

**AXA Asia Pacific Holdings Limited 2005  
Full Year Results Speech  
21 February 2006**

**Highlights**

Good morning everybody and welcome to the presentation of our results for the 12 months ended 31 December 2005.

I am pleased to say that we have delivered another very good set of results continuing the momentum we have built up in recent years.



I will start with a brief overview, Geoff Roberts will take you through the results in a little more detail, and I will finish with a review of our activities and prospects and give you more background on the acquisition of MLC Hong Kong and Indonesia that we announced yesterday.



Firstly the Group highlights

We have delivered strong growth in Operating Earnings which were up 23.1% to \$376.7 million.

Within this, Operating Earnings in Australia and New Zealand increased by 42.3% to \$203.7 million, and in Hong Kong were up 7% to \$170.9 million.

In local currency the Hong Kong Operating Earnings were up 10.3% to just over HK\$1 billion.

Group Investment Earnings were up 11% to \$256.6 million and total profit after tax and before non-recurring items was up 18.1% to \$542.4 million.

Helped by increases in net fund flows and strong investment market performance, Group funds under management, administration and advice were up 31.6% to \$80.6 billion.

And of course we announced yesterday the acquisition of MLC Hong Kong and Indonesia for \$575 million supporting our strategy of accelerated growth in Asia.



In Australia and New Zealand, all our major business lines delivered exceptional growth in Operating Earnings. Wealth management products and platforms were up 47.5%, advice businesses were up 69.7% and financial protection was up 26.6%.

As reported to the market last month, there has been very strong growth in net retail fund flows which were up 71.7% to just over \$5 billion.

The value of new business, based on a risk discount rate equal to the assumed long term equity return rate, was up 27.8% to \$113.6 million.

Funds under management, administration and advice were up 34% to \$70.3 billion, and funds under advice were up 22.5% to \$6.3 billion.

Overall we are continuing to progress well towards our AXA 6 goals.



In Hong Kong we delivered solid growth with financial protection and wealth management Operating Earnings both up 11% and group medical and general insurance up 45.1%.

Total life new business index was up 20.6% to HK\$1.27 billion and the value of new business using a risk discount rate equal to the assumed long term equity rate was up 13.3% to HK\$756.3 million.

Funds under management were up 11.4% over the year to HK\$49.9 billion.

We have made a good start towards achieving the Hong Kong 6 goals.



Finally the highlights for the rest of the Asian region.

We have seen continuing strong growth in most of our operations. New business index was up 59.3% to A\$125.5 million and the value of new business was up 31% to A\$37.5 million. Total premium income was up 42.1% to A\$622.7 million.

Funds under management were up 20% to A\$1.8 billion.

A few months ago we announced our entry into India and Malaysia and we are on track to commence operations around the middle of 2006 subject to regulatory approval.

Overall a good start towards meeting our Asia 6 goals.



I will now hand over to Geoff Roberts who will take you through the results in a little more detail.



Thanks Les and good morning.

I am pleased to have the opportunity to be able to report another strong set of results and, in particular, very strong Operating Earnings.

Operating earnings are up 23.1% to \$376.7m.

Operating earnings increased by 42.3% in Australia and New Zealand to \$203.7m and by 7% in Hong Kong to \$170.9m. On a local currency basis,

earnings in Hong Kong increased by 10%. A very good performance from both of our major businesses.

Investment earnings were strong, up 11% to \$256.6m.

Corporate expenses have increased by 37.5% to \$73m. This is due to our continued investment in the future growth in Asia. Our regional blueprint platform rollout and our developing ipac and wealth management businesses in Asia are evidence of this investment.

Interest expense on our \$US denominated debt reduced by 28.4% to \$17.9m. This improvement is mainly due to favourable interest rate differentials and market gains on our cross currency swaps.

Total profit after tax but before non-recurring items is \$542.4m, a very solid 18.1% growth on last year.



The Board has declared a final dividend for 2005 of 7.75 cents per share, up 19.2% on the final dividend for 2004.

This final dividend will be franked to a level of 30%.

This brings the total dividend to 14.0 cents per share, up 19.1% for the year.



Earnings per share before non-recurring items is 31.1 cents, up 18.0% from 26.4 cents in 2004.

Return on equity is 16.3%, up 90 basis points.

