrenders)	(0.8)	1.3	0.9	1.4
Capitalised losses & reversals	(1.6)	0.1	0.0	(1.5)
Operating Earnings (6 months to 30 June 2004)	7.1	21.9	3.1	32.1
Operating Earnings (6 months to 30 June 2003)	7.9	19.3	4.3	31.5

Retirement income includes fixed term and lifetime annuities. Increased investment profits from improved equity markets and higher income from the fixed interest portfolio had a positive impact on the retirement income results compared to last year. However this was offset by the one-off impact of a further strengthening of future mortality assumptions. In our view, our assumptions on future mortality improvements are at an appropriate level.

The **superannuation** favourable result was due to increased fees as a result of higher opening FUM following strong equity markets in the second half of 2003 and positive fund flows, reflected partly in the expense experience.

Ordinary savings includes traditional life savings products, which generally include a financial protection component, and insurance bonds which offer long term tax advantages to policyholders. These products are no longer available for sale to new clients and the portfolio is in run off. Whilst A&NZ management expenses have decreased relative to last year, an increased allocation of project expenditure has slightly reduced Ordinary savings earnings compared to last year.

2.3 I Financial performance – Wealth management (ctd)

Wealth management (non-life company environment)

The Operating Earnings of wealth management operations outside the life company environment have been reported by the core product groupings of platform, advice and investments.

Financial performance (A\$ million)	Platform	Advice	Investments / other ¹	Total (non-life company)
Gross fees / revenues	36.2	62.0	44.0	142.2
Operating Earnings (6 months to 30 June 2004)	3.0	13.6	2.1	18.7
Operating Earnings (6 months to 30 June 2003)	1.9	9.9	(0.1)	11.7

(1) Investments / other results include profit but do not include fees derived by the Alliance Capital joint venture

We have continued to invest in developing our wealth management products and advice capability. All three areas have been subject to further development, notably **platform**, where we are working on the AXA Generations offering to be launched later this year. Platform profits are higher than last year largely as a result of increased fees from higher average funds under administration base offsetting increased development spend.

Advice Operating Earnings include the majority of the profits from Spicers (NZ), Monitor Money and ipac. The largest contributor to Operating Earnings is ipac, which was purchased in August 2002 and was successfully integrated during 2003. Compared to last year, ipac has benefited from a \$4 million increase in gross fees as a result of higher average FUM and the transfer of the investment management of Summit select and super directions in mid 2003.

Investments/other saw improvements over last year for the Alliance Capital Joint Venture (“ACM”) and the internally managed mortgage funds. The Operating Earnings of ACM (in which we have a 50% interest) have improved principally as a result of the increase in institutional funds sourced directly by ACM during the latter part of 2003. Mortgage fund earnings are above last year due to higher net revenues following strong sales of the Australian Monthly Income Fund. Sales of the Global Equity Growth and Value funds also increased following a change in mandate, leading to increased ratings by van Eyk.

2.4 | Financial performance – Financial protection

The table below analyses the financial performance of our financial protection products. All financial protection products are written within the life company statutory funds and are reported using MoS accounting. The table shows the planned profit margins released for long term risk, individual life, and individual income protection as well as the key elements of experience profit and loss.

Financial protection Operating Earnings were up 58% to \$36.6 million (2003 - \$23.2 million). This is the result of considerable efforts over the past two years to achieve improvements in operating performance, despite the highly competitive nature of the industry.

Financial performance (A\$ million)	Long term risk	Individual life	Group life & group salary continuance¹	Individual income protection	Financial protection total
Profit margins released	7.7	15.9	n/a	0.1	23.7
Experience profit (loss)					
Expenses	0.0	1.2	n/a	0.5	1.7
Investment	0.8	(1.0)	n/a	4.2	4.0
Other (incl. underwriting & surrenders)	0.0	2.1	n/a	4.6	6.7
Capitalised losses & reversals	0.0	0.0	n/a	0.1	0.1
Operating Earnings (6 months to 30 June 2004)	8.5	18.2	0.4	9.5	36.6
Operating Earnings (6 months to 30 June 2003)	7.8	12.5	0.1	2.8	23.2

(1) Group life & Group salary continuance, being short term contracts, use an accumulation method of accounting and this type of experience analysis is not applicable

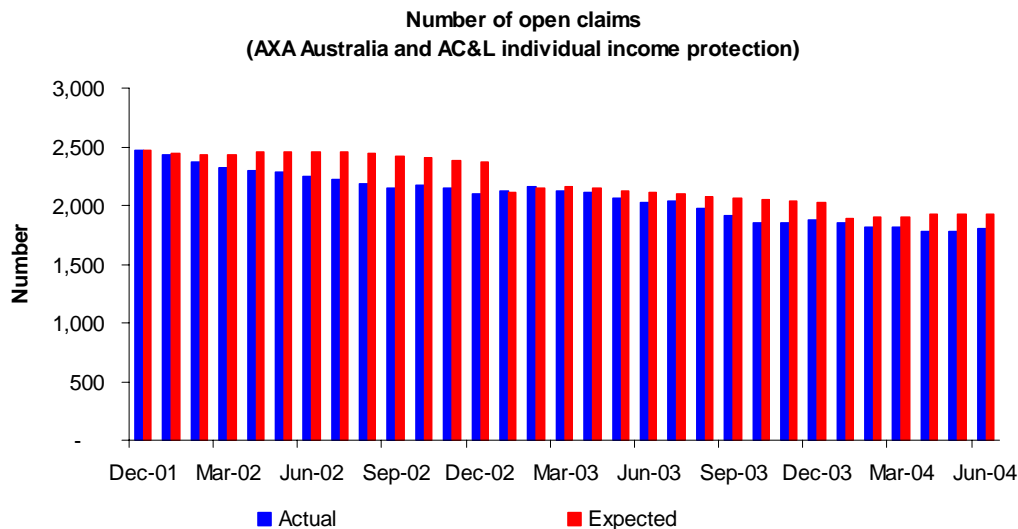
Profits on **long term risk** products increased, predominantly due to the improvement in investment markets. Going forward, future profit margins are expected to decline in line with the anticipated run-off of this business.

The experience for **individual life** has been favourable due to improved persistency and an increase in planned profit releases as a result of growth in the size of the portfolio as well as good mortality experience. This block of business continues to contribute around 50% of total financial protection Operating Earnings.

The **income protection** underwriting result was positive as a result of better claims termination experience. Underwriting experience was exceptional and included significant positive impacts from the strengthening of our underwriting and claims management capability over the past three years. Increased investment profits, as a result of improved equity markets, also benefited the result compared to last year.

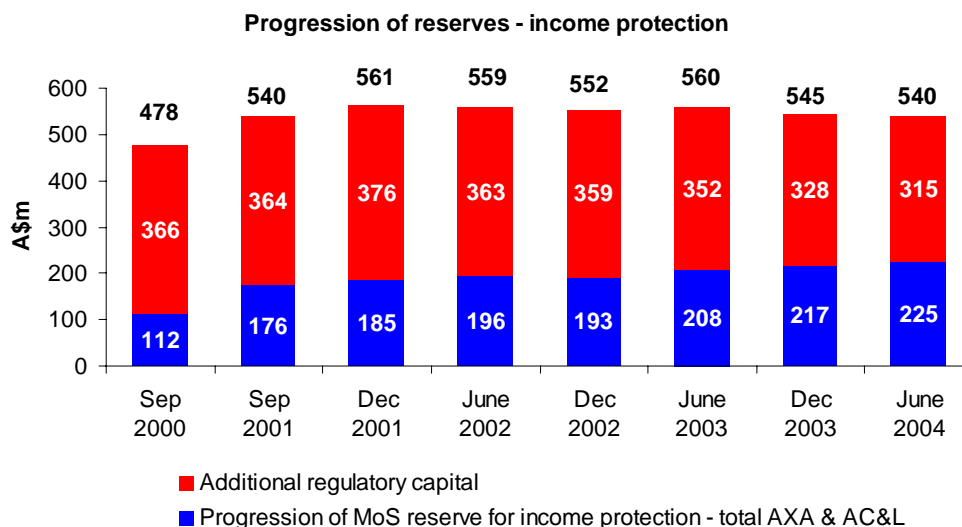
2.4 I Financial performance – Financial protection (ctd)

The chart below shows the progression of income protection open claims since 2001. This chart demonstrates that whilst claims experience was poor in 2001, experience since has been favourable with claims numbers consistently below expected levels. Note that at the start of each new reporting period (1 January) the expected claim numbers over the subsequent reporting period are rebased using best estimate assumptions based on improving experience.



The chart below shows the progression of reserves for individual income protection business in Australia and New Zealand. The policy liability is the amount shown on the balance sheet. The increase in reserves over the past six months is primarily due to the natural unwinding of the discount rate used to calculate the outstanding claims reserve, and is broadly in line with expectations. This increase also recognises the maturity of the portfolio.

Additional capital is held to recognise the risks inherent in this business, in particular the risk of new claims, ongoing claims, lapses and asset liability mismatch.



The impact of reserves on profit is dependent upon the relative movement of actual and expected reserves. If the actual increase in reserves (policy liabilities) is less than the expected increase in reserves, a profit will arise. During the six months ended 30 June 2004, actual reserves increased by \$8.1 million to \$225.4 million, while the expected reserves increased by \$21.2 million, leading to a gross profit impact of \$13.1 million. This is primarily a result of excellent underwriting performance coupled with good persistency experience.

The main sources of this profit are:

- good claims termination experience (higher than expected termination of in-force claims)
- slightly favourable claims incidence experience (fewer new claims occurring compared to expected).

2.5 | Sales and funds flows

Wealth management

Total Australia and New Zealand net retail funds flow was up 132% to \$1,639 million, (2003 - \$708 million). Last year's results were affected by outflows of low margin PAS third party business of \$182 million (which were expected when Sterling Grace was acquired). Excluding these outflows, net retail funds flow was up 78% to \$1,586 million (2003 - \$890 million).

Retail product flows

(A\$ million)	Inflows			Outflows			Net flows		
	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	6 mths 30 Jun 04	6 mths 30 Jun 03	Change
Product view									
Superannuation	1,087.5	969.6	117.9	712.0	621.9	(90.1)	375.5	347.7	27.8
Retirement income	252.4	373.4	(121.0)	320.5	299.7	(20.8)	(68.1)	73.7	(141.8)
Investments ¹	1,236.6	694.2	542.4	684.3	515.5	(168.8)	552.3	178.7	373.6
Subtotal Australia	2,576.5	2,037.2	539.3	1,716.8	1,437.1	(279.7)	859.7	600.1	259.6
Subtotal New Zealand									
Zealand	277.5	237.3	40.2	218.8	326.1	107.3	58.7	(88.8)	147.5
Retail mandates through ACM ²	1,107.1	575.1	532.0	439.4	196.5	(242.9)	667.7	378.6	289.1
Total Aust & NZ retail flows (ex Assure 3rd parties)	3,961.1	2,849.6	1,111.5	2,375.0	1,959.7	(415.3)	1,586.1	889.9	696.2
Less: Cash Management Trusts ³	37.5	42.4	(4.9)	90.5	42.1	(48.4)	(53.0)	0.3	(53.3)
Total Aust & NZ (incl Assure 3rd parties)	3,923.6	2,807.2	1,116.4	2,284.5	1,917.6	(366.9)	1,639.1	889.6	749.5
One-off outflow due to closure of Assure 3rd Party business ⁴	0.0	92.0	(92.0)	0.0	274.0	274.0	0.0	(182.0)	182.0
Total Aust & NZ (ex Cash Management Trusts)	3,923.6	2,899.2	1,024.4	2,284.5	2,191.6	(92.9)	1,639.1	707.6	931.5

(1) Some 2003 results include flows from AXA PAS & other AXA platforms to AXA mezzanine funds; in 2004, comparable AXA flows are included under "retail mandates through ACM" as a result of AXA's increased usage of ipac multi managers; we have included aforementioned 2003 AXA flows under retail mandate in the above to facilitate better comparisons.

(2) All of these mandates are from retail providers; however, some flows may be institutionally sourced, but as the flows are via mandates, we do not have a clear split.

(3) Cash Management Trusts are taken out for the purpose of AXA 2 net funds flow methodology

(4) Includes Symetry and other Assure 3rd parties.

Superannuation

Overall net flows into Superannuation increased with increased flows into our "on-sale" products offset by outflows from legacy products. In particular, net flows into AXA business superannuation were \$74 million. Although this only represents an improvement of \$6 million on the corresponding period last year, this is due to there being a relatively long lead time to convert corporate super plans. We expect further growth this year. The improvement in our net flow position for business super is as a result of product and service enhancements including changes to investment portfolios, the launch of a member education website, AXA Freedom, and increases in plan rebates available for plans greater than \$5 million in assets.

2.5 I Sales and fund flows (ctd)

The retention campaigns initiated in 2002 and operational through 2003 and 2004 continue to have a positive effect on outflows from closed personal superannuation products. The conversion programme for Simple and Tailored Super retained \$38 million of 'at risk' plans within AXA's business super product range (2003 - \$27 million). In addition, we have made enhancements to some of our products, including new investment options, which make the products more current and attractive to customers.

Retirement income

Our retirement income products include AXA immediate annuities as well as allocated pensions offered through AXA, Summit, Monitor Money and ipac. Overall retirement incomes net funds flows have decreased as a result of our repricing of immediate annuities to improve the profitability of new business. There has been a downturn in the overall short term annuity market as interest rates on short term deposits have increased. This has led to a decline in inflows into retirement income products of \$121 million.

Investments

Inflows into investment products were up 78%, including substantial increases in AXA retail and mezzanine unit trusts, as well as Summit and ipac investment products. Overall net inflows for investment products increased 209% to \$552.3 million.

Our Australian Monthly Income Fund product accounted for 56% of inflows into unit trusts. In 2002 a repositioning of our mortgage funds resulted in improved ratings and listings on additional approved product lists in 2003. The strong mortgage fund inflows for the second half of 2003 particularly via major bank financial planning arms have continued, supported by continued investor sentiment favouring conservative investments. In line with the increased FUM in these conservative investments, combined retail and mezzanine mortgage fund outflows have increased to \$217.5 million (2003 - \$157.0 million).

Mezzanine unit trust inflows increased strongly to \$499 million (2003 - \$305 million). These sales mostly consisted of global equity, mortgage and property sales. The wholesale Bernstein Global Value fund continues to maintain strong market support and increased its inflows to \$172 million (2003 - \$100 million). Improved sales of \$67 million (2003 - \$10 million) were also generated by the Alliance Capital Global Growth fund due to a change of mandate for the fund in February. This change resulted in significantly improved ratings and inclusions in various multi-manager portfolios.

Global Equity Growth Fund

Having strong offerings in both the growth and value styles of global equities is important to our product range. In February we introduced mandate changes to improve the ratings and marketability of the Global Equity Growth fund. This has resulted in immediate ratings benefits gaining van Eyk's highest rating - "AA". ASSIRT has rated the fund 4 stars. The fund has also been included within the multi-manager portfolios for two major master trust platforms resulting in improved sales.

Global Equity Value Fund

AXA has continued to build on the success of the Global Equity Value fund with inflows into the fund continuing to increase to \$180 million (2003 - \$103 million). The fund has maintained its high ratings, with an "A" from van Eyk and 5 stars from ASSIRT, and has maintained its approved product list penetration.

The benefits of the change to the Global Equity Growth Fund, and the continued success of the Global Value fund, resulted in AXA's best ever six month inflows into international equities of \$247 million.

2.5 | Sales and fund flows (ctd)

Australian equity value style

In August 2003 we launched the Australian Equity Value fund, managed by Bernstein, to build on the success of the Bernstein global equity fund. The launch of this fund uniquely positions us as the only manager in Australia offering both value and growth investment styles for Australian and international equities.

The fund had a successful first year with the mezzanine version delivering a one year (net of fees) return to 30 June 2004 of 24.3%, strongly outperforming its benchmark index (S&P/ASX 300 Accumulation Index) by 2.6%. This places the fund in the top quartile amongst Australian equity funds as reported by Mercer Investment Consulting. It has also received positive recognition by investment researchers with a 3 star rating from ASSIRT and a B rating from van Eyk despite having only one year's investment history.

As expected, initial sales and market penetration have been slow. The opportunity to penetrate approved product lists, and so make the resulting adviser sales, will improve as the fund's performance history extends and we are able to obtain researcher ratings.

Repositioned mortgage funds

The success of the repositioning of our mortgage funds continues with the non-capital guaranteed Australian Monthly Income Fund making up more than 90% of mortgage fund inflows for our mortgage fund products. In December 2002 a 50 basis point price increase was introduced on the capital guaranteed Australian Income Fund to address the capital cost of providing the guarantee. Despite this fee increase, outflow rates are lower than expected.

FUM in mortgage funds increased to in excess of \$1.9 billion with the Australian Monthly Income Fund passing \$1 billion over the period.

AXA in New Zealand will be launching a new Mortgage Backed Bond in August. The new bond will replace the old Mortgage Income Trust, which had limited investment scope. The new bond is supported by commercial mortgages originated and managed through the established AXA lending team, based in Melbourne. The new bond is a debt security, which is tax effective for New Zealand investors and will pay regular income quarterly.

Platform

AXA platform retail (Australia only) product flows

(A\$ million)	Inflows			Outflows			Net flows		
	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	6 mths 30 Jun 04	6 mths 30 Jun 03	Change
Summit (incl Monitor Money)	511.3	394.4	30%	311.8	215.5	(45)%	199.5	178.9	12%
ipac	519.6	422.5	23%	342.4	306.0	(12)%	177.2	116.5	52%
Subtotal Platforms	1,030.9	816.9	26%	654.2	521.5	(25)%	376.7	295.4	28%

We experienced strong inflows into our platform business due to increased investor confidence as a result of improving investment markets but also due to steadily improving flows from ipac following the launch of ipac's iAccess product suite in late 2003.

