**Claire Filson**
Company Secretary

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24 February 2004

Australian Stock Exchange Limited
Company Announcements Office
20 Bridge Street
SYDNEY NSW 2000

Market Information Services
New Zealand Stock Exchange
ASB Bank Tower
Level 9, 2 Hunter Street
Wellington
New Zealand

Dear Sir/Madam

**AXA Asia Pacific Holdings Limited**

Attached are materials dealing with the results of AXA Asia Pacific Holdings Limited for the year ended 31 December 2003. These materials consist of:

- Completed Appendix 4E;
- Press release;
- Investor compendium providing detailed information concerning the results; and
- Set of slides with will be referred to at the presentation of the results today.

Yours faithfully

Page 1 of 164 pages.

# AXA ASIA PACIFIC HOLDINGS LIMITED

**ABN 78 069 123 011**

## APPENDIX 4E

## FOR THE YEAR ENDED

## 31 December 2003

# 1 Reporting Period

Year ended ('reporting period'):

31 December 2003

Previous year ended ('previous corresponding period'):

31 December 2002

# 2 Results for announcement to the market

| | | | | | $A'm |
|---|---|---|---|---|---|
| 2.1 | Revenue from ordinary activities | Up | 74.8% | To | 4,761 |
| 2.2 | Profit (loss) from ordinary activities after tax attributable to members | Up | 180.6% | To | 926 |
| 2.3 | Net profit (loss) for the period attributable to members | Up | 180.6% | To | 926 |

| | Dividends (distributions) | Amount Per Security | Franked amount Per security |
|---|---|---|---|
| 2.4 | Interim dividend (paid) | 4.75¢ | 2.85¢ |
| | Final dividend (proposed) | 5.5¢ | 1.1¢ |
| 2.5 | Record date for determining Entitlements to the final dividend | 12 March 2004 | |

2.6 Brief explanation (if required) of any of the figures reported above.
Refer Investor Compendium for analysis of figures reported above.

# 2a Basis of Preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The accounting policies adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the 2002 annual financial report.

Details of changes in accounting policies:

AASB 1044 Provisions, Contingent Liabilities and Contingent Assets
In accordance with Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets', on 1 January 2003 AXA APH changed its policy for providing for dividends. Under the new policy, a provision for dividend is recognised at balance date when the directors have declared, determined or publicly recommended the dividend before balance date.

# 3 Statement of Financial Performance

| | Note | 2003 $ m | 2002 $ m |
|---|---|---|---|
| Premium, fee and other revenue | 3.1 | 2,149 | 2,909 |
| Investment revenue | 3.1 | 2,612 | (186) |
| Revenue from ordinary activities | | 4,761 | 2,723 |
| Claims expense | 3.1 | (986) | (1,697) |
| Changes in net policy liabilities and policy owner retained profits | 4.3 | (1,652) | 419 |
| Commission | | (381) | (351) |
| Other operating expenses | 3.1 | (774) | (744) |
| Expenses from ordinary activities | | (3,793) | (2,373) |
| Share of net profits of associates and joint ventures accounted for using the equity method | 11 | 14 | 24 |
| Borrowing costs | 3.1 | (84) | (121) |
| ***Profit from ordinary activities before income tax*** | | **898** | **253** |
| Income tax benefit | | 62 | 91 |
| ***Net profit from ordinary activities after income tax*** | | **960** | **344** |
| Outside equity interests | | (34) | (14) |
| ***Net profit after tax attributable to shareholders of AXA*** | | **926** | **330** |
| Decrease in foreign currency translation reserve | | (215) | (59) |
| ***Total revenues, expenses and valuation adjustments attributable to members of AXA and recognised directly in equity*** | | (215) | (59) |
| ***Total Changes in equity other than those resulting from transactions with owners as owners*** | | 711 | 271 |