Both earnings per share and return on equity are affected by investment earnings, which can be volatile. Therefore, using a normalised investment earnings measure provides a more realistic trend of performance.

When we include normalised investment earnings in the calculation, earnings per share would be up 14% to 29 cents and return on equity up 40 basis points to 15.3%.



Over the course of the year, our capital position further strengthened. Total capital resources at 31 December 2005 are \$4.81bn.

Since December 2004, our debt to equity ratio has reduced from 46% to 36%. Debt has decreased primarily due to a repayment of senior debt. Equity has increased due to the retention of profits in excess of dividends.

Although our target gearing range is to maintain debt to equity within a range of 40-50%, our current gearing position and capital strength provide us with the flexibility to pursue attractive growth opportunities.



A breakdown of our capital position of \$4.81bn is shown in the pie chart.

Total regulatory capital requirement at 31 December 2005 is \$2.03bn, representing \$884m of solvency requirements and \$1.146bn of capital adequacy requirements.

In addition to this regulatory capital, \$1.235bn of our capital resources represents purchased goodwill.

Target surplus has decreased by \$100m to \$535m at 31 December 2005. This decrease is recognition of the significant reserves built up from strong investment markets and the benefits of diversification away from products offering guarantees.

The excess capital over target surplus is \$876m. This increase reflects profits less dividends. It also reflects capital efficiency initiatives that have reduced required regulatory capital.

We are very pleased to announce that \$575m of this \$876m will be used to acquire 100% of MLC Hong Kong and MLC Indonesia. Our investment of this excess capital in the high growth markets of Hong Kong, where we have 20 years' experience, and Indonesia, is consistent with our strategy of accelerating growth in Asia. Les will speak more about this later.

In summary, at 31 December 2005 we are holding \$1.411bn above regulatory capital requirements, a very strong position.



Turning now to our illustrative value numbers.

Illustrative enterprise value represents the value of inforce plus a multiple applied to the value of one year's new business, plus group net worth, less debt and corporate expenses. The increase in inforce value and the increase in the value of new business are the most meaningful measures of shareholder value creation.

We are continuing to provide illustrative values using a range of discount rates. For the purpose of these slides, we have focused on discount rates

equal to local equity returns. The move to a lower discount rate reflects the fact that the cost of guarantees included in our market consistent value results is lower than what was implied in the higher discount rate used in the traditional value basis.

Total illustrative inforce value using discount rates of 10% for Australia and New Zealand and 10.5% for Hong Kong, before distributions to group net worth, has increased by 23.1% over the year, or 19.4% on a constant currency basis.

This illustrative inforce value has increased by in excess of the unwind of the discount rate due to:

- strong investment experience on assets backing the inforce portfolio
- strong expense control through lower unit costs, and
- profitable new business written during the year

As you can see, this represents very strong growth in value of inforce.



Value of new business represents the value created from new business written during 2005.

Our Group value of new business using equity return discount rates of 10% for Australia and New Zealand and 10.5% for Hong Kong is up 25.6% or 21.0% at constant exchange rates.

Our Australia and New Zealand business is up 27.8% primarily due to strong growth in our platform inflows and very strong growth in our Alliance retail and wholesale inflows.

Our Hong Kong business is up 13.3% reflecting increased sales volumes across most business lines, with our life new business index increasing by

21%. The growth rate was highest for single premium business, which offers attractive profit margins, but has lower margins than the regular premium traditional products.

Our other Asian businesses have grown 40.1% mainly due to strong sales growth in Indonesia and Thailand.



As we said to the market on 9 December 2005 when we released our 2004 market consistent value results, market consistent values provide useful additional information and overcome a number of disadvantages in traditional valuations.

Specifically, they value future cashflows on a basis consistent with the market, removing from value for example, any future risk premiums for equity holdings and they explicitly value investment guarantees.

This market consistent value increase completes the picture. It is clear that whatever measure of performance we use: operating earnings, traditional value or market consistent value, we have had a very strong performance.

On an actual exchange rate basis, the market consistent value of inforce, before transfers to net worth, increased by 22.9% and value of new business increased by 32.7%.

These market consistent values are, by their nature, more volatile as their values move with the market.

However these values presented above do not include a deduction for non-financial risk as market practice in this area is still evolving. This needs to be taken into account when using these value results.