Gross inflows to our platform (including Monitor Money but excluding ipac) are up 30%, and net flows are up 12%. Outflows have increased due in part to increased funds under administration and a one off outflow from a single manager trust managed by Putnam following a researcher downgrade.

As previously mentioned, we will launch the Generations product suite on the Summit platform in August this year, which will enhance our competitiveness in this segment. With both Generations and Summit administration on the same platform, we believe we can bring a unique proposition to the market. While expected to contribute significant flows in 2005, Generations will also enable us to consider product and legacy platform rationalisation as well as to take advantage of scale and lower costs, all of which are critical to growing revenue and profit in the future.

2.5 I Sales and fund flows (ctd)

The total number of advisers writing Summit business increased by 54 to 851. Of these, the number of advisers aligned to AXA financial advice networks using Summit increased by 22 to 598. The number of IFA's using Summit has increased to 253 (221 at 31 December 2003).

ipac has performed strongly, with net retail inflows up 52% to \$177.2 million (2003 - \$116.5 million).

ipac's inhouse financial planning business has grown strongly during the period. Inflows for ipac financial planning are double those of the corresponding period last year, helped by increased adviser productivity.

Business initiatives, such as ipac's programme to develop new corporate relationships, are starting to bear fruit providing an ongoing source of new clients. ipac adviser numbers were up 11% to 93 (84 at 31 December 2003). This included the recruitment of new advisers in Brisbane and this office will be officially launched in the second half of 2004.

In addition to organic growth, ipac continues to look for new opportunities to partner with quality independent practices with ipac's Equity Partners making a growing contribution to retail inflows.

New Zealand

Total inflows were NZ\$314 million. Advice based flows from Spicers were NZ\$165 million, and AXA Wealth Management product flows were NZ\$149 million.

AXA product sales were impacted by changes to the tax regime associated with the sale of Australian Unit Trusts in New Zealand. It is estimated that over NZ\$1 billion of industry funds is impacted by the change, which now classifies bonus units on Australian Unit Trusts as taxable in New Zealand. AXA New Zealand has NZ\$103 million in these trusts of which the majority is expected to shift to AXA Unit Trusts managed in New Zealand.

ACM retail mandates

The market continues to display increasing demand for individual investment mandates through retail product offerings such as master trusts and multi-manager products. Alliance Capital continues to grow in this segment with net cash flows up 76% to \$668 million (2003 - \$379 million). Inflows and outflows were significantly up reflecting both the growth and the lumpy nature of this type of business.

2.5 | Sales and fund flows (ctd)

Financial protection

We continue to be a major player in the financial protection market in both inforce and new business premiums. New business was broadly unchanged. However, discontinuances have improved significantly over the last year.

The focus moving forward is on improving our new business market share on a profitable basis. The CRM programme, which has been proven in the wealth management space, will now be rolled out across financial protection to increase sales and improve retention of inforce business.

Financial protection new business

(A\$ million)	New business			Discontinuances			In-force		
	6 mths 30 Jun 04	6 mths 30 Jun 03	Increase/ decrease	6 mths 30 Jun 04	6 mths 30 Jun 03	Improve- ment	6 mths 30 Jun 04	6 mths 30 Jun 03	Increase/ decrease
Regular premium									
Long term risk	0.8	0.9	(11)%	3.0	3.8	21%	58.0	63.1	(8)%
Individual IP	8.7	9.2	(5)%	10.9	12.3	11%	179.3	184.3	(3)%
Individual life	16.5	15.5	6%	10.5	10.0	(5)%	182.0	170.7	7%
Group life & IP ¹	12.0	12.5	(4)%	7.7	9.7	21%	98.3	105.7	7%
Subtotal Australia¹	38.0	38.1	0%	32.1	35.8	10%	517.6	523.8	(1)%
New Zealand	10.0	8.5	18%	5.7	7.0	19%	125.8	115.6	9%
Total Aust & NZ¹	48.0	46.6	3%	37.8	42.8	12%	643.4	639.4	1%
Single premium	12.9	13.5	4%	n/a	n/a	n/a	n/a	n/a	n/a
One off adjustment due to loss of low margin industry plan					11.5			(11.5)	

(1) Excluding loss of one large \$11.5 million plan

Long term risk

New sales of long term risk are very limited as the product remains largely “off sale”. Investment performance has enabled bonus rates to be improved for this product line. We will use this stability as a platform for retention initiatives to further improve long term persistency.

Individual income protection

While new business premium levels have not increased, the business we are winning meets our risk profile, which requires that it be sustainably profitable in the long term. The portfolio is stable with improving persistency rates. With our improved claims management capability, we continue to extract profits from the previously unprofitable pre 2001 portfolio.

Our confidence in the sustainability of the IP portfolio was behind the decision we made earlier this year to lift the two year restriction on mental illness claims from the product design. Our strong underwriting and claims capability will ensure we manage the risks and financial consequences of this decision. This change brings our product back to market competitive levels, and should enable us to grow new business and market share.

Individual life, Trauma, TPD – Australia

Individual life, trauma, TPD is the most profitable segment of the financial protection market and an area we are focussing on for growth. New business was up 6% on the same period last year.

We will be focussing our efforts over the next 12 to 18 months on addressing the large underinsurance gap that we have identified through our recent marketing and development research. This research concluded that Australians are approximately 75% underinsured, translating into a potential industry opportunity of about \$3.5 billion in income protection premiums and more than \$4 billion in life premiums.

Group life & salary continuance (Income protection) – Australia

In-force premium for our Group life and Group income protection portfolio is down by \$7 million. Our strategy is to only tender for business in our defined target market, preferring life with or without income protection over stand-alone income protection. By narrowing our target market, we have been able to focus our efforts on high growth master trust business, which will be the key to growing our in-force premium.

New Zealand

Our conventional risk sales were NZ\$0.8 million, equalling sales for the same period in 2003. Individual income protection sales are up 25%, and individual life sales are up 23%. Increases to the bonus rates for conventional risk (effective from 1 April 2004) have reinforced the benefit of retaining the products. This is important in the context of the size of the existing portfolio.

Total risk annual premiums (sales and other premium increases) were up 24% to NZ \$11 million (2003 – NZ\$9 million), as a result of the successful implementation of product development initiatives and targeted market activity.

Outflows in long term risk have been significantly reduced as a result of the Call Centre Retention programme. The introduction of a new measurement system for the Adviser Reward and Recognition programme, measuring opening and closing FUM as well as new business volumes, has also had an effect on outflows in individual risk being lower than budgeted.

2.6 | Funds under management, administration and advice

We continue to build our position and capabilities across the entire wealth management value chain in owned advice businesses, dealer services, distribution, product manufacture, administration, platforms and asset management. This strategy enables us to extract greater value and scale, and benefit from margins right across the value chain.

Net retail funds flows by source								
(A\$ million)								
Distribution channel	Type of flow	Customer ² >	Advice ³ >	Adviser Services ⁴ >	AXA 2		External Managers	
					Product ⁵ / Platform administration	AXA / ACM asset management		
						retail mandates ⁶		other retail
ipac	Advice	255	255		255	(174)	351	
	Admin	(78)			(78)			
Sterling Grace ¹	Advice	(6)	(6)		(6)		(6)	
	Admin	8			8		8	
Aligned & non aligned advisers	Admin	424			424	116	280	
	Investment	340				28 340		
ACM institutional	Investment					726		
AXA net funds flow		943	249		603	668	368	
					subtotal AXA 2	1,639		

(1) Includes Spicers & Monitor Money

(2) Sourced directly from retail customers; \$726m comes from retail-sourced institutional funds but is not included under this heading

(3) Advice flows included once only in AXA 2 methodology

(4) We do not specifically count funds flows for the adviser services part of the value chain

(5) Although we make a product margin, we do not specifically count funds flows for the product part of the value chain

(6) ipac ACM mandates include institutional outflows

The above table illustrates the component flows of AXA 2 net retail funds flow of \$1,639 million. We have separately identified customer flows that include an advice margin from ipac and Sterling Grace from other administration flows. Similarly administration only flows from AXA aligned and non-AXA aligned advisers represent master fund business administered on AXA platforms.

This business then flows into ACM asset management via ipac multi managers (\$116 million) and AXA Mezzanine funds (\$28 million) as well as external managers (\$280 million). Investment only flows of \$340 million from AXA aligned and non-AXA aligned advisers is business not administered on the AXA PAS platform, together with traditional retirement income and "offsale" superannuation business. Alliance Capital have secured further retail mandates of \$726 million net flows from external retail providers (eg. master funds and other retail 'fund of fund' arrangements) which reflects increasing market acceptance of the success of the Alliance Capital joint venture.

Reconciliation of funds flow into management, administration and advice

From a practical standpoint, we collect the following fees:

- an advice fee on 100% of funds flowing into our advisory network (ie. \$249 million net flow in the six months ended 30 June 2004)
- an administration fee on 100% of the total \$603 million net flows into our administration platforms
- an asset management fee on funds flowing from our administration platforms to AXA/ACM asset management including the \$116 million flowing to ACM via retail mandate and the \$28 million via AXA mezzanine funds
- an asset management fee on the \$340 million from the aligned and non-aligned advisory network and further \$726 million from ACM retail mandates flowing to AXA / ACM asset management.

We continue to look to lift volume and percentage of flows across the value chain, thereby increasing the margin captured at each point – advice, administration and asset management

2.6 I Funds under management, administration and advice (ctd)

The following table represents inflows and reconciles to inflows used in the AXA 2 calculation of \$3,924 million.

Inflows by source								
(A\$ million)								
Distribution channel	Type of flow	Customer ² >	Advice ³ >	Adviser Services ⁴ >	AXA 2			External Managers
					Product ⁵ / Platform administration	AXA / ACM asset management		
						retail mandates ⁶	other retail	
ipac	Advice	474	474		474	101		419
	Admin	46			46			
Sterling Grace ¹	Advice	98	98		98			98
	Admin	66			66			66
Aligned & non aligned advisers	Admin	956			956	127	85	744
	Investment	1,092					1,092	
ACM institutional	Investment					879		
AXA inflows		2,731	571		1,640	1,107	1,177	1,327
					subtotal inflows ⁷	3,924		

(1) Includes Spicers & Monitor Money

(2) Sourced directly from retail customers; \$879m comes from retail-sourced institutional funds but is not included under this heading

(3) Advice flows included once only in AXA 2 methodology

(4) We do not specifically count funds flows for the adviser services part of the value chain

(5) Although we make a product margin, we do not specifically count funds flows for the product part of the value chain

(6) ipac ACM mandates include institutional outflows

(7) Excludes flows from institutional sources

Funds under advice and administration

Funds under advice grew by 29% fuelled particularly by ipac growth as well as a marked improvement in Spicers (NZ). Positive net funds flow, capital markets growth and the completion of equity partner deals all contributed to this growth.

Distribution view	Funds under advice and administration ¹				Net funds flow		
	At 30 Jun 04	At 30 June 03	Change	At 31 Dec 03	6 months 30 Jun 04	6 months 30 Jun 03	Change
ipac – IFP, EPs, TM ²	2,954.5	2,048.0	44%	2,552.1	254.9	154.5	65%
Monitor Money	503.5	535.0	(6)%	543.0	(20.4)	1.5	n/a%
Spicers excl 3 rd party	1,119.4	958.7	17%	1,062.9	14.5	(30.4)	n/a%
Total	4,577.4	3,541.7	29%	4,158.0	249.0	125.6	98%

(1) Funds under advice and administration is a subset of funds under management and administration

(2) IFP - ipac Financial Planning, EPs - Equity Partners and TM - Tynan MacKenzie

Funds under management and administration (institutional and retail)

Funds under administration relates to funds that we administer, irrespective of whether the fund is managed by AXA (through the Alliance Capital joint venture) or other fund managers selected by the client or by AXA. Overall funds under management & administration was up 12% to \$49.6 billion (31 December 2003 – \$44.2 billion).

In aggregating funds under management and administration, some funds are counted twice (eg. ACM joint venture funds under management and funds in ipac's multi manager portfolios that are managed by ACM) to reflect that we receive a separate revenue stream for each service. To get a picture of the actual dollar amount of funds we either advise on, administer or manage, the double count is backed out.

2.6 I Funds under management, administration and advice (ctd)

A\$ million	Funds under management & administration				Net funds flows		
	At 30 Jun 04	At 30 Jun 03	Change	At 31 Dec 03	6 months 30 Jun 04	6 months 30 Jun 03	Change
Manager view							
AXA	1,696.1	1,643.0	3%	1,601.4	40.0	86.9	(54)%
ACM joint venture	35,012.8	28,442.0	23%	30,057.0	2,289.1	1,557.7	47.0%
Deutsche property funds	1,082.7	1,850.0	(42)%	1,570.0	(422.1)	(1.6)	N/A
Ipac ¹	8,896.0	7,108.0	25%	8,080.0	307.0	1,553.3	(80)%
External managers	4,579.0	3,850.0	19%	4,453.0	484.0	(393.0)	N/A
subtotal	51,266.6	42,893.0	20%	45,761.4	2,698.0	2,803.3	(4)%
Internal double count (ipac / ACM)	(1,620.4)	(1,300.0)	25%	(1,516.0)	59.0	(727.4)	N/A
Exiting 3 rd party business	0.0	178.0	N/A	0.0	0.0	N/A	N/A
Total	49,646.2	41,593.0	19%	44,245.4	2,757.0	2,075.9	33%

(1) 2003 numbers include one off AXA multi-manager transfers from external managers and internal transfers from ACM to ipac

(2) 2003 flows exclude Symetry

Retail funds under administration grew 14% and overall funds under management and administration grew by 19%.

A\$ million	Funds under management & administration				Net funds flows		
	At 30 Jun 04	At 30 Jun 03	Change	At 31 Dec 03	6 months 30 Jun 04	6 months 30 Jun 03	Change
Source of funds							
Retail funds	24,797.6	21,692.1	14%	23,960.0	988.7	525.3	88%
Retail mandates ²	6,403.9	2,547.7	151%	5,215.0	667.7	378.6	76%
Institutional funds	18,444.7	17,353.2	6%	15,070.4	1,100.6	1,172.0	(6)%
Subtotal excl exiting 3rd party business	49,646.2	41,593.0	19%	44,245.4	2,757.0	2,075.9	33%
Exiting 3rd party business¹	0.0	178.0	(100)%	0.0	0.0	N/A	N/A
Total incl 3rd party business	49,646.2	41,771.0	19%	44,245.4	2,757.0	2,075.9	33%

(1) 2003 flows exclude Symetry

(2) Some 2003 results include flows from AXA PAS & other AXA platforms to AXA mezzanine funds; in 2004, comparable AXA flows are included under "retail mandates through ACM" as a result of AXA's increased usage of ipac multi managers; we have included aforementioned 2003 AXA flows under retail mandates in the above to facilitate better comparisons

Funds under management

Funds under management include commercial loans and other investments managed by AXA, property funds outsourced to Deutsche and the ACM joint venture (included at 100% of funds). FUM excludes funds under administration, which are managed externally to the AXA group. AXA FUM grew primarily due to strong net flows into both institutional and retail funds in addition to favourable market movements.

The following table is a view by fund manager. Overall FUM grew by 18%, with net funds increasing by 16%.

A\$ million	Funds under management				Net funds flow		
	At 30 Jun 04	At 30 Jun 03	Change	At 31 Dec 03	6 months 30 Jun 04	6 months 30 Jun 03	Change
Manager view							
AXA managed	1,696.1	1,643.0	3%	1,601.4	40.0	86.9	(54)%
Alliance Capital joint venture	35,012.8	28,442.0	23%	30,057.0	2,289.1	1,557.7	47%
Deutsche	1,082.7	1,850.0	(42)%	1,570.0	(422.1)	(1.6)	n/a
Total	37,791.6	31,935.0	18%	33,228.4	1,907.0	1,643.0	16%

The reduction in Deutsche reflects our strategic decision to reduce our overall weighting in direct property including the Deutsche unlisted property trust which we market as the Wholesale Australian Property Fund.

2.6 I Funds under management, administration and advice (ctd)

The following table is an alternative view of FUM providing a “source of funds” view. Retail funds grew by 8% and institutional funds grew by 6%. Net retail mandates grew 151% on the back of \$668 million of mainly international equity mandates from large retail providers. A retail mandate is mainly sourced from a retail master fund and/ or similar ‘fund of fund’ arrangement.

A\$ million	Funds under management				Net funds flow		
	At 30 Jun 04	At 30 Jun 03	Change	At 31 Dec 03	6 months 30 Jun 04	6 months 30 Jun 03	Change
Retail funds	12,943.0	12,034.1	8%	12,943.0	138.7	92.4	50%
Retail mandates ¹	6,403.9	2,547.7	151%	5,215.0	667.7	378.6	76%
Institutional funds	18,444.7	17,353.2	6%	15,070.4	1,100.6	1,172.0	(6)%
Total	37,791.6	31,935.0	18%	33,228.4	1,907.0	1,643.0	16%

(1) Some 2003 results include flows from AXA PAS & other AXA platforms to AXA mezzanine funds; in 2004, comparable AXA flows are included under “retail mandates through ACM” as a result of AXA’s increased usage of ipac multi managers; we have included aforementioned 2003 AXA flows under retail mandates in the above to facilitate better comparisons

3 Hong Kong

3.1 | Operational review

Hong Kong continues to be a very attractive market. Our business is well positioned with a multi-channel, multi-product approach and operating results continue to be strong with good consistent performance in the key value drivers.

Our transformation strategy is progressing well and continues to focus on profitable growth in our established market whilst building a leadership position as the market evolves and new segments emerge.

Hong Kong economy

The Hong Kong economy continues to grow following the adverse market conditions experienced in early 2003, in particular the outbreak of SARS and depressed investment markets.