# 3.1 Notes to the Statement of Financial Performance

| | $ million | 12 months Ended 31 Dec 2003 | 12 months Ended 31 Dec 2002 |
|---|---|---|---|
| (a) | **Operating Profit** | | |
| | Included in the operating profit are the following items of revenue and expense | | |
| | **Revenue** | | |
| | ***Premium revenue*** | | |
| | Life insurance premium revenue received and receivable | 4,126 | 4,768 |
| | Less deposits recognised as an increase in life insurance policy liabilities | (2,391) | (2,676) |
| | Life insurance premiums - recognised as revenue | 1,735 | 2,092 |
| | Non life insurance premiums | 55 | 616 |
| | Total premium revenue | 1,790 | 2,708 |
| | ***Fee and other revenue*** | | |
| | ***Operating*** | | |
| | Management fees | 100 | 59 |
| | Other operating income | 259 | 141 |
| | ***Non-operating*** | | |
| | Proceeds from sale of investments | - | - |
| | Other non-operating revenue | - | 1 |
| | Total fee and other revenue | 359 | 201 |
| | **Premium, fee and other revenue** | **2,149** | **2,909** |
| | ***Investment revenue*** | | |
| | Equity Securities | | |
| | Dividends | | |
| | - Associated entities | 7 | 8 |
| | - Other parties | 159 | 138 |
| | Net realised and unrealised gains/(losses) | 1,363 | (1,699) |
| | Unit trust distribution | 118 | 100 |
| | Debt securities | | |
| | Interest income | | |
| | - Other parties | 764 | 687 |
| | Net realised and unrealised gains/(losses) | (61) | 391 |
| | Unit trust distribution | - | 2 |
| | Property investments | | |
| | Net property rental | | |
| | - Other parties | 112 | 113 |
| | Net realised and unrealised gains/(losses) | (1) | (7) |
| | Unit trust distribution | 65 | 51 |
| | Other Investments | | |
| | Net exchange loss on foreign currency transactions | (27) | (74) |
| | Net realised and unrealised gains/(losses) | 113 | 104 |
| | **Investment revenue** | **2,612** | **(186)** |
| | **Revenue from ordinary activities** | **4,761** | **2,723** |

# 3.1 Notes to the Statement of Financial Performance (continued)

| | $ million | 12 months Ended 31 Dec 2003 | 12 months Ended 31 Dec 2002 |
|---|---|---|---|
| | **Operating Profit (continued)** | | |
| | **Expenses** | | |
| | ***Claims expense*** | | |
| | Life insurance claims expenses paid and payable | 3,239 | 3,669 |
| | Outwards reinsurance expense | (36) | (28) |
| | | 3,203 | 3,641 |
| | Less withdrawals recognised as a reduction in life Insurance policy liabilities | (2,252) | (2,449) |
| | Life insurance claims recognised as expense | 951 | 1,192 |
| | Non life insurance claims | 35 | 505 |
| | **Claims expense** | **986** | **1,697** |
| | ***Other operating expenses*** | | |
| | Salaries & other employee costs | 330 | 377 |
| | Consultancy & legal | 48 | 56 |
| | IT and telecommunications costs | 33 | 37 |
| | Other expenses | 363 | 274 |
| | **Other operating expenses** | **774** | **744** |
| | **Borrowing costs** | | |
| | Interest | | |
| | - Other related parties | 63 | 83 |
| | - Other parties | 21 | 38 |
| | **Borrowing costs** | **84** | **121** |
| **(b)** | **Significant Items**<br>The following individually significant items have been recognised in the Statement of Financial Performance for the period, net of tax: | | |
| | Additional superannuation contributions | (20) | (12) |
| | Tax benefit arising on internal finance restructure | - | 14 |
| | Tax benefit on the liquidation of Australian Casualty & Life Limited | - | 12 |
| | Profit on sale of AXA Australia Health Insurance Pty Limited | 366 | - |
| | Profit on sale of Members Equity Pty Limited | 40 | - |
| | Profit on sale of AXA Investment Managers | 28 | - |
| | Write-down of AXA Life Singapore Pty Limited | (25) | - |
| | Provision for litigation settlements | (10) | - |
| | Total | **379** | **14** |

# 3.1 Notes to the Statement of Financial Performance (continued)

| $ million | 12 months Ended 31 Dec 2003 | 12 months Ended 31 Dec 2002 |
|---|---|---|
| **(c) Specific expense disclosures** | | |
| Included within expenses above are the following specific items: | | |
| Depreciation, amortisation or diminution in value of | | |
| Operating assets | 28 | 30 |
| Goodwill | - | 1 |
| Operating lease rental expense | 18 | 43 |
| Contribution to superannuation plans | 49 | 35 |
| Charge for bad debts and doubtful debts | | |
| - Other related parties | 1 | - |
| - Other parties | - | - |