So that is the picture at the Group level, now I will focus on Australia and New Zealand.

Encouragingly, we saw growth in profit from most major product groups.

Wealth management products grew 47.5% to \$95.6m, due to positive net funds flow which increased fees from funds under management. In addition, this year there was no requirement to strengthen annuitant mortality assumptions.

Advice grew 69.7% to \$35.3m due to a combination of positive net funds flow and the continued strength of Australian equity markets. This has combined to increase funds under management and advice, and generate additional fee revenue.

Financial protection grew 26.6% to \$72.8m driven in part by improved claims experience on our group life business.

Reductions in expenses over the last five years have also underpinned improved profits.

Investment earnings have increased by 9.8% due to strong international equity returns, when viewed from an Australian dollar perspective, and movements in bond rates used to value certain products.



We are progressing well on our Australia and New Zealand AXA 1 goal of doubling the value of new business. Using the 10% equity return discount rate the value of new business has increased by 27.8% over the year from \$89m to \$114m.

Our wealth management business has grown by 26%, driven by strong flows into both our platform and multi-manager businesses, together with strong retail and institutional flows into our Alliance Capital joint venture.

The value of new business for financial protection has grown by 37%. This demonstrates that improvements made to our financial protection products are gaining traction in the market.

In both parts of our business, the benefit of increasing scale has reduced our unit costs and assisted an improvement in value.



Now turning to Hong Kong.

Underlying our result is a 10.3% improvement in Operating Earnings to HK\$1,012.1m.

Growth in financial protection and wealth management was primarily driven by an increase in the size of these portfolios.

Two offsetting factors also affected financial protection profit. We increased the investment margin spread from 1% to 1.25% from 1 July to reflect our confidence in achieving the investment spread going forward. This increased earnings in the period by HK\$32m. Offsetting this was unfavourable mortality experience of HK\$38m due to the severe and sustained winter in 2005.

This 10.3% operating earnings growth was achieved even after allowance for an increased HK\$18m development spend on our wealth management initiatives.

These initiatives include the expansion of the distribution network and multi-manager platform development. Excluding this, operating earnings growth would have been 12%.

Investment earnings in 2005 were strong at HK\$709.8m, up 20.3% on the prior year. The major reason for this increase was the increase in the bond rates. Although this increase in bond rates decreases asset values and therefore investment earnings on assets in excess of policy liabilities, it has the opposite effect on assets backing policy liabilities. This is because these bond rates are used to discount some policy liabilities thereby reducing liabilities by more than the corresponding fall in supporting assets. This increases net earnings. The opposite effect occurred in 2004.



Using the assumed equity return discount rate of 10.5%, the value of new business in Hong Kong is up 13.3% to HK\$756m.

Consistent with our strategies and targets in Asia 6, our value of new business has increased at a slightly slower rate than sales due to a change in product mix to a greater proportion of wealth management products. Although wealth management products are lower margin, wealth management is a new market for us in Hong Kong. It is not a substitute for higher margin traditional business.



As I mentioned a few slides earlier, with effect from 1 July, we have increased the investment margin in Hong Kong on our NL Series from 1% to 1.25%.

The background to this increase relates to asset share deficits that previously existed on our NL series of products. These deficits occurred as a result of the equity crash in 2001 when investment earnings were lower than guaranteed crediting rates.

Since this time, through careful and active management of our crediting rates, we have more than recovered these asset share deficits.

Asset shares now exceed policyholder account balances and we remain confident in our assumption that we will on average achieve our normalised investment return of 6.5% going forward.

At the same time, our market consistent valuation development has provided additional information on the potential cost of NL investment guarantees.

After considering the asset share surplus position, the investment spread currently being achieved, and crediting rates to provide appropriate returns to policyholders, we have concluded that a spread of 1.25% is an appropriate and achievable long term margin.

The financial impacts of this increase in investment margin, which vary due to the different discount rates used, are:

- an increase in operating earnings of A\$5m for the half year from 1 July
- an increase in the traditional enterprise value of \$67m and
- a net increase in the market consistent value of \$123m



In respect to our other Asian businesses, there has been an increased focus on leveraging our 20 years' experience in Hong Kong by implementing regional blueprints across Asia. These blueprints, which include product approval and development (with a focus on unit linked products), agency remuneration, bancassurance and risk management enables us to achieve sustainable and controlled growth across the region.