Unemployment has declined from a peak of 8.7% in the second quarter of 2003 (SARS period) to 6.9% for the second quarter of 2004. In the first quarter of 2004, Gross Domestic Product (“GDP”) increased by 6.8% in real terms over a year earlier, compared with 4.9% growth in the fourth quarter of 2003. The property market has been showing signs of a recovery.

Following the strong recovery of equity markets in the second half of 2003 (the Hang Seng Index increased by 31%), the equity market has been weak over the last six months. The Hang Seng Index decreased slightly by 2% over the first half of 2004.

Hong Kong insurance market

Our Hong Kong business enjoys a strong position and is firmly established as a leading participant in the life insurance market. We continue to strengthen and expand our distribution capabilities and introduce new product offerings to meet the changing needs of our customers.

The life insurance market continued to show strong growth in 2004. Market statistics indicate growth of 60% period on period for the three months ended 31 March 2004. However, these statistics need to be treated carefully as they include internal replacements, transfers from bank deposit accounts to short term insurance savings products and offshore business from companies around the region but headquartered in Hong Kong. Our new business growth for the same period was strong at 26%, mainly driven by sales of profitable regular premium long term savings products. We estimate that the underlying growth from traditional insurers was similar to ours with the additional strong growth coming from bank channels and offshore business.

In June 2003, a major political initiative led to the completion of the Closer Economic Partnership Agreement (“CEPA”) between Mainland China and Hong Kong. The aim of CEPA is to boost the Hong Kong economy and provide favourable terms to Hong Kong companies operating in China. This has been an important catalyst of economic recovery in Hong Kong post SARS. CEPA has dramatically increased the Hong Kong insurance market potential as a greater number of individuals can now cross the border and legally bring currency with them, and purchase products in Hong Kong, including insurance policies.

Shanghai, Beijing, and 14 cities of Guangdong have already implemented the visit scheme. In May 2004 this scheme was extended to a further 16 Mainland Chinese cities, so that there are now 150 million Chinese citizens eligible to travel to Hong Kong. The number of Mainland visitors to Hong Kong is expected to double to 20 million by 2005, creating a significant market opportunity for us. Chinese consumers are attracted to Hong Kong insurance policies as they are denominated in open currencies and returns are limited to global equity markets.

As investor sophistication increases, advice is increasingly being sought on alternative wealth creation strategies. Recognising the change in the market towards financial planning, we launched the ipac financial planning service in July 2003 and are continuing to establish this business as a platform for future growth.

Mandatory Provident Fund (“MPF”) retirement assets continue to grow reflecting three years of contributions and last year’s improvement in investment markets. MPF assets are becoming increasingly important to Hong Kong residents. Awareness is rising that MPF alone will not provide sufficient assets to fund post-retirement lifestyles. This will drive the market to broaden the investment fund range offered to customers as well as provide additional opportunities for other long term savings and investment products.

3.1 I Operational review (ctd)

Hong Kong Agency Blueprint

To grow and further improve the productivity and professionalism of our agency force, we developed a best practice agency management platform, leveraging AXA's experience in Asia, Australia and the rest of the world. This platform was implemented in Hong Kong earlier this year. It is a critical programme as it ensures that our pay, practices, management framework, development support, technology and governance are fully aligned with our strategic growth goals.

A key initiative of the Hong Kong Agency Blueprint ("HKAB") is a restructuring of agent compensation so that the rewards to agents are more closely aligned to the profitability of the sales generated together with the persistency experience that emerges. Furthermore, the bonus structure, campaigns and contests will reward agents for consistent performance. Recruitment and retention of advisers is also very important and the blueprint addresses this through a comprehensive approach to career development including a strong emphasis on training and support tools.

Initial results from the blueprint are very encouraging, with a 7% increase in productivity compared to last year, more consistent levels of production and improvements in persistency contributing to the 3% improvement in 13 month persistency. Also, it is pleasing to note that the sales mix has moved more towards products with stronger profitability, leading to overall value of new business increasing by 29% for the six months to 30 June 2004 compared to 30 June 2003, which compares favourably to sales growth of 13% during the period.

Our direct client agency training programme (which is part of the HKAB) won the Bronze Award of the Hong Kong Management Association Excellence in Training Awards. These awards are the premier training awards in Hong Kong and our peer group of finalists included MTR, HSBC, Hong Kong Jockey Club, AC Nielson and the Housing Authority. We are the first insurance company in Hong Kong to receive such an award, further cementing our position as a leading employer in the insurance industry.

M6 performance

At the end of 2000 we established our M6 transformation programme, setting out six aspirational goals to be achieved by the end of 2004 focussing on enhancing our distribution capability and product offerings, and improving efficiency. We are now in the final year of the M6 programme and continue to perform strongly against these objectives. If the trends continue, five of these goals are within reach.

The table below outlines our performance against the M6 aspirational goals.

	Aspirational goal	Dec 2000	June 2004
M1	Enterprise value of HK\$23 billion (as at year end)	HK\$14.9 billion	HK\$20.9 billion ¹
M2	Gross premium income of HK\$10 billion	HK\$6.3 billion	HK\$7.1 billion
M3	Assets under management of HK\$42 billion	HK\$28.1billion	HK\$41.8 billion
M4	Build AXA as preferred brand of choice	70% brand awareness	75% brand awareness
M5	Employee satisfaction of greater than 30 in AXA Global SCOPE survey	26	50
M6	Value of new business of HK\$753 million	HK\$321 million	HK\$636 million ²

(1) This figure is as at December 2003

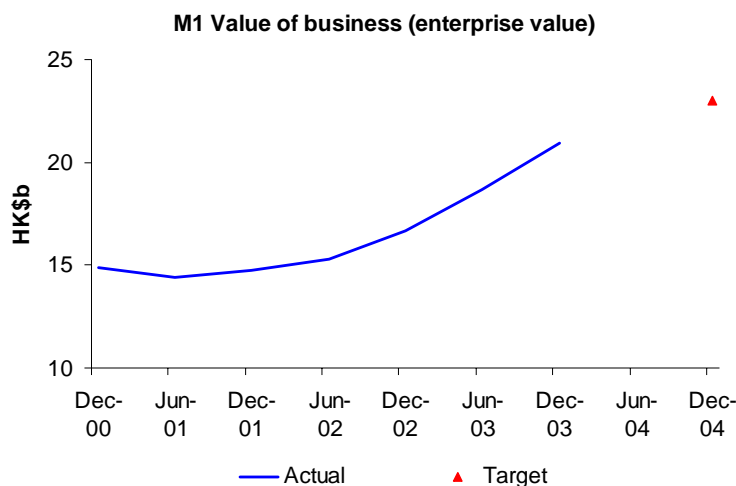
(2) M6 includes indexation sales, (excluding indexation sales, value of new business is HK\$580 million)

3.1 I Operational review (ctd)

M1 – Enterprise value of HK\$23 billion

Enterprise Value is the over-arching target of our transformation programme and we are on track towards the M1 goal of HK\$23 billion at the end of 2004. At December 2003, the M1 measure had increased by 38% since the launch of the M6 initiatives at the end of 2000. M1 is made up of embedded value plus value of one year's new business with a conservative multiple of 8 times. This new business multiple has been consistent throughout the period of the M6 programme.

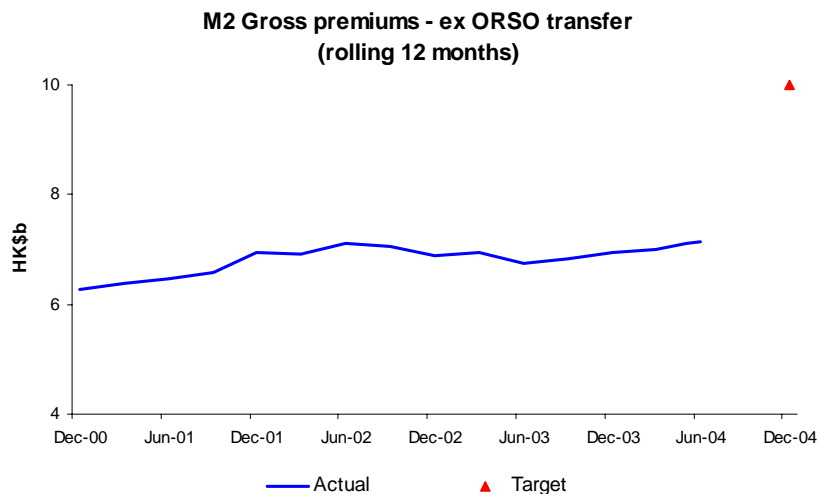
Persistency continues to improve, and is now better than our long term assumptions. Mortality experience continues to be stable and favourable, and management expenses remain well controlled. Adverse investment markets during the period slightly impacted the amount of crediting rate recoveries assumed in our embedded value but this is still close to zero on a market value basis.



Enterprise value has not been published for June 2004 as the timing of our profit release was brought forward by 20 days. Therefore we will provide this information to the market on 2 September 2004.

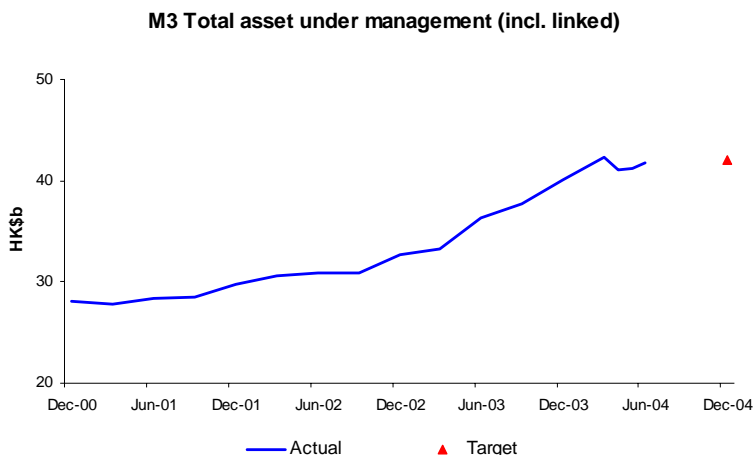
M2 – Total premium income of HK\$10 billion

Total premiums increased to HK\$7.1 billion, although below our M2 target reflecting lower single premium sales than we had anticipated when the target was set. Lower single premiums were partially offset by growth in individual life sales following new product developments, and successful diversification of distribution channels. New business mix has been weighted towards more profitable regular premium contributions, rather than single premiums, which is positive for shareholder value creation, but adversely impacts on this measure. Capturing an increased share of the single premium market on a profitable basis is an area we are focussing on.

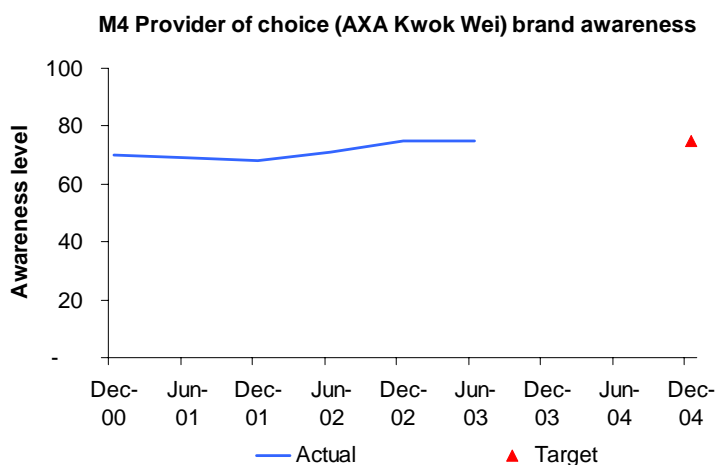


M3 – Assets under management of HK\$42 billion

We are well on track towards our M3 goal driven by strong net funds flows of HK\$3.9 billion. We achieved a 14.5% return on the portfolio for the 12 months ended 31 December 2003, although in the six months ended 30 June 2004 mark to market investment returns were adversely affected by the increase in US bond yields and widening of corporate spreads.



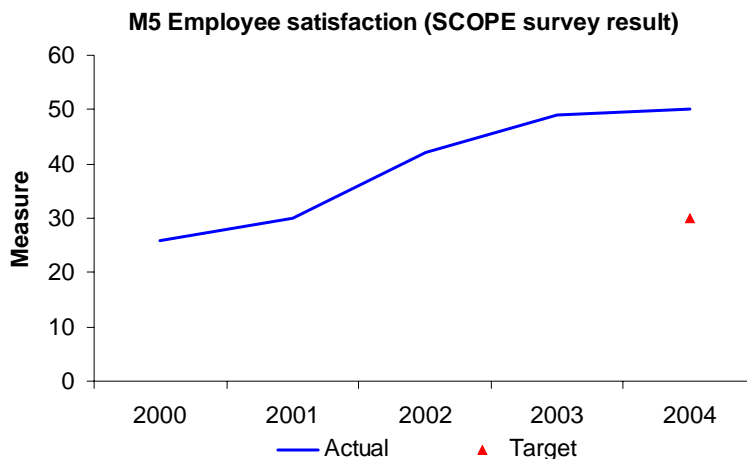
M4 – Build AXA as preferred brand of choice



Our brand strength remains very high on all measures, and is achieving our M4 target. Brand surveys, conducted by an independent third party, found that the AXA brand was recognised by 99% of those interviewed, 75% of them unaided. Rather than incurring large advertising expenses, our high brand awareness has been supported by our long presence in Hong Kong and a strong distribution force. This excellent brand provides a strong platform to support new growth initiatives and to maintain margins.

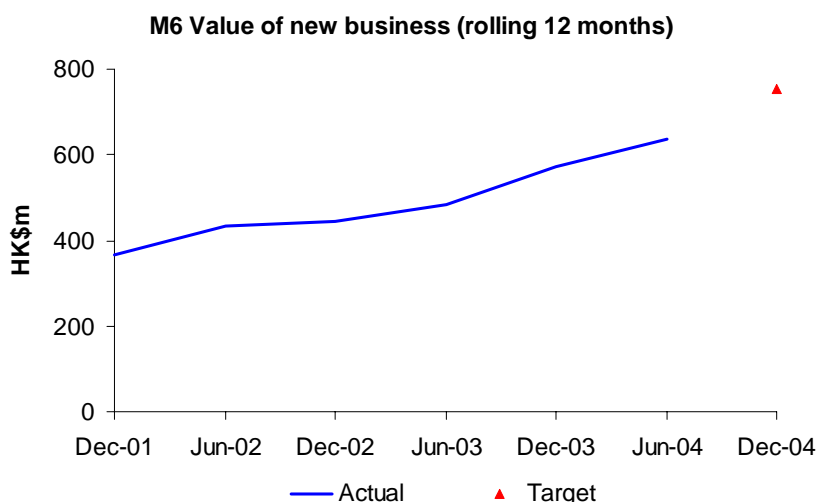
M5 – Employee satisfaction of greater than 30 in AXA Global SCOPE survey

Our employee satisfaction result was very pleasing with an overall SCOPE score of 50, compared to our M5 target of 30. AXA China Region is in the top quartile of global AXA group companies in the SCOPE survey. This is particularly pleasing considering the amount of change and process improvement activities undertaken. We believe that rigorous and open communication and focussed actions have been key to the improvement in the SCOPE result.



M6 – Value of new business of HK\$753 million

We have made good progress towards our M6 target with value of new business up 11% on a rolling 12 month basis to HK\$636m (31 December 2003 - HK\$573m). This is attributable to our ongoing focus on product profitability including tactical re-pricing and the implementation of Hong Kong Agency Blueprint which has more closely aligned agent compensation to the profitability of business written, leading to a more favourable sales mix for shareholder value creation.



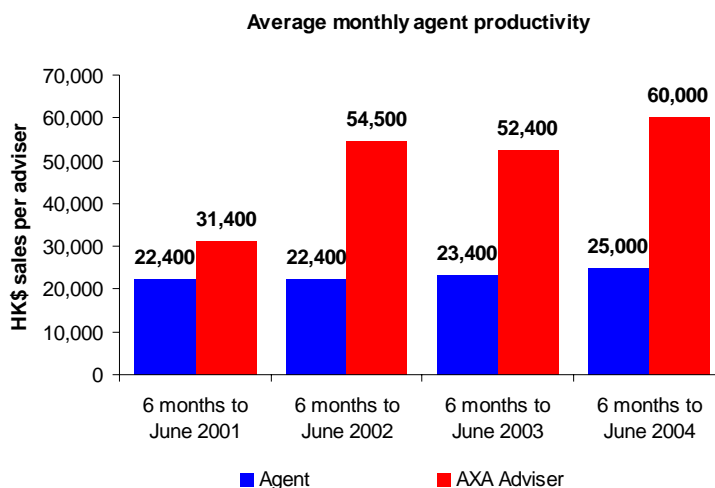
3.1 I Operational review (ctd)

The M6 objectives are supported by eight strategic imperatives. Outlined below is the progress made during the period.

Increase the number and productivity of aligned advisers

Total adviser numbers at 30 June 2004 were 2,279 (2,344 at 31 December 2003). In the short term, adviser numbers have been impacted by the more stringent productivity criteria including HKAB. In the medium and longer term, HKAB will be beneficial to growth in adviser numbers due to an increased emphasis on recruitment and more importantly, retention of quality advisers. The blueprint includes a range of initiatives to improve training and career development, which should lead to improved productivity, a pre-requisite for retaining quality advisers.