# 4 Statement of Financial Position

| | Note | 2003 $ m | 2002 $ m |
|---|---|---|---|
| ***Assets*** | | | |
| Cash at bank and deposits on call | 5.1 | 1,884 | 1,418 |
| Receivables | | 719 | 573 |
| Equity securities | 4.1 | 8,175 | 8,483 |
| Debt securities | 4.1 | 11,546 | 12,307 |
| Property investments | 4.1 | 2,450 | 2,463 |
| Other investments | 4.1 | 252 | 272 |
| Operating assets | | 86 | 104 |
| Deferred tax assets | | 284 | 343 |
| Intangibles | | 19 | 13 |
| Excess of market value over net assets of controlled entities | 4.2 | 1,685 | 1,705 |
| Other assets | | 101 | 53 |
| ***Total Assets*** | | **27,201** | **27,734** |
| ***Liabilities*** | | | |
| Payables | | 1,018 | 1,113 |
| Current tax liabilities | | 84 | 75 |
| Borrowings | | 712 | 1,442 |
| Provisions | | 139 | 289 |
| Deferred tax liabilities | | 315 | 201 |
| Other liabilities | | 128 | 185 |
| Subordinated debt | | 894 | 1,102 |
| Life insurance policy liabilities | 4.3 | 19,793 | 19,927 |
| ***Total Liabilities*** | | **23,083** | **24,334** |
| ***Net Assets*** | | **4,118** | **3,400** |
| ***Equity attributable to shareholders of the parent entity*** | | | |
| Contributed equity | | 1,130 | 1,130 |
| Asset revaluation reserve | | - | 15 |
| Foreign currency translation reserve | | (274) | (59) |
| Shareholders' retained profits | 8 | 2,832 | 1,974 |
| ***Total equity attributable to shareholders of the parent entity*** | | 3,688 | 3,060 |
| Outside equity interests in controlled entities | | 430 | 340 |
| ***Total Equity*** | | **4,118** | **3,400** |

# 4.1 Investment Assets

| $ million | As at 31 Dec 2003 | As at 31 Dec 2002 |
|---|---|---|
| **Equity securities, at valuation** | | |
| Equities held directly | 6,207 | 5,974 |
| Equities in | | |
| - Associated entities | 177 | 378 |
| Held via unit trusts | 1,791 | 2,131 |
| | 8,175 | 8,483 |
| **Debt securities, at valuation** | | |
| Interest bearing securities | | |
| - National government | 2,013 | 2,372 |
| - Other public sector | 1,197 | 962 |
| - Private sector (unsecured) | 7,087 | 7,705 |
| - Private sector (secured) | 155 | 31 |
| Loans to | | |
| - Other related parties (unsecured) | - | 82 |
| - Other parties (unsecured) | 42 | 20 |
| - Other parties (secured) | 740 | 986 |
| Held via unit trusts | 312 | 149 |
| | 11,546 | 12,307 |
| **Property investments, at valuation** | | |
| Freehold and leasehold properties | 1,747 | 1,754 |
| Held via unit trusts | 703 | 709 |
| | 2,450 | 2,463 |
| **Other investments, at valuation** | | |
| Other investments | 252 | 272 |
| | 252 | 272 |
| **Total Investment Assets** | **22,423** | **23,525** |

# 4.2 Excess of Market Value over net assets of controlled entities

| $ million | As at 31 Dec 2003 | As at 31 Dec 2002 |
|---|---|---|
| **Excess of Market Value over Net Assets of Controlled Entities** | | |
| AXA China Region Limited (1) | 1,140 | 1,140 |
| AXA Life Insurance Singapore Pte Ltd (1) (2) | 46 | 71 |
| S G Holdings Ltd | 193 | 191 |
| S G Australia Holdings Ltd | 55 | 55 |
| Ipac Securities Ltd | 206 | 202 |
| NMMT Limited (1) | 37 | 37 |
| Other Controlled Entities | 8 | 9 |
| **Excess of Market Value over Net Assets of Controlled Entities** | 1,685 | 1,705 |

(1) In 2001, The National Mutual Life Association of Australasia Limited transferred its interests in National Mutual International Limited (incorporating AXA Life Singapore), AXA China Region Limited and NMMT Limited to the company or other non life insurance subsidiaries. Prior to transfer, the excess of the market values of the investments in the transferred entities over the net assets of those entities ("excess") was recorded in the consolidated Statement of Financial Position as a separate asset in accordance with AASB 1038 "Life Insurance Business". In accordance with the requirements of AASB 1024 "Consolidated Accounts", to eliminate the financial impact of transactions within the economic entity, the excess at the time of transfer continues to be recorded in the consolidated Statement of Financial Position. This excess constitutes a permanent consolidation adjustment, subject to impairment testing.

(2) A review of the carrying value of AXA Life Insurance Singapore Pte Ltd was undertaken during the year. As a result of this, a write-down of $25 million has been recognised in 2003.