This, combined with the strong growth in all countries and, in particular, Thailand and Indonesia, has led to the value of new business increasing by 31.3% to \$37.5m over the year on a constant currency basis.

AXA's group share of this new business value at current rates is \$20.6m representing 8% of the Group's total value of new business.



So, in summary, we have had strong growth in Operating Earnings in Australia, New Zealand and Hong Kong.

We have also continued our very strong growth in value of new business and value of inforce in these markets, whether it be on a traditional or market consistent value basis.

Group funds under management and administration have grown 31.6% to \$80.6bn.

At the same time as strengthening our operating performance and value, our capital position has strengthened further.

We have also increased our final dividend and our full year dividend by 19.2% and 19.1% respectively.

I will now hand back to Les to take you through a more detailed review of the year's activities.

### **Review of activities**

Thank you Geoff. Let me turn first to Australia and New Zealand.



I believe that our results clearly demonstrate a continuation of the encouraging momentum that we have seen over the last 2 years.

In wealth management, funds under management and administration were up 34% to A\$70.3 billion. Within this AllianceBernstein and AXA managed funds grew 39% to A\$51.8 billion and funds under advice and management at ipac grew 29% to A\$12 billion.



2005 saw very strong growth in net retail funds flows which were up 71.7% to just over A\$5 billion.

AllianceBernstein net inflows more than doubled as did the inflows into our highly rated Global Equity Value Fund to nearly A\$600 million.

We also saw continued strong inflows into our platform products – AXA Generations and Summit.

There was a decrease in overall net funds flow for ipac, Assure and Spicers although this was largely due to net outflows from non-core third party channels.



Clearly the outstanding investment performance across most of our portfolios has been a key driver behind this growth.

All our core equity products were in the top quartile for performance in 2005 and six out of the seven core products were in the top two quartiles.

Both AXA and AllianceBernstein received a number of awards and the excellent performance from both of our Australian equity products gives us

confidence that we will see strong growth in sales in 2006. The Australian Equity Value Fund is already rated A by Van Eyk and we expect the Australian Equities Growth Fund to be rated by the third quarter.



I am pleased to say that the signs of increasing momentum in financial protection that we saw towards the end of 2004, and in the first half of last year, have continued and, indeed, strengthened in the second half.

Individual financial protection new business was up 12.7% to A\$79.9 million. However, within this, new business from brand new policy sales was up strongly by 26.4% to A\$23 million following our campaign earlier in the year to target the over 45 market, and product improvements made in July. I am confident that we will continue to see above market growth in new financial protection business in 2006.



One of the major changes in the Australian market in 2005 was the introduction of superannuation Choice in July. The impact has, as we forecast last year, been quite limited. As far as AXA is concerned you can see that under our business super, there was a spike in discontinuances immediately following the introduction of Choice, but it quickly returned to normal or better than normal levels by the end of the year. This temporary increase in discontinuance is equivalent to around 2% of our business super funds under administration. Our view is that there was a small proportion of super fund members who were waiting for the legislation in order to exercise Choice and that they did this quickly. We do not expect to see any significant further impact over the short to medium term. Indeed 37% of our business super outflows due to discontinuance were retained as inflows into our personal super products.

Overall in 2005 superannuation net flows were up 16.8% to \$857 million.



New Zealand has been a difficult market for the last 2 or 3 years following the crash in global equity markets.

However the market dynamics are improving and this is, I think, positive for us in view of our strong position in New Zealand. The proposed changes to the savings and tax regimes are expected to be enacted in 2007 and this will lead to equalisation of the tax treatment of pooled and mutual funds with that of direct investments. We expect this to create renewed growth in retail funds flows.

The Government is also introducing the Kiwi Saver Scheme which will involve automatic employee enrolment in retirement savings plans and we believe that this will lead to an increase in savings ratios in New Zealand.

As you are aware we have recently completed the purchase of the investment management operations of the Bank of New Zealand. This positions AXA as the clear market leader in retail wealth management and gives us a significant increase in scale. This increases our funds under management have increased by NZ\$2.5 billion to NZ\$8.4 billion.

We are well under way with our integration plans and are transitioning a number of Bank of New Zealand funds on to our platform.