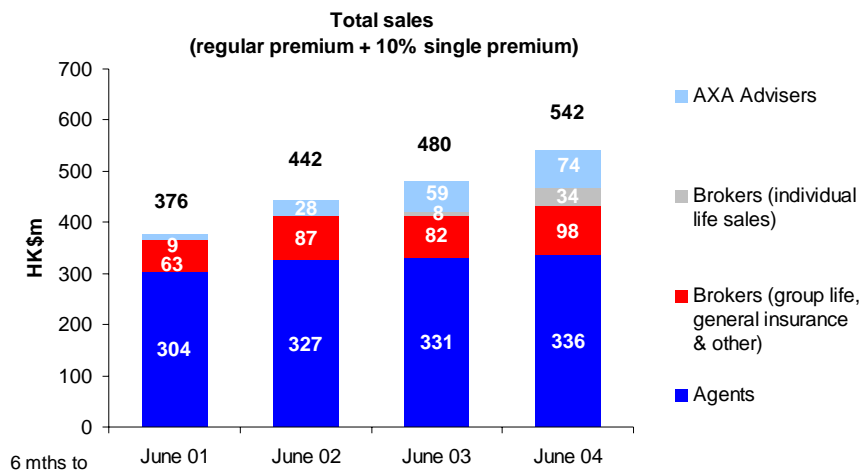
Agent productivity has improved by 7% this period. More importantly, value of sales has improved 15%, reflecting a change in sales mix towards the more profitable lines. This is driven by the closer alignment of agent and manager remuneration to shareholder value creation. HKAB has introduced a combination of focussed sales campaigns, comprehensive training programmes and a market leading point of sales tool that had a positive impact on productivity.



Looking forward, we expect agent productivity to be further improved as a result of sales to the Mainland Chinese visitors emerging market segment. Sales from this segment were slow in this period, as customers were reluctant to pursue new policies following the publicity regarding possible non-compliance with China Insurance Regulatory Commission (“CIRC”) regulations by some insurers in Hong Kong. This had been a short term impact, with the market now reverting back towards expected levels.

Build profitable new aligned and broker /IFA channels

We have further broadened our distribution capability with broker and company managed agency distribution now representing 38% of total sales. In particular, we now have 276 AXA Advisers (2003 - 234), the largest salaried sales force in Hong Kong. As can be seen from the chart above, AXA Adviser productivity levels continue to be very strong, up 15% to HK\$60,000, more than twice that of commissioned advisers, and accounted for 14% of our sales.



We have also continued to develop our broker channel strategy and capability. Individual life business from broker channels contributed 6% of total sales, a four-fold increase over the same period in 2003. Our focus remains on more profitable segments in this market and we are currently preparing for the launch of single premium wealth management products to support this distribution channel.

To capture a share of the rapidly growing Mainland Chinese visitor market, we have developed an infrastructure to specifically target this segment. This includes tailored product packages, mandarin speaking agency staff drawn from Mainland immigrants, and existing broker relationships with specialist Mainland Chinese visitors market teams. We have also established a dedicated team in our AXA Phoenix agency model. To ensure we obtain quality business, underwriting and claims processes have been developed with reinsurers, including geographical loadings for added protection where appropriate. We have tight processes in place to ensure that potential policyholders are in Hong Kong when proposing for policies.

Build AXA as preferred brand of choice

Brand awareness is extremely important in attracting new clients and retaining existing clients. We continued to enjoy high brand awareness in the Hong Kong market with unaided brand awareness of 75%, in line with our target under the M6 programme.

In recognition of our strong brand, we were awarded the Superbrands Hong Kong 2004/2005 award. This award is determined through qualitative assessment and a grading exercise based on strict criteria, carried out by the Hong Kong Superbrands Council and consumer research undertaken by the global research group, Synovate. Being an internationally renowned event, Superbrands have been present in 17 countries over the past 10 years. Out of the 107 awardees in total, AXA is one of only four insurance companies that received this award. This award reflects the recognition of our strengths relating to market strength, customer loyalty, goodwill, longevity and overall market acceptance. It further reinforces our leading position in the industry and strengthens our clients' confidence.

3.1 I Operational review (ctd)

Deliver investment margins on participating business

A key financial target for our traditional participating business is to earn an average return on our assets at least 1% pa higher than the return we credit to policyholders.

As a result of adverse investment markets in 2001 and 2002, this “1% spread” was not earned in those years. In 2003, strong equity returns and out performance against benchmarks by our investment management team together with reduced policyholder crediting rates on our in-force portfolio, enabled us to achieve an investment margin well in excess of the 1% target, and to recover the shortfalls from 2001 and 2002 on a market value basis.

Due to the increase in US bond yields, widening corporate spread, and lower returns from equity markets in the first half of 2004, the investment margin, ie the total return less what has been credited to policyholders, was (1.5)%, or 0.3% (ex capital losses on fixed interest) compared to our long term target of 0.5% over the six month period (1% pa). Crediting rates on the NL series remained at 4.75%, following steps reducing crediting rates of 75 basis points in January 2003 and a further 25 basis points in August 2003.

Earning rates for assets supporting policy liabilities	%
Investment / interest income	2.0
Losses on fixed interest portfolio	(1.8) ¹
Gains on equities	0.6
Total	0.8
Credited to policyholders	(2.3)
Investment margin	(1.5)
Investment margin (ex fixed interest losses)	0.3

(1) Approximately (1.5)% due to yield increase and (0.3)% due to widening of corporate spread

Crediting rate mechanism

Crediting rates are smoothed over the medium term, with the aim of reflecting average underlying investment returns over the medium to long term. This smoothing mechanism, standard market practice around the world for managing participating business, inevitably leads to some periods where crediting rates are higher than actual returns and some where crediting rates are lower.

As a result of the downturn in equity markets for the three years to early 2003, we (along with other insurers) credited more to our policyholders than we actually earned in those years, leading to an asset share deficit. This is a normal consequence of such smoothing mechanisms and the volatility of asset market values within reasonable limits. 2003 overall was a strong year for investment markets, and our investment earnings significantly exceeded crediting rates, and on a market value basis, we recovered the amounts of over crediting in previous years.

Given the increase in interest rates and widening corporate spreads over the past six months, the market value of our bond portfolio decreased due to capital losses. From a value perspective this is good news as US interest rates are moving towards our long term assumptions. We remain on track to recover the remaining ‘economic’ deficit over a three to four year period.

Changes in the level of the asset share deficit (or surplus) are taken through the Active Dividend Management (“ADM”) reserve and are not charged to the profit and loss account unless a deficit is deemed permanent and unrecoverable through future crediting rates, or gain is deemed permanent.

All new business is now written in low or nil guarantee products, or is unit linked. Our NL series guaranteed in-force life portfolio has been closed to new business since 1999. Our DA fund guaranteed retirement business is closed to contributions from all sources, with future contributions being invested in lower guarantee alternatives. We are focussed on further increasing our sales of unit linked business and MPF business. However, for the first half of 2004, the market favoured non linked products due to the volatile investment markets in 2003 and early 2004. Unit linked products represented 27% of individual life sales this period (2003 – 29%).

3.1 I Operational review (ctd)

The table below summarises the current position on margins for the main participating product groupings based on current best estimate assumptions for investment return and target asset allocations.

	Fund size ¹ (HK\$ billion)	Investment guarantee to policyholder	Investment strategy (bond/ equity)	Target long term investment return ²	Total policyholder return on current crediting rates (gtees+ cash div+bonus)
"NL" closed Life fund	16.9	4.25% ³	70/30 (Global)	6.50%	4.75%
"Smart" open Life fund	1.5	<1.00%	50/50 (Global)	7.50%	4.00% + TB ⁴
"DA" Retirement fund (closed to all new contributions)	3.8	5.00%	80/20 (HK)	6.25%	5.00%
"Retirement" 0% guarantee funds (incl. MPF guarantee)	1.1	0.00%	80/20 (HK)	6.25%	1.00% - 5.00%

(1) Fund size is based on AGAAP liability for life insurance and account balance for unit linked and retirement business. This differs from the basis used in 2002, which was based on Hong Kong regulatory liabilities. This more accurately ties asset shares to respective crediting rates

(2) Assumed long term returns on equities reduced compared to last year

(3) Before offsetting effect of expense and mortality profits (equivalent to approximately 1%)

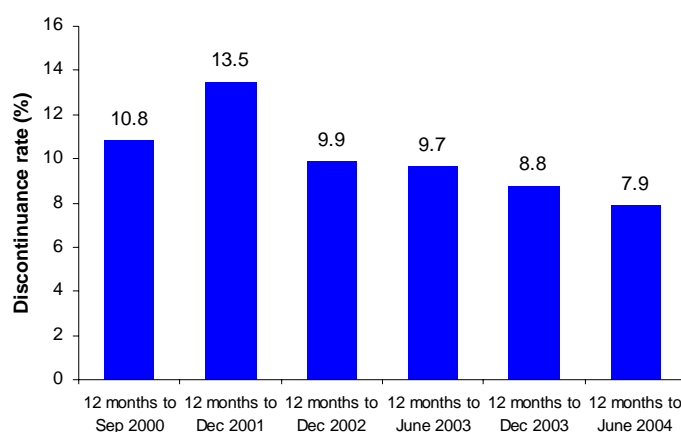
(4) Terminal bonuses determined at the end of the policy life

The significant assumptions for prospective long term investment on US 10-year Treasuries, US corporate bonds and US equities are 5.2% pa, 5.9% pa and 9.2% pa respectively.

Bring persistency back to target levels

At 30 June 2004, the aggregate discontinuance rate for individual life policies was 7.9%, well down on 2001, 2002, and 2003, and better than our long term assumptions which, with our mix of inforce and new policy sales, is currently 8.5% in aggregate. This reflects successful customer retention initiatives now fully integrated into our normal business processes, and management's continued strong focus on discontinuance rates.

Life discontinuance rate (annualised)



Our dedicated conservation team contributed to a net retention of approximately HK\$37 million of in-force annualised premiums. Our Customer Care Centre, as well as focussing on reducing policy surrenders, is also pursuing cross-sell opportunities to our "orphan" clients – that is clients of agents that are no longer with AXA and whom we are now directly servicing. Discontinuance rates on these clients have further improved and repeat sales campaigns resulted in over 4,406 new sales.

Further benefits to persistency arise from the HKAB compensation structure, whereby agent remuneration is more closely linked to the emerging persistency experience of the business written.

3.1 I Operational review (ctd)

Deliver operational excellence

Reflecting our continued focus on operational excellence, the value of new business for the six months ended 30 June 2004 increased 29% to HK\$271 million (2003 - HK\$210 million), and increased 11% on a rolling 12 month basis to \$636 million (31 December 2003 – \$573 million) well above our new business volume growth of 14% (excluding general insurance), with additional benefits arising from our ongoing focus on product profitability.

Improve organisational capability through our people

During 2004 we have further reinforced the development of our employees within AXA China Region and across different countries within the Asia Pacific region. Intra-group short term mobility programmes are also being launched in a number of functions in order to transfer knowledge between different countries and to broaden the experience base of our future leaders.

We aim for AXA China Region to be recognised as an Employer of Choice so that we can be effective in attracting and retaining valuable people resources.

AXA China Region continued to exceed its M6 target on SCOPE staff satisfaction with the 2004 SCOPE score of 50. Despite the changes within and outside the company over the last three years, we have managed to grow and sustain employee satisfaction at a level far exceeding the M6 target.

Prepare for the growth of savings and investment markets

Savings and investment markets in Hong Kong continue to grow, supported by the government mandated retirement scheme (“MPF”), economic recovery and improving global investment markets.

We continue to have approximately 5% share of the Hong Kong retirement market, which gives us scale efficiencies in our administration areas. We are looking to broaden our retirement offers over the next six months in the medium to large corporate sectors that should assist in growing market share.

We have developed strong customer management capabilities and are having success targeting our large customer base with both protection and savings products. We are looking to deepen our relationships with our customers as the market continues to evolve.

Our product range is extensive with both traditional and unit linked products that cover both savings and protection customer needs. We are continuing to extend this range for both our aligned and 3rd party distributors to supply competitive products for the different market segments in which they operate.

Financial planning is developing and we are building our capability to participate in this area. Our high end advice business, ipac financial planning services, is now fully operational with full regulatory products approval since April 2004. Its business is already established in the expatriate market, and has total funds under advice of HK\$78 million.

3.2 | Financial summary

Operating Earnings in local currency was up 29%, reflecting continued profitable sales growth, improved persistency, continuing favourable claims experience and last year's implementation of a dual profit carrier for participating business.

Financial performance (A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Increase/ (decrease)	6 months 31 Dec 03
Operating Earnings	75.2	69.0	9%	87.9
Investment Earnings	14.5	172.7	(92)%	102.4
Profit after income tax before non-recurring items	89.7	241.7	(63)%	190.3
Non-recurring items	-	-	-	-
Profit after income tax and non-recurring items	89.7	241.7	(63)%	190.3

Financial performance (HK\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Increase/ (decrease)	6 months 31 Dec 03
Operating Earnings	432.8	335.0	29%	465.3
Investment Earnings	83.8	838.5	(90)%	564.2
Profit after income tax before non-recurring items	516.6	1,173.5	(56)%	1,029.5
Non-recurring items	-	-	-	-
Profit after income tax and non-recurring items	516.6	1,173.5	(56)%	1,029.5

Financial performance (HK\$ million)	6 months 30 Jun 04	6 months 30 Jun 03
Expected profit margins released	404.0	327.1
Experience profit (loss)		
- Expenses	(3.5)	(1.5)
- Investment return	(9.2)	16.7
- Surrender	5.2	(23.0)
- Other (incl. underwriting)	36.3	15.7
Capitalised losses & reversals	-	-
Operating Earnings	432.8	335.0

Profit margins released benefited from sales growth and assumption changes to reflect recent improvements in the level of management expenses.

To more closely align emerging profit with benefits provided to customers, we changed our assumptions for the profit carrier for conventional participating business effective 1 July 2003. This change reflects the lower level of discretionary dividends now being paid on traditional business and attributes more profit to the provision of life assurance benefits. The net profit impact this period was approximately HK\$55 million.

No further changes to profit carriers have been made this period. The profit carrier change noted above is the same as that discussed in our Investor Compendium for the 12 months ended 31 December 2003. A more complete discussion of this change is included below.

Under MoS accounting methodology, profit is calculated by projecting the future cash flows of each product group, discounting the result to a net present value and releasing the net present value to the profit and loss account in line with the financial progression of a "profit carrier". The profit carrier is a feature of the product group, which most appropriately reflects the nature of the underlying service, which the product is seeking to provide its clients. Examples of profit carriers are claims for term assurance products and bonus rates for saving plans.

When whole of life products were launched, it was expected that the predominant service to policyholders would be investment management reflected through policyholder dividends. Accordingly the policyholder dividends (which a few years ago reflected expected high investment returns) were generally selected as the profit carrier.

3.2 | Financial summary (ctd)

Our best estimate of future investment returns has reduced in recent years, and the best estimate of investment return above the guarantee level has therefore reduced. As a result, the value of planned policyholder dividends has reduced, relative to the value of other benefits and services to policyholders (for example insurance, administration, premium collection).

It was therefore no longer appropriate to use policyholder dividends as the sole profit carrier as this deferred profit margin to an inappropriate degree. As such, we changed to using two profit carriers – planned policyholder dividends (70%) and premiums (30%). Premiums are used as a practical and stable measure of the various non-dividend benefits and services provided by the NL series, in particular death benefits.

Expenses continue to track favourably. This is consistent with the MoS methodology to reset unit expense assumptions at each year end in line with experience.

Investment returns significantly reduced due to increased bond yields, widening corporate spreads, and weak Asian equity markets. This has led to experience losses on our non-participating and retirement business lines.

Other includes profits from favourable mortality and surrender experience together with some other small miscellaneous gains. The favourable mortality experience reflects continuing good claims experience from individual life business. Our surrender experience has further improved and in aggregate the discontinuance rate is now below our long term assumption. Surrender assumptions were re-shaped at the end of 2003 to better align assumptions by policy duration with recent experience.

Persistency

Persistency (12 months to)	Period	30 Jun 04	31 Dec 03	30 Jun 03	31 Dec 02	30 Jun 02	31 Dec 01
By premiums							
Aggregate discontinuance ¹		7.9%	8.8%	9.7%	9.9%	10.2%	13.5%
Persistency							
Individual life – non-linked	13	83.5%	79.6%	76.8%	75.0%	75.7%	75.3%
(Smart series)	25	77.4%	72.0%	69.2%	67.5%	67.9%	65.6%
	61	58.2%	54.9%	50.9%	48.2%	47.8%	43.4%
Individual life – unit linked	13	71.5%	68.3%	75.7%	87.6%	89.5%	n/a
	25	62.9%	60.7%	68.1%	80.2%	86.9%	n/a

(1) Rolling 12 months

Aggregate discontinuance rates on individual life policies continue to improve, reaching a rate of 7.9%, compared with 8.8% in December 2003. This improved performance is better than our long term assumption of 8.5% in aggregate.

Persistency rates for non-linked individual life business have improved at all durations. Unit linked persistency also improved compared to December 2003 mainly due to the volatility of investment markets over the last three years. Although unit linked persistency is lower than our experience on traditional policies, mainly due to the volatility of investment markets over the last three years, it remains within the assumptions used in product pricing.

3.2 | Financial summary (ctd)

Recurring management expenses

Expenses (HK\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Change	6 months 31 Dec 03
Total recurring management expenses	166.9	155.6	7%	202.6
Development expenses	10.1	8.8	15%	32.9
One-off expenses	7.0	4.0	75%	(0.9) ¹
Management expenses	184.0	168.4	9%	234.6
Total commission and related expenses	369.9	312.1	19%	430.0
Total expenses	553.9	480.5	15%	664.6

(1) Release of provision for projects related to set up of regional office

Recurring management expenses increased by 7% compared to 2003, but were still 43% below the 6 months ended 31 December 2003. Although management expenses were higher than last year, unit costs were in line with our assumption. The increase compared to last year is mainly due to the cost reductions during SARS in 2003. In addition, increased expenses have been incurred for building new distribution channels to capture new sales growth opportunities.