# 4.3 Policy liability and life insurance business

| $ million | As at 31 Dec 2003 | As at 31 Dec 2002 |
|---|---|---|
| **(a) Life Insurance Policy Liabilities** | | |
| **Movements in Policy Liabilities** | | |
| Gross Policy Liabilities and policy owner retained profits | 19,886 | 20,012 |
| Reinsured policy liabilities | | |
| - Gross policy liabilities ceded | (93) | (85) |
| Net policy liabilities and policy owner retained profits at the end of the year | 19,793 | 19,927 |
| Net policy liabilities and policy owner retained profits at the end of the previous period | 19,927 | 20,432 |
| **Net change in policy liabilities** | (134) | (505) |
| Net change in policy liabilities as above | 134 | 505 |
| Premiums recognised as an increase in policy liabilities | 2,391 | 2,676 |
| Claims recognised as a decrease in policy liabilities | (2,252) | (2,449) |
| Terminal bonus paid in the current year | (93) | (131) |
| Policyholder tax expense | (219) | 29 |
| Exchange adjustment | (1,613) | (211) |
| Change in net policy liabilities and policy owner retained profits | (1,652) | 419 |
| **Components of Policy Liabilities** | | |
| **Value of policy liabilities – projection method** | | |
| Best Estimate Liability | | |
| - Value of future policy benefits | 28,185 | 29,339 |
| - Value of future expenses | 2,917 | 2,898 |
| - Value of future premiums | (18,487) | (20,127) |
| Total Best Estimate Liability | 12,615 | 12,110 |
| Value of Future Profits | | |
| - Policy owner bonuses | 3,082 | 3,426 |
| - Shareholder profit margins | 2,468 | 2,662 |
| Total Value of Future Profits | 5,550 | 6,088 |
| **Value of policy liabilities – accumulation method** | | |
| Best Estimate Liability | | |
| - Value of future policy benefits | 1,029 | 1,127 |
| - Value of future charges for acquisition expenses | (1) | 2 |
| Total Best Estimate Liability | 1,028 | 1,129 |
| Policy owner retained profit | 433 | 431 |
| Total value of declared bonuses | 167 | 169 |
| **Net Policy Liabilities and Policy owner retained profits** | 19,793 | 19,927 |
| **Value of policy benefits subject to capital guarantees** | 11,244 | 10,618 |

# 5 Statement of Cash Flows

| | Note | 2003 $ m | 2002 $ m |
|---|---|---|---|
| ***Cash Flows From Operating Activities*** | | | |
| Premiums received | | 4,240 | 5,419 |
| Interest received | | 708 | 703 |
| Dividends/ trust distributions received | | 348 | 299 |
| Fees, rents and other cash received | | 581 | 330 |
| Policy payments | | (3,295) | (4,173) |
| Interest and other finance costs paid | | (74) | (107) |
| Income tax paid | | (35) | (150) |
| Fees and commissions paid | | (382) | (355) |
| Payment to suppliers and employees | | (797) | (781) |
| **Net Cash Provided by Operating Activities** | 5.1 | **1,294** | **1,185** |
| ***Cash Flows From Investing Activities*** | | | |
| Proceeds from sale of operating assets | | 1 | 5 |
| Payment for the purchase of operating assets | | (23) | (18) |
| Proceeds from sale of controlled entities | | - | 67 |
| Payments for investment in controlled entities | | - | (208) |
| Net proceeds from sale of/(investment in) associated entities | | 608 | (5) |
| Net proceeds from sale of/(investment in) equity securities | | 170 | (2,011) |
| Net proceeds from sale of/(investment in) debt securities | | (938) | 657 |
| Net proceeds from sale of property investments | | 15 | 85 |
| Net proceeds from sale of/(investment in) other investments | | 213 | (44) |
| **Net Cash Provided by/(Used in) Investing Activities** | | **46** | **(1,472)** |
| ***Cash Flows From Financing Activities*** | | | |
| Dividends paid | | (170) | (216) |
| Payment for shares bought back | | - | (56) |
| Proceeds from borrowings | | 247 | 427 |
| Repayment of borrowings | | (800) | - |
| **Net Cash Provided by/(Used in) Financing Activities** | | **(723)** | **155** |
| **Net Increase/(Decrease) In Cash Held** | | 617 | (132) |
| Cash at beginning of the financial period | | 1,418 | 1,597 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies at the beginning of the financial period | | (151) | (47) |
| **Cash At The End of the Financial Period** | 5.1 | **1,884** | **1,418** |