The acquisition gives us strengthened distribution – 40,000 new wealth management clients and access to over 180 branches through thirty advisers.

Funds under advice in Spicers have been flat over the last 2 years but we are implementing the ipac finder/minder model in 2006 and we are hopeful that this will help us return to growth.



So what progress have we made in 2005 towards reaching our AXA6 goals. Well I am pleased to say that we remain on track.

Firstly AXA1 – to double the value of new business

Just to remind you that to ensure we track progress on a like for like basis the value of new business used in AXA1 is calculated on an 11% discount rate rather than on the 10% used elsewhere in these slides. As you can see we are well on track due to strong growth in platforms and investment management, particularly in the second half of the year, and improvements in our cost to income ratio.

Looking forward, growth in the value of new business will come from increased Generations and Summit sales leveraging the very strong AllianceBernstein and ipac multi manager investment performance that I talked about earlier.

We are in the process of rolling out AXcess, our recently launched self managed super fund, and I believe that we can grow market share by offering professional, integrated services in what is a very fragmented market.

There are clear opportunities to grow superannuation sales following removal of the surcharge last year and AXA's business super plan is triple A rated by Rainmaker.

We have seen encouraging improvements in profitability in group life in 2005 and we believe that we can continue this through targeting clearly defined, profitable segments.

We will be making more product enhancements to individual financial protection and I expect further growth, on a profitable basis in 2006. And we

have the opportunity to grow sales through our Bank of New Zealand distribution agreement.



AXA2 – to be consistently in the top 5 for net fund flows

We had a very good year in 2005 and the Plan for Life data showed us third for overall net fund flows, ninth for net retail flows and second for wholesale unitised fund flows.

Overall we were ranked fourth by Standard & Poors.

Looking forward we have a tremendous opportunity to leverage the outstanding investment performance currently being delivered by AllianceBernstein and ipac. Although we are now the largest Australasian manager of global equities, we have further growth opportunities, particularly through retail channels. We are starting to see traction in Australian equity sales and are targeting strong growth in 2006.

There are also new fund opportunities. For example we are launching an AXA Rosenberg core global equities product later this year.

I have already mentioned the rollout of AXcess and this should generate additional fund flows into Summit and into AXA managed funds.

Overall encouraging progress towards AXA2.



AXA3 – to double funds under advice

As you can see we are on target here assisted by strong equity market growth in 2005.

Looking forward we will complete the acquisition of the remaining 67% of Tynan McKenzie in the second half of the year. This will bring an additional A\$0.6 billion of funds advised by Tynan McKenzie which are not in ipac multi manager products.

We have a number of initiatives within ipac financial planning including developing our corporate lead generation programme. We have a number of further equity partner acquisitions targeted and in New Zealand we are looking to return Spicers to growth through a combination of improved market dynamics and implementation of the “finder/ minder” model.



Now AXA4 – to reduce our cost to income ratio by one third.

Again, as you can see, we are on track but there is more to do if we are to meet this one.

Looking forward I expect further improvements through a combination of growth and process redesign initiatives in 2006 and 2007.

We have plans for further simplification of our corporate structure and have started a programme of product range rationalisation.

On platforms I anticipate we will reach our minimum scale target of A\$10 billion on a single technology platform during 2006.



AXA5 – to be consistently in the top 5 for service to advisers. Well here we are on track in New Zealand but the position in Australia is disappointing where we have slipped in the WA Taylor rankings to ninth. In 2006 we intend to move back towards our target through focussing on improving Summit service, starting a programme of significant investment in upgrading our Financial Adviser Network services, rolling out our AXA GROW initiative to

assist aligned practices to manage business growth and succession, and launching our Advanced Business Change programme for New Zealand in anticipation of a number of proposed regulatory changes.



And AXA 6 – to be consistently in the top quartile in the global AXA Scope survey. Our scores improved again in 2005 and we remain firmly in the top quartile.



And finally our overarching goal to increase the illustrative enterprise value of our Australia and New Zealand operations by 65% to \$A6.5 billion by the end of 2007.

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



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



New business in Hong Kong has benefitted from a number of upgrades to our product suite and this positions us well for future growth going forward.

In October we launched Maxx and this contributed HK\$70 million of new regular premiums.