Investment Earnings

Investment Earnings (HK\$ million)	6 months 30 Jun 04	6 month return	6 months 30 Jun 03	6 month return
Equities	60.7	2%	305.8	9%
Fixed interest	(19.7)	0%	528.8	7%
Property	39.2	24%	(0.7)	0%
Cash	3.6	0%	4.6	1%
Investment Earnings¹	83.8	1%	838.5	7%

(1) Weighted percentage return based on portfolio mix

Investment Earnings of HK\$83.8 million were significantly lower than the same period last year reflecting the increase in US 10 year bond yields from 4.26% in December 2003 to 4.62% in June 2004, 10 basis point widening of corporate spreads, together with weak global equity markets. The property component reflects the AXA Centre building we occupy in Hong Kong. It represents a very small component of our total assets, approximately 1% at 30 June 2004.

The overall equity benchmark is similar to 90% MSCI World Free ex non-Japan Asia + 10% MSCI AC Far East Free ex Japan. US bonds dominate the fixed interest portfolio and have a benchmark duration of approximately eight years. The benchmark for corporate bonds is similar to Lehman Brothers Credit and for government and agency bonds is similar to Salomon Brothers government and agency indices, adjusted to a duration of approximately eight years. Foreign sourced income is not taxable in Hong Kong.

We have during the period shortened the effective duration of our US bond portfolio to around six years in anticipation that US interest rates will rise further over the second half of the year.

3.3 | Sales and funds flows

New business continued to show strong growth in the half-year, with total new business of HK\$542 million annualised (including 10% single premium and excluding general insurance), an increase of 13% over the same period last year (2003 - HK\$480 million).

Annual premium products (HK \$million)	New business			Discontinuance			In-force		
	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	At 30 Jun 04	At 30 Jun 03	Change
Individual life (non-linked)	289.4	250.2	16%	169.6	234.3	(28)%	4,760.2	4,563.4	4%
Individual life (unit linked)	97.2	99.8	(3)%	60.8	54.9	11%	398.2	291.0	37%
Total individual life	386.6	350.0	11%	230.4	289.2	(20)%	5,158.4	4,854.4	6%
Group retirement (incl. MPF)	21.2	24.2	(12)%	78.6	151.6	(48)%	1,139.4	1,118.8	2%
Group risk	46.4	23.2	100%	2.3	38.9	(94)%	340.4	296.3	15%
Total	454.2	397.4	14%	311.3	479.7	(35)%	6,638.2	6,269.5	6%
General insurance (P&C) ¹	61.9	58.7	6%						

(1) Gross written premium

Single premium products (HK\$m)	Inflows			Outflows			Net flow			FUM		
	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	6 mths 30 Jun 04	6 mths 30 Jun 03	Change	At 30 Jun 04	At 31 Dec 03	At 30 Jun 03
Individual Life (incl. unit linked)	132.5	14.0	846%	8.6	4.2	105%	123.9	9.8	1164%	1,036.1	921.3	795.8
Group Retirement ¹	126.9	221.8	(43)%	60.7	68.7	(12)%	66.2	153.1	(57)%			
Total	259.4	235.8	10%	69.3	72.9	(5)%	190.1	162.9	17%	1,036.1	921.3	795.8

(1) FUM for retirement is not split between regular and single contributions and excludes internal ORSO conversions

Individual life regular premium sales continue to be strong, up 11% reflecting the increase in non-linked individual life sales due to the good performance from Smart Jumbo (non-linked endowment) with HK\$125 million annualised contributions for the six months to June 2004.

Annual premium discontinuance on our traditional life business reduced by 28% compared to same period last year due to the success of our Customer Care and conservations teams. This is partly offset by higher levels of discontinuance on our unit linked policies as we grow the inforce business. This is normal and anticipated in our pricing.

Employer sponsored retirement business was 12% lower than last year, reflecting the slow movement within the industry with limited amounts of transfers in portfolio from one service provider to another. We expect this to change in future as MPF AUM grow and employers revisit the adequacy of their service providers.

For group risk and general insurance markets, we continue to place greater emphasis on profitability and achieving low combined ratios.

The increase in single premium individual life sales reflect the increase in unit linked single premiums and the additional HK\$15 million sales for the six months to June 2004 from Smart Return, single premium non-linked endowment plan launched in October 2003. This was a limited offer product and was closed in March 2004.

3.4 | Funds under management

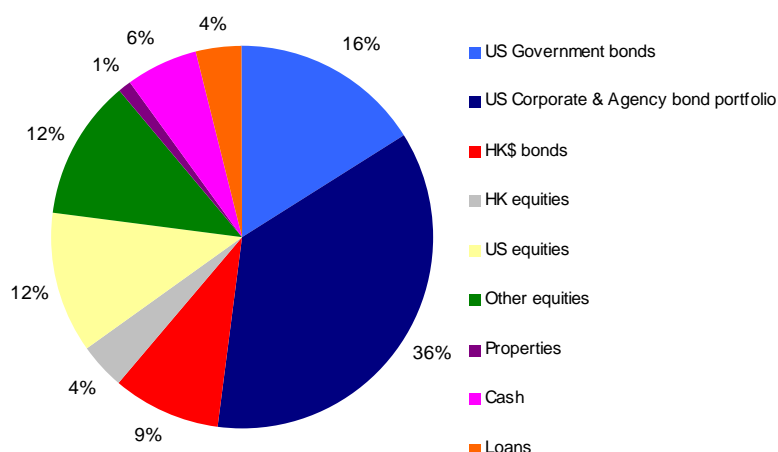
FUM continued to grow driven by strong net funds flow of HK\$3.9 billion (HK\$3.4 billion in June 2003) although impacted by the adverse investment markets in particular the increase in US bond yields and widening corporate spreads.

Breakdown of major funds (HK\$b)	As at 30 Jun 04	As at 31 Dec 03	As at 30 Jun 03
"NL" closed life fund	16.9	16.4	15.3
"Smart" open life fund	1.5	1.2	0.8
"DA" retirement fund (closed to all new contributions)	3.8	3.8	3.9
"Retirement" 0% guarantee fund (incl. MPF guarantee)	1.1	0.8	0.6
"Honey" unit linked life	1.0	0.9	0.8
"MPF" non-guaranteed	2.8	2.6	2.1
Other (including Shareholder)	14.7	14.4	12.9
Funds under management (incl. Linked)	41.8	40.1	36.4

Note: Fund size is based on AGAAP liability for life insurance and account balance for unit linked and retirement business. This more accurately ties asset shares to respective crediting rates

Portfolio composition

This chart below shows our investment portfolio mix at 30 June 2004 for our non-linked asset portfolio, together with additional details on the credit quality of our US corporate bond portfolio.



A breakdown of the US Bond portfolio by rating is outlined below.

US Bonds	Rating	Proportion
Government and Agency	AAA	33%
Corporate	AAA	5%
Corporate	AA	9%
Corporate	A	29%
Corporate	BBB	24%
Average	A	

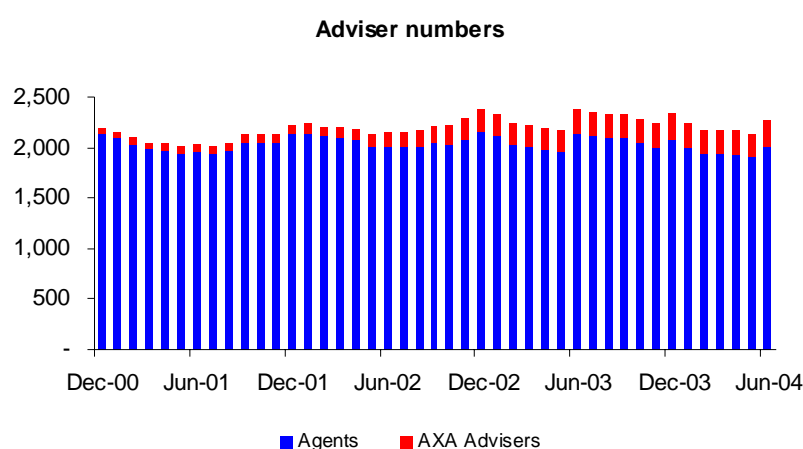
On a weighted basis, our average credit rating for the US bond portfolio is in line with our target. Our policy is to maintain a weighted average rating of A, with a minimum of A-.

3.5 | Advisers and agents

	At 30 Jun 04	At 31 Dec 03	Change	At 30 Jun 03
Commissioned agents managed by agency leaders	1,249	1,333	(6)%	1,404
Commissioned agents managed by salaried staff	754	747	1%	735
Total commissioned agents	2,003	2,080	(4)%	2,139
Salaried advisers (including managers and trainees)	276	264	5%	234
Total advisers	2,279	2,344	3%	2,373

Commissioned agent numbers decreased by 4% over the six months ended June 2004, mainly due to the more stringent productivity criteria included in the Hong Kong Agency Blueprint (HKAB). In the medium and longer term, HKAB will be beneficial to growth in adviser numbers due to an increased emphasis on recruitment and more importantly retention of quality advisers.

Salaried adviser numbers continued to grow whilst maintaining high levels of productivity.



3.6 | ipac Asia

Our high end advice business, ipac financial planning, is now operating in its second year in both Hong Kong and Singapore. The effective launch was delayed for six months to July 2003 by SARS and various regulatory approvals. In the first few years of developing a business like ipac in markets where financial planning is just emerging, it is the quality of the foundations laid that lead to material longer term profitable results. These markets have previously lacked professional financial planning firms, and ipac's ongoing service offer and fee transparency are attracting considerable interest from professional accountants, lawyers and corporations who will be an important source of quality client referrals.

Normally, it takes some years to build momentum in client referrals and our early start-up business has already attracted strong support from expatriates in our investment platforms. Awareness amongst, and inflows from, the local population is also steadily growing. ipac's uniqueness in these markets has helped it to build a media profile through strong editorials. The initial results have been encouraging with a total funds under advice amounted to HK\$143 million as at 30 June 2004.

In summary, we are confident of ipac model's success in these Asian markets, leveraging its proven successful business model in Australia.

4 China and South East Asia

4.1 | Strategic overview

Our Hong Kong based AXA Asia Life Regional Centre oversees our Asian businesses which, in addition to Hong Kong, comprise a wholly owned subsidiary in Singapore and joint venture operations in China, Philippines, Thailand and Indonesia. In each of the joint venture businesses, we retain management responsibility. Our strategy is to be in the top 5 in each market when it enters the growth phase through a multi-channel, multi-product approach, and to deliver high levels of shareholder return.

Our approach is to operate a single business model to provide a sound platform for profitable growth in Asia. Regional best practice blueprints have been developed in areas including agency management, bancassurance operations, wealth management, pricing and product development. In addition, all IT systems are developed with a regional focus to maximise the operational effectiveness of our back-office processes.

The regional office management teams provide strong support both in terms of operational expertise and overall governance of processes. In particular, we pay constant attention to shareholder value creation, by focussing on product profitability together with comprehensive risk management practices.

China is an important market for us. Market analysis indicates that China will become one of the world's top 10 insurance markets within the next 20 years with its large population, strong GDP growth (9.8% pa. over the last two decades, 6.5% pa. higher than world average) and low insurance penetration (less than 2%).

Today in China, the regulatory environment restricts AXA-Minmetals, our joint venture business, to life insurance products only and to Shanghai and our recently opened Guangzhou branch. This means that today we have access to only 2% of the whole China life market. Under the terms of China's accession to the World Trade Organisation ("WTO") in November 2001, the market for foreign joint ventures will open up by the end of 2004 both in terms of geographic cover and product offering. To take advantage of this growing market, we have already submitted licence applications for new branches.

Singapore is also an attractive market. GDP per capita is amongst the highest in the world, the Central Provident Fund ("CPF") continues to provide growth in savings and the market is rapidly moving towards a sophisticated wealth management model. Reflecting this, 68% of our sales in this period are represented by single premium investment linked products. Furthermore, we operate in the financial planning and advice market through our recently launched ipac business, leveraging ipac's proven business model in Australia. As at 30 June 2004, total funds under advice amounted to more than S\$14 million.

In other South East Asian markets, with low insurance penetration, rapidly aging large populations and growth in GDP per capita, these markets are poised to enter a new phase of rapid growth in financial protection and wealth management. For those players that can develop competitive and profitable distribution channels, high margins should be available providing a very attractive opportunity for long term growth and shareholder value creation.

We continue to move towards unit linked products in South East Asia with 77% of new sales (ex Thailand) now represented by regular and single premium unit linked products. This has been achieved by rolling out the Hong Kong "Honey" products to countries where unit linked products were not previously sold and by focussing adviser training on unit linked sales and investments. This result reduces the level of dependence on product sales that contain guarantees whilst maintaining strong profit margins. Investment linked products are not currently approved by the Thai regulator.

We have a strong competitive advantage in these South East Asian markets through our multi-distribution approach, in particular through our bancassurance arrangements where we are in partnership with the leading retail banks in each of Philippines, Thailand and Indonesia. This provides us access to over 2,000 bank branches and 21 million banking customers. As at 30 June 2004, we were present in 750 branches with further expansion planned.

4.1 | Strategic overview and highlights (ctd)

Ownership structures

Country	Entity name	Ownership interest	Partner(s)
China	AXA-Minmetals Assurance Co Ltd	25%	Minmetals (49%), AXA SA (26%)
Singapore	AXA Life Insurance Singapore Pte Ltd	100%	
	AXA Wealth Management Singapore Pte Ltd	100%	
	ipac Financial Planning	100%	
Philippines	Philippine AXA Life Insurance Corporation	45%	Metrobank (55%)
Thailand	Krungthai AXA Life Insurance Co Ltd	50%	Krung Thai Bank (50%)
Indonesia	P.T. AXA Life Indonesia	80%	Tempo Group (20%)
	AXA Mandiri Financial Services	51%	Bank Mandiri (49%)

4.2 | Financial summary

The financial results outlined in the table below only relate to companies in Singapore. As the other operations in the region are in a relatively early stage of development, these are not consolidated in the Group result.

Financial performance (A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Change	6 months 31 Dec 03
AXA Life Singapore ("AXA LS"):				
Operating Earnings	1.3	1.0	30%	(1.4)
Investment Earnings	0.3	1.5	(80)%	0.3
Net Operating Earnings of other Singapore operations	(1.1)	(0.8)	(38)%	(2.2)
Profit after income tax before non-recurring items	0.5	1.7	(71)%	(3.3)

AXA LS's Operating Earnings increased to A\$1.3 million as a result of improved product profitability and reduced expense levels. Other operations represent our investments in our ipac financial planning and wealth management businesses that are in an early stage of development.

4.3 | China – Shanghai and Guangzhou

The long term prospects for China's life insurance sector are for continued strong growth, driven by China's growing economy, increased levels of disposable income and reforms to the state benefits system. With China's progression into the WTO and restrictions on foreign joint ventures soon to be lifted in terms of product offering and geographical restrictions, the pace of change is expected to quicken leading to increased opportunities for our business. Regulation continues to evolve with proposals to simplify the product approval process together with the expected relaxation of investment restrictions. This should provide an opportunity for insurers to offer more flexible and attractive products to customers including a broad range of investment options.

We operate in China through a joint venture with China Minmetals Group and our parent company, AXA SA. The joint venture is currently licensed to sell only individual life products in Shanghai and Guangzhou. By the end of 2004, we expect to be able to begin marketing group and retirement products as well as to expand into other provinces. The joint venture currently has 1,383 agents within 13 sales offices in Shanghai and Guangzhou.

We are currently ranked 4 in Shanghai and 6 in Guangzhou in terms of market share amongst foreign insurers. Total premium income for our Shanghai branch is up 24%, well in excess of the market average that was down 10%. We now have product sourcing arrangements in place with 26 bank branches, and five banks in Shanghai.

To strengthen our position in the Chinese market, preparation is being made to broaden our product offering to include group business together with expanding into Beijing and Foshan for which applications have been submitted to the regulator.

4.4 | Singapore

Following a difficult year for the investment and insurance industry in 2003, the first half of 2004 has seen a marked improvement. Industry growth for new sales of investment products is around 35% and insurance product sales in the first quarter of 2004 have increased by 39%, which is the first year since 2001 that has seen an increase in financial protection sales.

Recognising the significant growth opportunities in the wealth management market due to large bank deposits and unlocked CPF monies, AXA Financial Services (Singapore) Pty Ltd, which is a 100% owned subsidiary and acts as the holding company for our Singapore operations, launched a new strategy in 2003 to focus on the wealth management and financial protection markets. This included the launch of ipac, leveraging our proven business model in Australia together with AXA Wealth Management whose focus is to manufacture and distribute unit trusts and wealth management products. The existing AXA Life business has continued to grow well and moved into profitability during this period. Total premium income of the life business was up 39% to S\$108 million (2003 – S\$78 million).

We continue to review our products to provide a comprehensive financial protection offer in the market whilst ensuring we grow the business on a profitable basis. Single premium investment linked products accounted for 68% of sales this period. We will soon launch a new wealth management product offer, leveraging a platform we are developing regionally in AXA Asia, which will provide features unique to our market.

Looking forward, we will continue to focus on recruiting and expanding the AXA adviser force while at the same time improving their productivity. We are also positioning ourselves with the IFA market and banks in order to leverage the growing distribution that these channels are creating in the market.

4.5 | The Philippines

Due to the May presidential election, the insurance industry experienced a slow down in new business growth rates as customers adopted a wait and see approach for their long term savings. Now that the election result has been announced and continuation of the existing presidency, we expect to see the life insurance market returning to stronger new business growth in the second half of 2004.

Our partnership with the largest banking group in the Philippines, Metrobank group, positions Philippine AXA Life as one of the largest players in the country. This bancassurance model has helped to drive strong growth since its inception, providing a leading example of a successful bancassurance operation in Asia. To strengthen our agency distribution, we have implemented the regional agency blueprint in this period to leverage best practices and drive productivity level increases.

Total premium income was up 106% to P1,787 million (2003 – P868 million). Investment linked products were successfully launched in 2003 leveraging the successful “Honey” series from Hong Kong. These products represented 57% of new sales.