# 5.1 Notes accompanying the Statement of Cash Flows

| $ million | 12 months Ended 31 Dec 2003 | 12 months Ended 31 Dec 2002 |
|---|---|---|
| **(a) Reconciliation of Cash** | | |
| For the purposes of the Statement of Cash Flows, cash includes on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows: | | |
| Cash at bank and deposits on call | 1,884 | 1,418 |
| Bank overdrafts | - | - |
| **Cash at the end of the financial year** | 1,884 | 1,418 |

**(b) Reconciliation of Net Cash (used in)/provided by Operating Activities to Operating Profit from ordinary activities after Income Tax**

| $ million | As at 31 Dec 2003 | As at 31 Dec 2002 |
|---|---|---|
| Operating profit/(loss) after income tax | 926 | 330 |
| Profit from sale of other assets | (487) | - |
| Foreign exchange (gain)/loss | 19 | 102 |
| Depreciation and amortisation of operating assets | 30 | 30 |
| Net depreciation/(revaluation) of investment assets and intangibles | (928) | 1,445 |
| (Increase)/decrease in receivables | (31) | 27 |
| (Increase)/decrease in other assets | 27 | 24 |
| (Increase)/decrease in deferred tax asset | 60 | (317) |
| Increase/(decrease) in payables | 20 | (37) |
| Increase/(decrease) in provision for income tax | 6 | 75 |
| Increase/(decrease) in deferred tax liability | 55 | 4 |
| Increase/(decrease) in other liabilities | 15 | 7 |
| Increase/(decrease) in net policy liabilities | 1,582 | (505) |
| **Net Cash (used in)/provided by Operating Activities** | 1,294 | 1,185 |

# 6 Dividends

| Date the final dividend (distribution) is payable | 4 April 2004 |
|---|---|

| | | Amount Per Security | Franked amount Per security at 30% tax | Amount per Security of foreign Source dividend |
|---|---|---|---|---|
| **Interim dividend:** | Current half year | 4.75 ¢ | 2.85 ¢ | N/A |
| | Previous half year | 4.75 ¢ | 2.85 ¢ | N/A |
| **Final dividend** | Current year end | 5.5 ¢ | 1.1 ¢ | N/A |
| | Previous year end | 5 ¢ | 3 ¢ | N/A |

| | Current Period $A'm | Previous Corresponding $A'm |
|---|---|---|
| Ordinary securities *(each class separately)* | 180 | 171 |
| Preference securities *(each class separately)* | - | - |
| Other equity instruments *(each class separately)* | - | - |
| **Totals** | 180 | 171 |

# 7 Dividend reinvestment plans

| | |
|---|---|
| Dividend reinvestment plans in operation | Not applicable |
| The last date(s) for receipt of election notices for participation in any dividend or distribution reinvestment plans | Not applicable |

# 8 Statement of Retained Earnings

| **$ million** | **As at 31 Dec 2003** | **As at 31 Dec 2002** |
|---|---|---|
| **Reserves and Shareholders' Retained Profits** | | |
| **Asset Revaluation Reserve** | | |
| Balance at beginning of the period | 15 | 15 |
| Transfer to Shareholders' Retained Profits (1) | (15) | - |
| **Balance at end of the period** | - | 15 |
| **Foreign Currency Translation Reserve (2)** | | |
| Balance at beginning of the period | (59) | - |
| Exchange difference on net investments in foreign operations and related hedges | (215) | (59) |
| **Balance at end of the period** | (274) | (59) |
| **Shareholders' Retained Profits** | | |
| Balance at beginning of the period | 1,974 | 1,815 |
| Adjustment from change in accounting policy (refer Note 2a) | 87 | - |
| Profit for the period | 926 | 330 |
| Transfer from Asset Revaluation Reserve (1) | 15 | - |
| Dividends provided or paid | (170) | (171) |
| **Balance at end of the period** | 2,832 | 1,974 |

(1) This revaluation increment relates to the associate investment in Members Equity Pty Limited. Following the sale of this investment during the year the balance of the Asset Revaluation Reserve has been transferred to Shareholders' Retained Profits.
(2) This represents the translation of the Group's investment in AXA China Region (AXA CR) and AXA Life Singapore (AXA LS) which has been partially offset by the foreign currency gains on financial instruments held to hedge the Group's net investment in AXA CR.