Dimensions – our successful hybrid par/unit linked product contributed HK\$94 million in new regular premiums, and we refreshed Smart series which contributed HK\$352 million of new regular premiums.

In wealth management we have taken the successful ipac multi manager product from Australia and launched Elite into the MPF market – a first in Hong Kong. And finally Evolution – an investment linked product investing in offshore funds - contributed HK\$216 million of single premiums.



This encouraging momentum is clearly showing through in improving market share. As always we are putting a health warning on the market share statistics in Hong Kong but, nonetheless, it would appear that we have performed very well. Against our peer group of the largest 6 players we grew market share on a total new business index basis, and we were the only one of the major players to grow our market share in the higher margin regular premium life segment.



As you know persistency is a key measure of the quality and ultimate profitability of business in Hong Kong and 2005 saw further improvement with aggregate discontinuances down to 7.3%, better than our long term pricing and value assumptions.



Life insurance new business margins in Hong Kong are amongst the highest in the world and these have been maintained in 2005. For traditional life, the ratio of the value of new business to new business index was steady at around 70% and for linked regular premiums, was steady at around 60%.

The small changes you see in this table between 2004 and 2005 merely reflect minor variations in sales and product mix and not any reduction in our prices.

Although still small in terms of our overall new business index, sales of our new unit linked single premium product, Evolution, are increasing strongly. This is an off shore product being sold into the broker market and the overall margins, whilst still attractive by normal benchmarks, are lower than those for traditional regular premium business.



If we look at the rest of Asia we also have an encouraging picture of increasing momentum. We have seen strong growth from both bank and agency channels. Our agency business is benefiting from the bedding down of the agency blueprint models we have implemented over the last 18 months, and we continue to grow our bank penetration.

By the end of 2005 we were operating in around 70% of the retail branches of our joint venture bank partners. We aim to achieve 100% penetration over the next 2 years.

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



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

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

We will be leveraging AXA's salaried adviser, bancassurance, agency and product blueprints and we are currently finalising our detailed business plan and will shortly announce the appointment of the CEO.

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

In Malaysia our entry is via the acquisition of the life portfolio of Tahan Insurance through a joint venture with Affin Holdings. AXA's share of the purchase price was around A\$22 million.

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



We are about a year into our Asia 6 programme and although it is still early days I am pleased to say that we are on track. We saw an encouraging increase in the value of new business in 2005 through strong sales growth in Hong Kong and across Asia.

Looking forward we will be maintaining a sharp focus on our technical margins through careful asset liability management to deliver our target investment margins. Our discontinuance rates are at a very satisfactory level and we are targeting some improvements in our expense ratios over the next 3 years.

In Hong Kong our developing wealth management operations will contribute increasingly to the growth in value in new business.

In the rest of Asia we have a tremendous opportunity to continue to grow our bank business and we will be supporting this through the launch of variants of our successful Hong Kong products.



Asia 2 – to grow total inflows 2.5 times

We have made solid progress in 2005 but we do need to accelerate our growth if we are to meet our target.

Going forward we have an opportunity to position AXA as a leading player in the emerging wealth management segment, there are opportunities to grow multi manager sales through product and distribution agreements with banks, and also to increase our market share in corporate pensions in Hong Kong.



Asia 3 – to increase our new business index 2.5 times

Strong growth in Hong Kong and across the region means that we are very much on track here.

Looking forward we will be launching an aligned distribution services offer based on the Australian dealership services model and this will help us to grow adviser numbers.

We have run a small but successful pilot in 2005 where we have been developing AXA salaried advisers into financial planners and we will be expanding this year.

We will also be developing and launching a new generation of investment linked products.

Although China has not grown as we would have liked over the last couple of years we have seen encouraging trends in the fourth quarter following the changes to our senior management team, and in 2006 we will be expanding our group insurance product range and also expanding throughout Guangdong province.



We have made some progress towards our management expense ratio targets. The Hong Kong ratio includes some initial development costs for multi manager, wealth management and distribution projects.

Looking forward the continued strengthening of our single business model and blueprints will drive lower unit costs across the region and, of course, we need to continue to move towards a scale position in our smaller operations.



Asia 5 – to improve our 13 month persistency ratio to 80%

We saw some improvement in 2005 and we are not far from our target. Importantly, current persistency experience is already better than our pricing and value assumptions. Rolling out the customer retention initiatives that have been so successful in Hong Kong will enable us to further improve persistency.