Moving forward, we will continue the expansion of our bancassurance model together with a focus on increasing agent productivity levels.

4.6 | Thailand

With low insurance penetration and expected strong growth in GDP, the insurance market is attractive for long term sustainable growth.

We operate a joint venture with Krung Thai Bank, Thailand’s leading bank. Krung Thai Bank has the largest network of branches nationwide with 609 branches and over 6 million customers.

Total premium income was up 26% to Bt599 million (2003 – Bt476 million). We continue to expand our bancassurance channel, which is now operating in 120 branches and have also implemented the regional agency blueprint in this period to strengthen our agency channel.

Future growth will be derived from further expanding the bank channel across Thailand and leveraging the new agency model to improve the quality and productivity of our agency force.

4.7 | Indonesia

Joint venture companies in the market continue to increase their market share, which now represents 48% of new sales. Unit linked business is also increasing in popularity, now representing approximately 34% of industry sales.

We continued to develop our bancassurance joint venture with Bank Mandiri, Indonesia's largest bank with over 700 branches and 7 million customers. This joint venture was launched in December 2003, and initial results have been very encouraging.

For the first quarter of 2004, AXA was 4th in new business market share, up from 11th in 2003, mainly driven by the initial success from our bancassurance joint venture. We have continued our focus on investment linked products, which represented 92% of sales. Total premium income was up 178% to Rp243 billion (2003 – Rp87 billion).

Our focus for Indonesia will continue to expand the bancassurance channel and to implement the regional agency blueprint to improve agent productivity in our AXA life business, a joint venture with the Tempo Group.

4.8 | Sales and funds flows

Total premium income

All of our China and South East Asian businesses experienced strong growth in total premium income compared to last year.

Total premium income (A\$ million)	6 months 30 Jun 04	6 months 30 Jun 03	Increase	6 months 31 Dec 03
China	11.9	9.0	32%	11.0
Singapore	90.3	68.0	33%	103.3
Philippines	45.7	24.0	90%	39.5
Thailand	21.0	17.0	24%	20.9
Indonesia	37.1	16.0	132%	20.1

Total premium income (in millions)	Currency	6 months 30 Jun 04	6 months 30 Jun 03	Increase	6 months 31 Dec 03
China	RMB	70.2	49.5	42%	75.0
Singapore	SGD	108.4	77.8	39%	141.4
Philippines	PHP	1,787.0	868.0	106%	1,780.9
Thailand	THB	599.0	476.0	26%	650.3
Indonesia	IDR	242,676.0	87,196.0	178%	142,270.1

The table below provides an overview of the movement of the A\$ against various currencies.

Appreciation in Australian Dollar / currency	6 months 30 Jun 04	18 months 30 Jun 04	12 months 31 Dec 03
USD / HKD / RMB	(5.6)%	21.1%	33.8%
SGD	(6.6)%	18.6%	31.0%
PHP	(6.9)%	23.2%	39.2%
THB	(4.8)%	14.8%	23.0%
IDR	3.2%	22.7%	25.9%

New business

New business index (regular premium + 10% single premium) significantly increased in China, Singapore and Indonesia.

4.8 | Sales (ctd)

In China, new business index was up 33% to Rmb19.9 million driven by improvements in agent productivity as a result of the agency blueprint implementation, together with the recently opened Guangzhou branch.

Singapore also achieved strong growth, up 33% to S\$9.7 million, mostly through single premium investment linked products reflecting our focus on wealth management and financial planning.

Our new bancassurance joint venture in Indonesia with Bank Mandiri has made an encouraging start with new business index for our Indonesian operations up 55%.

The insurance market in the Philippines has been adversely impacted by the presidential elections this year, leading to a slight decline in new business index of 5%.

Following rapid growth in 2003, our Thailand operation experienced a 7% reduction this period. The agency blueprint has now been implemented and together with additional initiatives to boost the bank channel productivity, our business should be well positioned for the next phase of growth.

New business index – Regular premium + 10% single premium (in millions)	Currency	6 months 30 Jun 04	6 months 30 Jun 03	Change
China	RMB	19.9	15.0	33%
Singapore	SGD	9.7	7.3	33%
Philippines	PHP	278.0	294.0	(5)%
Thailand	THB	226.0	243.0	(7)%
Indonesia	IDR	37,056.0	23,880.0	55%

The overall value of new business in China and South East Asia was up 148% to \$14 million on a six month basis (2003 - \$6 million), and up 41% on a rolling 12 month basis to \$26 million (31 December 2003 - \$19 million), all on a constant currency basis. This reflects our continuing focus on product profitability and growth in new business.

4.9 | Advisers and agents

The total number of advisers and agents showed some volatility as we continue to focus on the development and training of our advisers to boost productivity, whilst removing non-performing advisers. The regional agency blueprint was implemented in China in the second half of 2003, Philippines and Thailand in May 2004. The aim of the blueprint is to enhance the productivity of our advisers and align their compensation more closely with the profitability of business sold. The change reflects a deliberate move away from part time agency to a professional, dedicated salesforce.

Included in the total amount as at 30 June 2004, there are 723 bank-based bancassurance advisers, an increase of 87% compared to last year driven by continuing expansion of our bancassurance operations, particularly in Indonesia.

Adviser and agent numbers	At 30 Jun 04	At 31 Dec 03	Change	At 30 Jun 03
China	1,383	2,506	(1,123)	1,263
Singapore	228	216	12	262
Philippines	898	928	(30)	1,468
Thailand	2,368	2,789	(421)	3,067
Indonesia	1,100	1,128	(28)	1,566
Total	5,977	7,567		7,626

5 Value and capital management

5.1 | Illustrative value

We have had good progress on our goal to enhance shareholder value:

- strong growth in value of new business up 17% to \$199 million for the 12 months ended 30 June 2004 compared to 31 December 2003
- strong profit growth driven by experience which is in line with, or better than, best estimate assumptions
- on track to meet expense assumptions in Australia & New Zealand embedded value by the end of this year
- positive impact on net value of Hong Kong due to currency impact
- investment returns lower than expected over the period.

5.2 | Capital structure and performance

(A\$ million)	As at 30 Jun 2004	As at 31 Dec 2003
Capital resources		
- Equity excluding outside equity interests	3,844.8	3,687.7
- Hybrid	944.4	894.1
- Corporate debt	733.2	711.6
Total capital resources excluding outside equity interests	5,522.4	5,293.4
Gearing ratios		
- Debt/capital resources	13.3%	13.4%
- (Debt+hybrid)/capital resources	30.4%	30.3%
- Debt/(equity+hybrid)	15.3%	15.5%
- (Debt+hybrid) / equity	43.6%	43.6%

Net assets (excluding outside equity interests) have increased by \$157.1 million over the period. Earnings over the period were \$193.5 million, which have been offset by the payment of the final dividend for the 12 months ended 31 December 2003 of 5.5 cents per share on 2 April 2004, reducing equity by \$95.7 million.

A reduction in the Foreign Currency Translation Reserve of \$59.3 million increased net assets. This movement relates to the translation gains on our investments in foreign operations, offset by the foreign exchange movement on the hedges we have against our investment in Hong Kong and the losses from the increase in debt due to the depreciation of the Australian dollar.

This is summarised in the table below.

Movement of net assets for the six months ended 30 June 2004	A\$ million
Opening net assets as at 31 December 2003	3,687.7
Earnings after tax	193.5
Final dividend	(95.7)
Foreign currency translation reserve	59.3
Closing net assets as at 30 June 2004	3,844.8

5.2 | Capital structure and performance (ctd)

Total capital resources increased by \$229.0 million over the period. Major movements included:

- an increase in the A\$ equivalent of the Non-Convertible Redeemable Preference Shares (“NCRPS”) by \$50.3 million due to a depreciation of the A\$/US\$ exchange rate
- an increase in corporate debt of \$21.6 million. The application of proceeds from the sale of our holding in AXA Investment Managers reduced senior debt by \$25 million over the period. However, the depreciation of the A\$/US\$ exchange rate increased the AUD equivalent of the senior debt by a further \$46.6 million.

This is summarised in the table below.

Movement of capital for the six months ended 30 June 2004	A\$ million
Earnings after tax	193.5
Final dividend	(95.7)
Change in hybrid capital	50.3
Change in corporate debt	21.6
Foreign currency translation reserve	59.3
Total increase in capital	229.0

Capital performance

The return on equity and return on capital for the 12 months to 30 June 2004 have decreased slightly compared to 2003. The main driver was a large reduction in Hong Kong Investment Earnings, following increased US Treasury yields and widening corporate spreads. This was partially offset by strong Operating Earnings in Australia and New Zealand.

	12 months 30 Jun 04	12 months 30 Jun 03
Return on equity ¹	12.1%	14.3%
Return on equity (adjusted for “normalised” Investment Earnings) ²	12.9%	11.2%
Return on capital ³	9.0%	9.3%
Return on capital (adjusted for “normalised” Investment Earnings) ⁴	9.6%	7.6%
Estimated weighted average cost of capital	7.8% - 8.2%	7.0% - 7.6%

(1) ROE calculated as profit after tax and before non-recurring items for the 12 months to 30 June as a percentage of average shareholders' equity

(2) Calculated after deducting \$9.8 million Health Operating Earnings from 2003 profit, and replacing Investment Earnings with “normalised” Investment Earnings of \$114 million (2004) and \$100 million (2003), adjusted for capital and currency impacts

(3) “Normalised” earnings calculated after deducting \$27.3 million Health Operating Earnings from rolling 2003 profit, and replacing Investment Earnings with “normalised” annual Investment Earnings of \$228 million (2004) and \$200 million (2003)

(4) ROC calculated as profit after tax and before non-recurring items plus interest expenses after tax for the 12 months to 30 June as a percentage of average total capital resources.

The weighted average cost of capital (“WACC”) takes into account the after tax cost of debt, the estimated cost of equity and the average gearing ratio over the period. The annualised WACC for the 12 months ended 30 June 2004 is estimated at between 7.8% to 8.2%. The lower end of the range uses the gearing ratio calculated based on reported shareholder capital. The upper end of the range uses a gearing ratio calculated using market capitalisation. The estimated cost of equity is assumed to be the same as our long term return for Australian equities (10%). The increase in WACC since June 2003 is partly due to lower debt levels which has yet to be fully reflected as a reduction to the dollar cost of debt.

Debt & hybrid

At 30 June 2004 (A\$ million)	Committed	Drawn
Senior debt		
Loan from AXA SA (US\$ denominated)	669	618
Loan from AXA SA (net of offsetting deposits)	180	75
Bilateral standby facilities		
Deposit from Sales Trust	40	40
Total senior debt	889	733
Subordinated debt		
Hong Kong – Redeemable Preference Shares (US\$ denominated \$463 million)	664	664
Subordinated debt	280	280
Total subordinated debt	944	944
Total debt	1,833	1,677

Senior long term debt with the global AXA Group is drawn in either A\$ or US\$. Currently, the proportion drawn in US\$ represents 77% of the total drawn debt from the global AXA Group, although all A\$ debt, excluding \$40 million from the Sales Trust, has been swapped using currency swaps to US\$. The average interest rate for interest bearing debt for the period 1 January 2004 to 30 June 2004 was 2.74% pa, after accounting for the effect of interest rate derivatives.

Currency exposure

Our policy is to not generally hedge the exposure of balance sheet, economic value or earnings to movements in currency, except:

- where we have corporate debt as part of the Group capital structure, that debt will normally be denominated in the appropriate currency as a natural hedge against material exposures, up to a maximum level equal to the economic value of Group assets held in each currency
- where a specifically identified risk exists, such as transaction exposure or political risk, hedges may be taken to protect earnings and/or value, subject to approval of the Board, on a case by case basis.

We use a combination of cross-currency interest rate swaps and corporate debt to manage the exposure of the Group balance sheet to Hong Kong.

	A\$ equivalent (A\$ million)
Strategy in place:	
- Exposure to Hong Kong Dollar hedged	852
- US Dollar denominated debt (including cross-currency swaps)	1,668
Total hedged	2,520

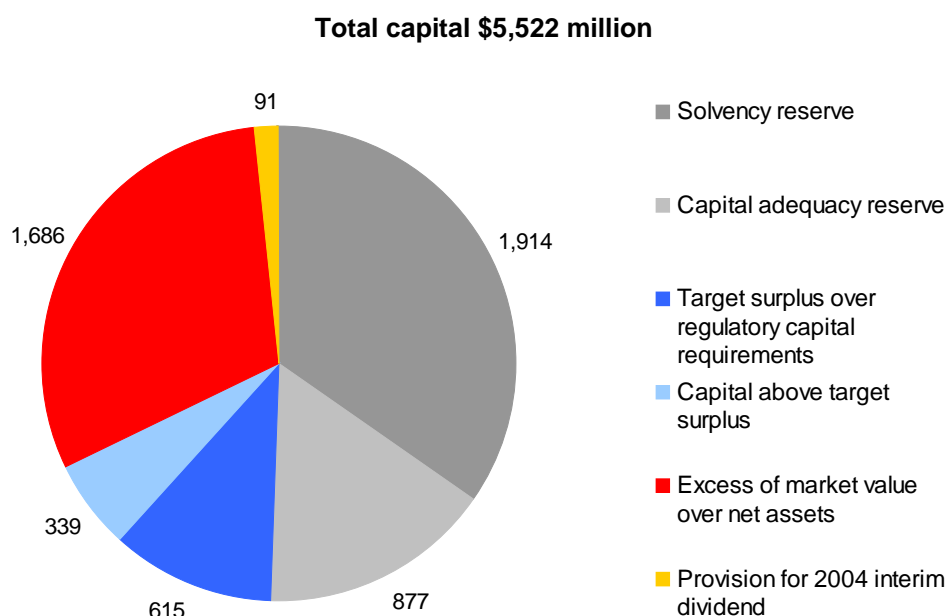
The exposure to the Hong Kong Dollar hedge has been increased by \$437 million since December 2003, to provide protection against potential adverse movements in the HK\$. An additional amount of approximately \$330 million will be implemented over the next few months.

5.3 | Capital allocation

At 30 June 2004 (A\$ million)	Notional net assets	Excess of market value over net assets	Total
Australia and New Zealand	1,139.6	500.0	1,639.6
Hong Kong	1,966.3	1,140.4	3,106.7
South East Asia	107.1	46.0	153.1
Surplus capital resources	623.0	0.0	623.0
Total capital (excluding outside equity interests)	3,836.0	1,686.4	5,522.4
Corporate debt			(733.2)
Hybrid capital			(944.4)
Shareholder equity (excluding outside equity interests)			3,844.8
Outside equity interests in controlled entities			64.4
Shareholder equity (including outside equity interests)			3,909.2

At 30 June 2004 we had total capital resources, being shareholders' equity, hybrid capital and corporate debt, of \$5,522 million. The capital resources currently exceed regulatory capital requirements (driven predominantly by the life insurance operations), the excess of the market values over net assets (\$1,686 million) and Group target surplus.

Our policy is to have to have a target level of assets in excess of regulatory capital requirements (target surplus) over the medium to long term such that there is a 96% probability of meeting regulatory capital requirements over a short term time horizon. One of the key tools used to determine the target surplus level is an asset-liability model that projects 1,000 scenarios of future capital requirements. This model takes into account a range of asset simulations and calculates the impacts on cashflows and capital requirements for each simulation, taking into account management policies and expected policyholder behaviour.



Regulatory capital is determined as the excess of regulatory reserves (which are required on a prudential basis) over the Australian GAAP policy liability.

The total regulatory capital requirements increased by \$161 million over the six months ended 30 June 2004.

5.3 | Capital allocation (ctd)

Regulatory capital requirements within the Hong Kong business increased by \$159 million. Of this, \$115 million was a result of the depreciation of the A\$ against the HK\$. In local currency terms, the regulatory capital increased by HK\$252 million as actual investment returns were lower than assumed in the statutory liability (which forms the basis for the total amount required by the regulator). The difference between the increase in asset values and that of the statutory liability is reflected in the higher regulatory capital requirement.

We have adopted a process called Active Dividend Management (“ADM”) to reflect adjustments to future policyholder bonus rates on the NL series in Hong Kong. Our long term asset models assume US bond yields above market yields as at 30 June 2004. As such, the regulatory capital figure discussed in this investor compendium reflects the “economic” ADM balance that would be incurred if asset values were restated to be consistent with long term assumed yields. In this scenario we would expect to recover the balance over a three to four year period through our current dividend crediting rate policy.

Regulatory capital required in the Australian and New Zealand operations increased by \$2 million over the six months. Minor impacts include a fall in the capital requirement for retirement income as a result of improvements in asset/liability management and the increase in Australian 10-year government yields. There was also a fall in the capital requirement for personal superannuation following better investment returns for the investment account business. This was partially offset by increased capital requirements from higher sales for individual risk and business superannuation.

An additional \$120 million of prudential margin has been included in the regulatory capital for Australia and New Zealand. Although not strictly required to be held under the current regulatory capital standards, this margin is available to fund any changes to standards as a result of clarifications of existing standards and the introduction of IFRS.

The regulatory capital for the other Asian businesses remains unchanged since December 2003.

At 30 June 2004 the level of target surplus was \$615 million. It is our policy to adjust the target surplus level annually in December. Therefore, there has been no change from the 31 December 2003 target surplus.

5.4 | Investment of assets supporting shareholder capital

Australian shareholder capital is managed under a single investment mandate. The policy for shareholder assets is 20%-40% in growth assets (equity and property) and 60%-70% in fixed income with the remainder invested in cash.

The current position reflects a higher allocation to cash and a lower allocation to fixed interest than the Group policy for invested shareholder capital. It is expected that this position will be maintained in the short term while there is an expectation of an increase in bond yields.