Asia 6 – to achieve a top quartile SCOPE score

Although our absolute score has remained consistent with 2004, we slipped in the overall AXA rankings. Look forward, however, I am pleased to say that we have over the last 18 months carried out a significant strengthening of our senior management team across the region. This is now complete and we expect this to help meet our target over the next 3 years.



And finally the overarching goal to double the enterprise value of our Asian operations to A\$8 billion by the end of 2008. The illustrative enterprise value was up 20.7% over the year to A\$4.8 billion, very much on track.



I will finish by giving you a little more background about the acquisition of MLC Hong Kong and Indonesia which we announced yesterday.

The consideration is \$575 million assuming completion on 31 March 2006.

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

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

In Indonesia AXA has grown strongly over the last 2 years particularly through our joint venture with Bank Mandiri. The MLC Indonesia acquisition increases our agent numbers from 600 to over 1,500 and will move us to second place in the market for new business with a market share of around 12%.

We believe this transaction represents an attractive opportunity to strengthen our position and offers significant value upside over the next 2 to 3 years as we integrate these businesses and implement our product and distribution blueprints.

The acquisition will be broadly EPS neutral in 2006 before the impact of one off integration costs, and accretive in 2007.

The acquisition will be funded from existing capital resources. Our strong capital position that Geoff mentioned earlier in the presentation has enabled us to take advantage of this opportunity which is completely consistent with our strategy of accelerated growth in Asia. Even after this we will still have around \$300 million of capital in excess of our own target surplus position.



The acquisition price is \$575 million in cash assuming completion on 31 March 2006. This comprises \$555 million in respect of MLC Hong Kong, and \$20 million in respect of MLC Indonesia.

As the transaction has been funded in cash there is no impact on our gearing ratio and we expect completion in the second quarter of 2006 subject to regulatory approvals.



The acquisition of MLC Hong Kong will add to our already strong market position.

Our inforce market share will increase to 10% and our new business market share to around 7.5% which will rank us fifth in the market, and third if we exclude HSBC and Hang Seng.

There will be a quantum increase in our adviser numbers in Hong Kong and we expect in excess of 3,000 highly productive career agents when the integration has been completed.



The acquisition of \$555 million is equivalent to 1½ times the NAB published embedded value as at 30 September 2005, and represents a small premium over their published appraisal value allowing for roll forward to 31 March. I would point out that NAB's published valuation basis was based on a risk discount rate of 12% which is in excess of the illustrative basis we use for our Hong Kong business.

The price is 15.9 times MLC Hong Kong's actual 2005 earnings.

The acquisition will be EPS neutral in 2006 before one off integration costs and accretive from 2007.

We believe there is significant potential value upside for AXA over the next 2 to 3 years. There are revenue synergy opportunities. The MLC agency force is less productive than AXA's and integration of our agency management and our agency blueprints offers a significant opportunity. MLC Hong Kong's expense ratio is more than 50% higher than AXA's and there are also clear opportunities here.

The risk discount rate of 12% used by National Australia Bank is, we think, appropriate for this business on a stand alone basis. However as the integration proceeds and the integration risk reduces we will review this assumption.



We plan to fully integrate the MLC staff and agency management structure with AXA and the agency force will transition over a period of time to AXA Hong Kong's terms and conditions and remuneration model.

We will continue to use the MLC Hong Kong brand for a transitional period after which time we will move to a single AXA product range under the AXA brand.

Agent retention is obviously important and transitional arrangements have been put in place by NAB to assist in this.



The acquisition will also strengthen our market position and distribution reach in Indonesia. Our market share will move to around 8.5% for inforce business and 12% for new business leading us to second place in the market.

Our agent and adviser numbers will increase around 75% to over 2,200.



In summary I believe we have produced another excellent set of results.

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

As you have seen we are progressing well towards both our AXA 6 and our Asia 6 aspirational goals.

We are accelerating growth in Asia as evidenced by the acquisition of MLC Hong Kong and Indonesia.

We have a very strong capital position and can take advantage of attractive growth opportunities when they are available.

Our brand campaign in Australia over the last 12 months has focussed on the importance of everyone having a financial plan. I can assure you that we too have a plan – we plan to continue growing shareholder value.