As at 30 June 2004 (A\$ million)	Shareholder capital	Cash	Fixed interest	Loans	Equities	Property
Australia & New Zealand	1,224.7	264.9	647.4	10.1	275.0	27.3
Hong Kong	2,425.0	144.4	1,406.8	97.5	736.0	40.4
South East Asia	19.3	9.5	9.7	0.0	0.0	0.0
Total	3,669.0	418.8	2,063.9	107.6	1,011.0	67.7
% of total shareholder assets		11%	56%	3%	28%	2%
Subsidiary assets & other provisions	167.0					
Excess of market value over net assets	1,686.4					
Total capital	5,522.4					

Australia & New Zealand

The following table shows the breakdown of the current shareholder invested capital by regional market for equities and fixed interest.

	Equities	Fixed interest
Australia	60%	90%
New Zealand	16%	7%
Other	24%	3%
Total	100%	100%

The benchmark for equities is the S&P/ASX 300 All Ordinaries in Australia and the NZSE40 Gross Index in New Zealand. The approximate duration of the fixed interest portfolio is 3.5 years. Investment Earnings are taxed at the local corporate rates (Australia 30%, New Zealand 33%).

The following table shows the immediate after tax impact of a change in financial markets on the Investment Earnings on capital, which is experienced through the Investment Earnings line of the profit and loss account.

Australia & New Zealand	(A\$ million)
5% increase in local equities	7.2
5% increase in world equities	2.3
100 basis point increase in bond yields	(15.8)

Hong Kong

The following table shows the breakdown of the current Hong Kong shareholder invested capital by regional market for equities and fixed interest.

	Equities	Fixed interest
US Corporate	n/a	64%
US Government	n/a	28%
US	61%	92%
Hong Kong	9%	8%
Other	30%	0%
Total	100%	100%

5.4 | Investment of assets supporting shareholder capital (ctd)

The overall equity benchmark is similar to 90% MSCI World Free ex non-Japan Asia + 10% MSCI AC Far East Free ex Japan. The "other" equities include 12% Asian equities and 18% non-Asian equities (includes European equities (8%), United Kingdom equities (6%) and other markets (4%) – the relative weightings will change over time). Foreign sourced income is not taxable in Hong Kong.

US bonds dominate the Hong Kong fixed interest portfolio leaving the value of the portfolio sensitive to changes in US yields and corporate spread. The AXA APH Group Management Investment Committee authorised the sale of 3000 US Treasury futures in order to reduce the impact of possible increases in US bond yields. This strategy has effectively reduced the benchmark duration of the total US government bond portfolios from 8 years to 7 years.

The following table shows the immediate after tax impact of a change in financial markets on the Investment Earnings on capital, which is experienced through the Investment Earnings line of the profit and loss account.

Hong Kong	(A\$ million)
5% increase in world equities	36.8
1% increase in US bond yields	(89.6)
1% increase in all bond yields	(94.7)
1% increase in corporate spread	(62.4)

Capital management initiatives

With the 2003 full year results we indicated that we would be carrying out a review of capital management as part of the continuous monitoring of our capital structure. Consequently, we have decided to:

- increase the interim dividend to 5.25 cps, up 11% on the interim dividend for 2003 (4.75 cents per share) franked to 15%, to reflect the confidence we have in our strong Operating Earnings growth
- defer a decision on a possible share buy-back
 - retaining flexibility to pursue strategic growth opportunities that may arise in China and Asia
 - awaiting finalisation of IFRS
- continue to consider lowering our cost of debt by replacing existing senior debt with the possibility of a hybrid debt raising in New Zealand.

6 International Financial Reporting Standards

6.1 | Transition to IFRS

Australian companies are required to adopt international standards as they were written at 31 March 2004. The Australian equivalents of these standards ("AIFRS") were made available as pending standards on 30 June 2004 and formally approved at a meeting of the Australian Accounting Standards Board ("AASB") on 15 July 2004. The AASB posted the final approved versions on its web site on 23 July 2004.

The European Commission ("EC") has not yet reached a decision on the endorsement, partial or otherwise, of IAS 39 covering financial instruments. Key constituents continue to oppose the endorsement of IAS 39 with France, Italy, Belgium and Spain not in favour. On 9 July 2004 a group of political advisers to the EC, the Accounting Regulatory Committee, failed to find a compromise and will not meet again until 8 September 2004. The EC continues to try and reach a common position.

It is also worth noting that a number of exposure drafts have been issued proposing amendments to certain standards including IAS 39 post 31 March 2004.

We seem likely to have to adopt different versions of certain standards for local purposes and for reporting to our parent company in France. This continues to support our initial views that global comparability is not being achieved.

If we adopt local standards based on IFRS as written at 31 March 2004, and subsequent changes are made to IFRS that are applicable internationally from 1 January 2005, we and other Australian companies may not be able to state that our Australian financial report is IFRS compliant unless we elect, and it is feasible, to early adopt these changes.

6.2 | Application to AXA APH

We will be required to prepare financial reports in accordance with AIFRS from 1 January 2005.

The first financial report that will be prepared on an AIFRS basis will be for the half-year ending 30 June 2005. AIFRS requires the restatement of comparative information when presenting AIFRS compliant financial information for the first time. As a result, a restated balance sheet will be prepared as at 1 January 2004 with all transitional adjustments being reflected in retained earnings at that time. Restated comparative numbers will be disclosed for the first time as part of the half-year reporting process for the six months ending 30 June 2005.

6.3 | Project governance, structure and progress

We have an established Steering Committee, chaired by the Group Chief Financial Officer, to monitor and plan for a smooth transition to AIFRS. The Project Management Office and the Technical Review Committee support the Steering Committee. The role of the Project Management Office is to ensure the project is conducted in accordance with strict project management guidelines and protocols. The Technical Review Committee is responsible for technical guidance and interpretation. Linking these Committees we have a full time project leader who also supports several underlying workstreams, including information systems, taxation, actuarial, financial accounting and operations, investment management, strategic finance, legal and compliance and investor relations.

We have completed much of our technical analysis and have commenced systems modifications where appropriate. The refining of quantitative impacts, systems testing and market communication will be the key focus for the remainder of 2004.

6.4 | Overview of expected changes in accounting policy

The table below highlights the key areas likely to be affected by the transition to AIFRS and the nature of the expected impact. This is based on current interpretations, which are still subject to significant uncertainty and debate.

Area of accounting	Summary of expected impact
Excess of market value over net assets of controlled entities (EMVONA)	<p>Under AGAAP all assets of a life insurer are held at market value including investments in subsidiaries. On consolidation this leads to the recognition of a separate asset, EMVONA, where the market value of the subsidiary exceeds the underlying net assets. EMVONA is not amortised but is subject to recoverable amount testing. The balance of EMVONA at 31 December 2003 comprised acquired goodwill, increments in the value of goodwill since acquisition/establishment and measurement differences. On transition to AIFRS the internally generated portion of goodwill will be eliminated, which will result in a reduction of opening retained earnings. Most of our internally generated goodwill is in respect of our investment in AXA China Region with a less significant amount recognised on NMMT Limited. Any internally generated goodwill on other subsidiaries is immaterial. Going forward, goodwill is subject to annual impairment testing but is not amortised, consistent with the treatment to date of EMVONA. Any subsequent impairment of goodwill will be recorded in the profit and loss account.</p>
Investment assets	<p>We are currently required by AASB 1038 "Life Insurance Business" to hold all assets related to life insurance business at net market value (with changes in net market value reflected in the profit and loss account) while for non-life insurance entities all investments are carried at cost.</p> <p>Under AIFRS all financial assets will be accounted for in accordance with AASB 139 "Financial Instruments: Recognition and Measurement". AASB 139 allows the choice of amortised cost, fair value (with changes in fair value reflected in the profit and loss account) or fair value (with changes in fair value reflected in equity). Several other accounting standards cover the valuation of other assets not included within the scope of AASB 139, typically allowing a choice in valuation methodology.</p> <p>As mandated by the AASB, through the revised AASB 1038, we will use fair value (primarily through the profit and loss account) wherever that option is available for those assets that back policy liabilities.</p> <p>The only difference between the two valuation bases is that net market value (AGAAP) requires an allowance for anticipated costs on sale while fair value (AIFRS) prohibits this.</p> <p>Where the interpretation of fair value is further developed or the fair value option is unavailable a change from the current methodology may result.</p>

6.4 | Overview of expected changes in accounting policy (ctd)

Area of accounting	Summary of expected impact
Life insurance policy liabilities	<p>All policy liabilities of a life insurer are currently accounted for under AASB 1038 "Life Insurance Business" using the Margin on Services (MoS) methodology.</p> <p>With the introduction of AIFRS, life insurers are required to classify products written as either insurance, investment or policies with discretionary participating features.</p> <p>For products classified as either insurance or discretionary participating policy liabilities will continue to be accounted for under AASB 1038, although this standard has been amended to align with the limited guidance provided in IFRS 4 "Insurance Contracts". The most significant modification is the mandated use of a risk free rate to discount policy liabilities whose value is not directly linked to the value of identifiable assets (eg annuities). Currently, we use the expected long term rate of return based on the relevant asset pool to discount liabilities that are not closely matched to assets.</p> <p>For those products classified as investment, policy liabilities will be accounted for in accordance with AASB 139 "Financial Instruments: Recognition and Measurement". AASB 139 allows the choice of amortised cost or fair value (with changes in fair value reflected in the profit and loss account) for the valuation of financial liabilities. The AASB have mandated, through a separate accounting standard, the use of fair value for policy liabilities arising under an investment contract.</p> <p>Based on the current interpretation of product classification, policy liabilities for a portion of the in-force book at transition is expected to increase from that reported under the existing basis at 31 December 2003. A higher starting liability will mean that future profits for the affected in-force book will be higher over their remaining life than otherwise would have been reported. However, the pattern of future profits will also be affected by other factors such as the level of acquisition costs that can be deferred and the amortisation pattern applied to the deferred acquisition costs for both the in force book and any new business written.</p>
Defined benefit superannuation plans	<p>Under AGAAP the accounting for defined benefit plans is broadly on a cash basis recognising an expense when contributions are actually paid or where the payment has been committed.</p> <p>With the introduction of AIFRS, a net liability will be recorded representing the difference between assets at fair value, and liabilities discounted at a lower risk free rate, of the defined benefit schemes operating in Australia and New Zealand. On transition this may mean a reduction in opening retained earnings while in subsequent periods the change in this net asset or liability will be recorded directly in the profit and loss account. The Australian plan is closed to new entrants.</p>
Derivative instruments	<p>In accordance with AIFRS, all derivative instruments are recognised at fair value with hedge accounting allowed only where prescribed documentation is in place and effectiveness tests are met.</p> <p>The Group holds a number of cross currency swaps as a hedge of its investment in AXA China Region. These swaps are currently recorded at market value with changes in market value being reflected in the foreign currency translation reserve. We expect the accounting for these swaps to remain broadly unchanged subject to the limitations noted below.</p> <p>The Group also holds a series of interest rate swaps (paying fixed US\$ and receiving floating US\$) to hedge borrowing costs. Under existing Australian reporting principles, these swaps are accounted for on an accruals basis with no recognition of market value. Under AIFRS the fair value of these instruments will be recognised, although we predominantly expect to use cash flow hedging principles, which will result in the effect being recorded directly in equity reserves rather than the profit and loss account.</p> <p>If the strict hedging criteria is not satisfied then changes in fair value for each of the above derivative instruments will be reported in the profit and loss account resulting in increased volatility. Any ineffective portion of these hedges (eg over hedging) will also be recognised in the profit and loss account.</p>

6.4 | Overview of expected changes in accounting policy (ctd)

Area of accounting	Summary of expected impact
Share based payments	<p>When allocation rights are issued as part of the Australian executive plan, shares are purchased on market through a trust. As such no new shares are issued when allocation rights are exercised. The current accounting treatment recognises the funding cost of purchasing these shares. No expense is recorded for the AXA SA share scheme, as there is currently no cost to us.</p> <p>Under AIFRS an expense must be recognised for the fair value of any options granted to employees. The full impact on moving to AIFRS for both the local and AXA SA share based employee incentive schemes is being finalised as accounting interpretations are clarified.</p>
Income tax	<p>For non-life insurance entities, tax effect accounting principles are currently adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustments for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax asset and liability as applicable. For life insurance business, income tax expense is the amount that is expected to be assessed on the life insurer's operations for the year adjusted for permanent differences, calculated on the various taxation bases for the different classes of business conducted in each country. Deferred tax balances have been discounted to present values.</p> <p>Under AIFRS a balance sheet approach will be adopted where deferred tax balances are recognised for all temporary differences with no allowance for discounting. Temporary differences arise where there is a difference between the carrying amount of asset or liability and its underlying tax base. We are assessing the broad impact from a change in approach to tax effect accounting as well as the associated impact for each individual adjustment.</p> <p>The full extent of the impact to taxation balances will be quantified once all adjustments on moving to AIFRS are finalised.</p>
Capital measurement	<p>Many of the areas identified above will impact Group assets and equity, which are both central to capital adequacy requirements set by prudential regulators. We are not aware of any changes to the capital requirements of the Group with the implementation of AIFRS.</p>

7 Corporate governance and responsibility

AXA Asia Pacific Holdings is firmly committed to meeting the highest standards of corporate governance and supports regulatory initiatives including the CLERP 9 proposals and the Australian Stock Exchange (“ASX”) Best Practice recommendations. We comply in all respects with the ASX recommendations and, in addition, are recognised by the investment community for our high level of transparency and disclosure.

7.1 | Corporate governance

The Board has the overall responsibility for:

- governance of the AXA Asia Pacific Group and its subsidiaries, including strategic direction
- review and approval of plans established by management
- monitoring of performance against agreed plans
- establishment and monitoring of internal controls.

The matters reserved to the Board are documented in a form approved by the Board and are reviewed annually. A copy of the reserved matters is available on www.axa-asiapacific.com.au. There is in place a set of management delegations to allow management to carry on the business of the Company.

The composition of the Board is set having regard to:

- a condition of the Australian Government’s approval of the global AXA Group’s investment in AXA Asia Pacific that the Chairman and the majority of the Board should be Australian citizens
- our constitution that requires that there be no less than three Directors or more than 20
- the requirement for the Chairman to be an independent, non executive Director
- the policy that the Board should comprise a majority of independent non executive Directors
- the need for a broad range of skills, expertise and qualifications
- appropriate representation for the global AXA Group’s 51.7% shareholding.

The Board currently comprises eight non executive directors and the Group Chief Executive. Seven of the directors are independent. Directors are considered independent of management if they are free of any business or management relationship that could be perceived to materially interfere with the exercise of their judgment. The two directors who are not considered independent are Les Owen (Group Chief Executive) and Bruno Jantet (who is an executive with our largest shareholder, AXA SA)

Details of the directors including their experience, qualifications and special responsibilities are available in our annual report or our website on www.axa-asiapacific.com.au.

Non executive directors are required to retire by rotation at least every three years and are eligible for re-election. Michael Butler, Bruno Jantet, Lin Xizhong and Robin Monro-Davies were elected as non executive directors at the Annual General Meeting held on 14 April 2004.

Directors are required to disclose any conflicts of interest and to abstain from participating in any discussion or voting on any matter in which they have a material personal interest, unless the directors who do not have a material personal interest in the matter resolve that they are satisfied that the interest should not disqualify the Director from being present or voting.

The Board periodically reviews its structure and this includes identifying suitable candidates for appointment as Directors. It considers personal qualities and professional and business experience.

7.1 | Corporate governance (ctd)

To enhance Board and management effectiveness, the Board regularly evaluates its performance and the performance of the Chairman, Board Committees and individual directors. An external consultant may be engaged to assist with the review process. AXA Asia Pacific has an induction process for new directors and encourages Directors to update and enhance their skills and knowledge.

Committees of the Board

The Board has established a number of standing Committees to assist in its effective operation. The main Committees are the Audit and Compliance Committee, the Remuneration and Nominations Committee, the Insurance and Operating Subsidiaries Committee and the Investment Committee.

Current Board and Committee composition

The table below is current as at 30 June 2004. It shows the composition of the Board and Committees and the number of meetings attended by each director since 1 January 2004 while that director was a member of the Board or relevant Committee. Michel Pinault retired from the Board on 18 February 2004. During the period 1 January 2004 to his retirement, Michel Pinault attended (either in person or by alternate) all meetings of the Board and Committees of which he was a member.

Director	Board membership		Committee membership			
			Audit and Compliance	Remuneration and Nominations	Insurance and Operating Subsidiaries	Investment
R H Allert appointed 08/09/95	Non executive, independent 4 of 4	Chairman	Member 1 of 1	Chairman 1 of 1	Member 1 of 1	Chairman 2 of 2
M Butler appointed 25/08/03	Non executive, Independent 4 of 4		Chairman 2 of 2		Member 1 of 1	
P A Cooper appointed 08/09/95	Non executive, Independent 4 of 4		Member 2 of 2	Member 1 of 1		
T B Finn appointed 08/09/95	Non executive, Independent 4 of 4		Member 1 of 1	Member 1 of 1	Member 0 of 1	
B Jantet appointed 28/11/03	Non executive 4 of 4		Member 1 of 1			Member 1 of 2
Lin Xizhong appointed 30/07/03	Non executive, Independent 3 of 4					Member 2 of 2
P H Masfen appointed 08/09/95	Non executive, Independent 3 of 4				Chairman 1 of 1	Member 2 of 2
A R D Monro- Davies appointed 18/02/04	Non executive 2 of 2			Member 0 of 0		
A L Owen appointed 28/04/98	Executive 4 of 4	Group Chief Executive				

Audit and Compliance Committee

The purpose of the Committee is to assist the Board in fulfilling its governance and oversight responsibilities in respect of:

- financial reporting processes
- external audit processes
- internal controls and risk management
- monitoring business conduct and compliance with laws, regulations and relevant codes of conduct.

The Committee normally meets four times per year and additional meetings are convened as required. The Committee regularly meets without management and also meets with the external auditor without management. The Chairman of this Committee reports to the Board after each Committee meeting and minutes of Committee meetings are tabled at the next meeting of the Board.

As part of his engagement, the external auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. We require that the external audit partner managing the audit change at least every five years.

The Chairman of the Audit & Compliance Committee is Michael Butler. The Committee has four members. All members of the Committee are non executive directors and a majority of the Committee is independent. The Group Chief Executive, Chief Financial Officer and other members of management attend Committee meetings at the discretion of the Committee. Non executive Directors may attend meetings of the Committee after giving notice to the Chairman. The external auditor attends Committee meetings at the discretion of the Chairman and has direct access to the Chairman.

A copy of the Terms of Reference of the Audit and Compliance Committee is available on our website, www.axa-asiapacific.com.au.

Non-audit services

The Board has in place policies and procedures governing the nature of non-audit services that can be undertaken by the Group's auditor. The engagement of the auditor is restricted to:

- statutory audit
- other audit-related services, limited to the following:
 - improvement of accounts closing processes
 - assignments relating to accounting methods, accounting for quarterly financial statements and implementation of new Generally Accepted Accounting Principles
 - audit for the purposes of the issue of debt or shares
 - tax related advice
 - due diligence performed on prospective acquisitions or in relation to the disposal of existing operations.

Remuneration and Nominations Committee

The purpose of the Committee is to assist the Board in fulfilling its governance and oversight responsibilities in respect of:

- approving strategy and policy for remuneration within the AXA Asia Pacific Group
- making recommendations to the Board on the selection and appointment of Directors of AXA Asia Pacific, the Group Chief Executive and direct reports to the Group Chief Executive
- reviewing the performance of the Group Chief Executive, Board, the Chairman and Board Committees

7.1 | Corporate governance (ctd)

- reviewing the performance of key executives within the Group and ensuring appropriate succession plans are in place.

The Chairman of the AXA Asia Pacific Board is the chairman of the Remuneration and Nominations Committee. The Committee has four members and all of the Committee members are independent. The Terms of Reference of the Remuneration and Nominations Committee (which are available on www.axa-asiapacific.com.au) require that a majority of the Committee must be independent non executives. The Group Chief Executive and other members of management attend at the discretion of the Committee. The Committee normally meets three times per year and additional meetings are convened as required.

The Chairman of the Committee reports to the Board after each Committee meeting and minutes of Committee meetings are tabled at a meeting of the Board.

Insurance and Operating Subsidiaries Committee

The purpose of the Committee is to:

- review periodic financial condition reports on the insurance subsidiaries of AXA Asia Pacific, including asset/liability management and other financial models
- review reports on the financial and capital position of non-insurance subsidiaries of AXA Asia Pacific
- review, at least annually, policy and principles in use from time to time by management for product pricing, including the value of new business
- review, at least annually, principles in use from time to time by management for determining crediting rates on participating business.

The Chairman of the Insurance and Operating Subsidiaries Committee is Peter Masfen. The Committee has four members, with all members of the Committee being independent non executive directors. The Group Chief Executive and Chief Actuary normally attend meetings. The Chief Actuary has direct access to the Chairman of the Committee. The Committee normally meets twice per year and additional meetings are convened as required.

A copy of the Terms of Reference of the Insurance and Operating Subsidiaries Committee is available on our website, www.axa-asiapacific.com.au.

Investment Committee

The purpose of the Committee is to assist the Board in fulfilling its governance and oversight responsibilities in respect of:

- approving investment policies and investment strategy
- approving investment mandates including allowable investments, policy ranges, benchmarks and risk control limits
- reviewing investment performance of key products
- approving risk management statements
- approving a schedule of delegations to management
- approving large and/or non-standard transactions.

The Chairman of the AXA Asia Pacific Board is the chairman of the Investment Committee. The Committee has four non executive members and a majority of the Committee is independent. The Committee meets four times per year and additional meetings are convened as required.

A copy of the Terms of Reference of the Investment Committee is available for inspection on www.axa-asiapacific.com.au.

ASX corporate governance recommendations

At the date of this Investor Compendium, we complied with the ASX Principles of Good Corporate Governance and Best Practice Recommendations.

Even though the changes in reporting requirements applied to us from the 2004 financial year, we adopted the best practice recommendations early, in recognition of our commitment to the highest standards of corporate governance and disclosure.

CLERP 9

The *Corporate Law Economic Reform Programme (Audit Reform and Corporate Disclosure) Act 2004* ("CLERP 9") has now been passed by the Commonwealth Parliament.

Consistent with our general policies on compliance and good corporate governance, we have processes and plans in place to ensure compliance with the CLERP 9 reforms where the requirements of CLERP 9 are not already satisfied by existing processes, procedures and policies.

7.2 | Corporate responsibility

An important element of our commitment to being a responsible corporate citizen is an awareness of “the triple bottom line” – social, economic and environmental performance. We realise that we cannot separate our operations from their impact on the environment. We therefore are committed to incorporating environmental considerations into our decision making process. Our aim is to:

- promote an environmentally responsible approach to our operations
- continue to endeavour to increase our participation in other environmental initiatives
- develop comprehensive policies on sustainability in conjunction with the global AXA Group.

Charitable activities

We are very clear about our responsibilities to the community in which we operate. Our commitment to the community is driven by our belief that we have a responsibility to support the local communities where we conduct business and where our staff live and work. We fully recognise the skill, time, energy and generosity volunteered by our employees.

To show support for our staff contribution to the community, we:

- encourage employees to engage in charity work that is designed to support our core values
- allow employees to choose the type of activities and projects they wish to participate in
- promote activities which provide the opportunity to enhance both professional and personal skills
- provide the financial and logistical resources necessary to carry out the clearly defined projects organised by our AXA Hearts in Action programme
- allow up to one full day of paid leave for each staff member to participate in charity work
- establish a minimum number of hours per annum of volunteer work to the local communities.

Communication with shareholders

We are committed to:

- communicating effectively with shareholders
- giving them ready access to balanced and understandable information about the Group
- making it easy for them to attend General Meetings or have access to the proceedings of General Meetings.

AXA was a finalist in the “Corporate Governance Report by a Listed Company” category for the 2004 New Zealand Institute of Chartered Accountants Annual Report Awards. These awards recognise corporate commitment to quality disclosure.

The Annual General Meeting is broadcast live via web-cam on our website, www.axa-asiapacific.com.au, giving shareholders unable to physically attend the meeting an opportunity to hear the proceedings.

Copies of policies referred to in this section are all available on our website. We place all ASX and New Zealand Stock Exchange announcements on our website including analyst briefing papers and results announcements. All material sent to shareholders is also posted on our website including the Notice of Annual General Meeting, explanatory material and the Annual Report. Press releases for the last three years are also available on our website.

We are pleased with the growing response to our “e-tree” environmental initiative that saves paper and assists Landcare Australia. Under this initiative, we make a \$2 donation to Landcare Australia when a shareholder elects to receive shareholder communications electronically. As at 30 June 2004, close to 2,700 shareholders had registered under “e-tree”.

8 Financial statements

8.1 | Group consolidated balance sheet

(A\$ million)	30 June 2004	31 Dec 2003
Assets		
Cash at bank and deposits on call	1,676.8	1,884.0
Receivables	915.2	718.9
Equity securities	8,571.4	8,175.2
Debt securities	13,367.8	11,545.9
Property investments	1,586.0	2,449.8
Other investments	271.7	251.9
Operating assets	73.0	85.5
Deferred tax assets	329.0	284.4
Intangibles	25.8	19.3
Excess of market value over net assets of controlled entities	1,686.4	1,684.7
Other assets	23.3	101.3
Total assets	28,526.4	27,200.9
Liabilities		
Payables	1,255.6	1,018.3
Current tax liabilities	185.6	84.4
Borrowings	733.2	711.6
Provisions	107.3	139.0
Deferred tax liabilities	385.8	314.8
Other liabilities	145.9	128.4
Subordinated debt	944.4	894.1
Life insurance policy liabilities	20,859.4	19,792.8
Total liabilities	24,617.2	23,083.4
Net assets	3,909.2	4,117.5
Equity attributable to shareholders of the parent entity		
Contributed equity	1,129.6	1,129.6
Asset revaluation reserve	-	-
Foreign currency translation reserve	(214.6)	(273.9)
Shareholders' retained profits	2,929.8	2,832.0
Total equity attributable to shareholders of the parent entity	3,844.8	3,687.7
Outside equity interests in controlled entities	64.4	429.8
Total equity	3,909.2	4,117.5

8.2 | Group consolidated profit and loss analysis

Six months ended 30 June 2004 (A\$ million)	A&NZ	Hong Kong	China & South East Asia	AXA APH	Consolidated AXA APH
Operating Earnings	88.8	75.2	0.2	0.0	164.2
Capitalised losses & reversals	(1.4)	0.0	0.0	0.0	(1.4)
Operating Earnings and capitalised losses & reversals	87.4	75.2	0.2	0.0	162.8
Investment Earnings	45.6	14.5	0.3	0.0	60.4
Foreign currency gain/(loss)	5.6	0.0	0.0	0.0	5.6
Investment Earnings	51.2	14.5	0.3	0.0	66.0
Corporate expenses & goodwill amortisation	0.0	0.0	0.0	(23.4)	(23.4)
Interest expense	0.0	0.0	0.0	(11.9)	(11.9)
Profit after income tax before non-recurring items	138.6	89.7	0.5	(35.3)	193.5
Non-recurring items	0.0	0.0	0.0	0.0	0.0
Profit after income tax and non-recurring items	138.6	89.7	0.5	(35.3)	193.5

Six months ended 30 June 2003 (A\$ million)	A&NZ	Hong Kong	China & South East Asia	AXA APH	Consolidated AXA APH
Operating Earnings (ex Health)	61.4	69.0	0.2	0.0	130.6
Capitalised losses & reversals	5.0	0.0	0.0	0.0	5.0
Operating Earnings and capitalised losses & reversals	66.4	69.0	0.2	0.0	135.6
Investment Earnings	24.0	172.7	1.5	0.0	198.2
Foreign currency gain	(9.4)	0.0	0.0	0.0	(9.4)
Investment Earnings	14.6	172.7	1.5	0.0	188.8
Corporate expenses & goodwill amortisation	0.0	0.0	0.0	(20.8)	(20.8)
Interest expense	0.0	0.0	0.0	(26.9)	(26.9)
Profit after income tax (ex Health) and before non-recurring items	81.0	241.7	1.7	(47.7)	276.7
Health	9.8	0.0	0.0	0.0	9.8
Non-recurring items	0.0	0.0	0.0	368.4	368.4
Profit after income tax and non-recurring items	90.8	241.7	1.7	320.7	654.9

Non-recurring items (A\$ million)	6 months to 30 Jun 04	6 months to 30 Jun 03
Profit on sale of AXA Australia Health	0.0	365.7
Profit on sale of Members Equity	0.0	40.0
AXA Life Singapore carrying value	0.0	(25.0)
Injection into defined benefits superannuation fund	0.0	(3.0)
Other provisions	0.0	(9.3)
Non-recurring items	0.0	368.4

8.3 | Australia & New Zealand profit and loss analysis

Six months ended 30 June 2004 (A\$ million)	Financial Protection	Wealth Management	Investment Earnings/other	A&NZ
Earnings	0.0	18.7	0.0	18.7
Expected margins released ¹	24.1	26.7	0.0	50.8
Experience profit	12.4	6.9	0.0	19.3
Operating Earnings	36.5	52.3	0.0	88.8
Capitalised losses & reversals	0.1	(1.5)	0.0	(1.4)
Operating Earnings and capitalised losses & reversals	36.6	50.8	0.0	87.4
Investment Earnings	0.0	0.0	51.2	51.2
Profit after income tax before non-recurring items	36.6	50.8	51.2	138.6
Non-recurring items	0.0	0.0	0.0	0.0
Profit after income tax and non-recurring items	36.6	50.8	51.2	138.6

(1) includes profit from group life and income protection

Six months ended 30 June 2003 (A\$ million)	Financial Protection	Wealth Management	Investment Earnings/other	A&NZ
Earnings	0.0	11.7	0.0	11.7
Expected margins released	18.2	28.5	0.0	46.7
Experience profit	0.0	3.0	0.0	3.0
Operating Earnings (ex Health)	18.2	43.2	0.0	61.4
Capitalised losses & reversals	5.0	0.0	0.0	5.0
Operating Earnings and capitalised losses & reversals (ex Health)	23.2	43.2	0.0	66.4
Investment Earnings	0.0	0.0	14.6	14.6
Profit after income tax (ex Health) and before non-recurring items	23.2	43.2	14.6	81.0
Health	0.0	0.0	0.0	9.8
Non-recurring items	0.0	0.0	0.0	0.0
Profit after income tax and non-recurring items	23.2	43.2	14.6	90.8

8.4 | Hong Kong profit and loss analysis

(HK\$ million)	6 months 30 Jun 04	6 months 30 Jun 03
Expected margins released	404.0	327.1
Experience profit	28.8	7.9
Operating Earnings	432.8	335.0
Investment Earnings	83.8	838.5
Profit after income tax before non-recurring items	516.6	1,173.5
Non-recurring items	-	-
Profit after income tax and non-recurring items	516.6	1,173.5

8.5 | Sensitivity analysis

The table below outlines Operating and Investment Earnings sensitivities to changes in investment markets and exchange rates. Consistent with our previous two Investor Compendiums where we disclosed these sensitivities, the table indicates the impact on earnings in the period, of changes in equity markets or yields. The sensitivities are indicative only as they assume that the movement in a particular variable is independent of other variables.

Profit after tax for six months ended 30 June 2004 (A\$ million)	Aust/NZ		Hong Kong/Singapore		Holding company interest on debt	Total profit
	Operating Earnings	Investment Earnings	Operating Earnings	Investment Earnings		
+/- 5% in Australian equities	+/-7.2	+/-7.2	0.0	0.0	0.0	+/-14.4
+/- 5% in international equities	0.0	+/-2.3	+/-2.4	+/-36.8	0.0	+/-41.5
+/- 50 bps in bond yields	+/-2.1	-/+7.9	-/+4.7	-/+47.4	0.0	-/+57.9
+/- 50 bps in corporate spread	0.0	0.0	-/+2.6	-/+31.2	0.0	-/+33.8
+/- 5% move in A\$/US\$ ¹	0.0	0.0	-/+3.6	-/+1.3	+/-2.8	-/+2.1
+/- 1% move in interest rates ²	0.0	0.0	0.0	0.0	+/-1.9	+/-1.9

(1) This is a 5% move in the average AUD/USD exchange rates over the period. Profits are translated using the YTD average exchange rate, mitigating some of the volatility in spot rates

(2) The interest rate impact on Investment Earnings has been included within the movement in bond yields and corporate spread.

Operating Earnings are less sensitive to changes in investment markets for two reasons:

- we use asset matching techniques to ensure that asset movements are largely offset by a similar movement in policy liabilities
- in relation to Hong Kong, we use a technique called “Active Dividend Management” to smooth the impact of investment markets on policyholder benefits and shareholder profits.

Investment Earnings, which reflect the impact of investment returns on shareholder capital, are more sensitive. These assets are invested in accordance with the investment allocations set out on page 70. The returns on these investments flow through to the bottom line profit of AXA APH (through Investment Earnings).

We use a natural hedge to reduce our exposure to US\$ currency movements. The value of Hong Kong profits falls when the US\$ weakens, but the value of interest payments on US\$ denominated debt also falls. However, the hedge is only partial.

Relative to the US\$, the A\$ has strengthened by 18% over the period. Whilst this has a significant impact on the value of assets held overseas, the accounting convention is to translate earnings at average rates over the year. As a result, the value of our earnings in Hong Kong are partially “cushioned” from the significant change in spot rates.

8.6 | Exchange rate table

	6 months 30 Jun 04	6 months 30 Jun 03	6 months 31 Dec 03
Profit and loss			
- AUD/USD	0.736969	0.622871	0.690930
- AUD/HKD	5.741578	4.857823	5.371056
- AUD/SGD	1.252796	1.091391	1.198461
- AUD/NZD	1.132160	1.107878	1.135493
Balance sheet			
- AUD/USD	0.69660	0.67065	0.75345
- AUD/HKD	5.43334	5.22983	5.84960
- AUD/SGD	1.19986	1.18101	1.27958
- AUD/NZD	1.09692	1.14553	1.14759

The profit and loss rate is an average of the exchange rate for the period being reported. The balance sheet rate is the exchange rate as at close of business on the last day of the reporting period.

9 Executive Performance Plan 2004

Performance against the TSR and EPS hurdles will be tested for the first time two, three or four years after grant. Some or all of the Rights will vest depending on the performance condition being met.

Since the Annual General Meeting ("AGM") on 14 April 2004, there has been a change in thinking in relation to retesting. In relation to the Rights Allocation to the Group Chief Executive the AGM notice specified that performance against these hurdles would be retested on the following basis:

"To the extent that RTSR and EPSG is not achieved, those Rights in respect of which the performance hurdles are not satisfied will be carried forward to be retested at a subsequent time until expiry or all Rights become exercisable, whichever is earlier."

Since the AGM, further external research has been undertaken which indicates that the trend is to move away from continuous retesting to retesting at fixed points of time until expiry.

After discussion between the Group Chief Executive and the Chairman, the Group Chief Executive has agreed to an amendment to the term of his Rights to remove continuous testing and to replace it with retesting every six months on the following basis:

"If on the first performance date some or all of the Rights in a particular tranche do not vest, performance will be retested every six months until the expiry date (seven years after grant) or until the Rights become vested, whichever occurs first."

Legal advice has confirmed that as this is a tightening of the terms agreed by shareholders at the AGM there is no need to refer this change to shareholders at another general meeting. This change was also incorporated in the Rules applying to other participants.