# 9 Net tangible assets per security

| | Current period | Previous corresponding Period |
|---|---|---|
| Net tangible assets per ordinary security | $2.11 | $1.75 |

# 10 Entities over which control has been gained or lost

| | | Control gained | Control lost |
|---|---|---|---|
| 4.1 | Name of entity (or group of entities) | Macquarie Health Acquisitions Pty Ltd | Not applicable |
| 4.2 | Date from which control was gained/lost | 28 February 2003 | Not applicable |
| 4.3 | Profit (loss) from ordinary activities after tax of the controlled entity (or a group of entities) for the current period on which control was acquired (control gained) or for the current period to date of loss of control (control lost) | - | Not applicable |
| 4.4 | Profit (loss) from ordinary activities after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period | - | Not applicable |

As part of the sale of AXA Health Insurance Pty Limited (AXA Health), Macquarie Health Acquisitions Pty Ltd (MHA) was created during 2002. At 31 December 2002 MHA was classified as an associated entity as the vendor shares held conferred only 27% of the voting rights. On 28 February 2003, the entity exercised its right to convert these vendor shares to 100% of the ordinary shares of MHA. In addition, during 2003 MHA disposed of its interest in AXA Health.

# 11 Details of associates and joint venture entities

| | Percentage of ownership interest held at the end of period or date of disposal | | Contribution to net profit / (loss) | |
|---|---|---|---|---|
| **Equity accounted associates and joint venture entities** | Current period % | Previous corresponding period % | Current period $A'm | Previous corresponding period $A'm |
| Macquarie Health Acquisitions Pty Ltd | 27% | 27% | 10 | 19 |
| Member's Equity Pty Ltd | 50% | 50% | - | 2 |
| Alliance Capital Management Australia Ltd and Alliance Capital Management New Zealand Ltd | 50% | 50% | 4 | 3 |
| **Totals** | **Not applicable** | **Not applicable** | **14** | **24** |
| Other material interests | Not applicable | Not applicable | - | - |
| **Totals** | **Not applicable** | **Not applicable** | **14** | **24** |

Refer also to section 10.

# 12 Other Significant Information

Refer Investor Compendium.

# 13 Applicable Accounting Standards (foreign entities only)

Not applicable. AXA Asia Pacific Holdings Ltd is not a foreign entity.

# 14.1 Earnings per share

| | **12 months Ended 31 Dec 2003** | **12 months ended 31 Dec 2002** |
|---|---|---|
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 1,739,962,953 | 1,757,399,937 |
| Add: weighted average number of potential ordinary shares | 22,470,938 | 5,033,954 |
| Weighted average number of ordinary shares and potential Ordinary shares used in the calculation of diluted earnings per share | 1,762,433,891 | 1,762,433,891 |
| | **$m** | **$m** |
| Net profit used in calculating basic and diluted earnings per share | 926 | 330 |
| | Cents per share | Cents per share |
| Basic earnings per ordinary share | 53.2 | 18.8 |
| Diluted earnings per ordinary share | 52.7 | 18.7 |

# 14.2 Segment Information

The revenue, result, assets and liabilities of each segment include items directly attributable to the segment and also those items that can be allocated on a reasonable basis. Unallocated items primarily comprise corporate assets and expenses. Inter-segment pricing is determined on an arm's length basis.

Geographically (primary segment reporting) the Group is organised into three operating divisions as follows:
- Australia and New Zealand : life insurance, funds management, health insurance and borrowing costs
- China Region : life insurance and funds management in Hong Kong and China
- Other : life insurance and funds management in Singapore and other Asian regions

**Primary Reporting – Geographical segments**

**Profit and loss disclosure**

| **12 months ended 31 December 2003** | **Australia and New Zealand** | **China Region** | **Other** | **Consolidation Adjustments** | **Consolidated Total** |
|---|---|---|---|---|---|
| | **$m** | **$m** | **$m** | **$m** | **$m** |
| **Revenue** | | | | | |
| External segment revenue | 2,709 | 1,919 | 133 | - | 4,761 |
| Inter-segment revenue | 301 | 18 | 4 | (323) | - |
| Share of net profit of equity accounted associates | 14 | - | - | - | 14 |
| **Total revenue** | 3,024 | 1,937 | 137 | (323) | 4,775 |
| **Result** | | | | | |
| Profit from ordinary activities before income tax expense | 436 | 431 | (3) | - | 864 |
| Income tax (expense)/benefit | 64 | (3) | 1 | - | 62 |
| **Profit from ordinary activities after income tax expense** | 500 | 428 | (2) | - | 926 |

| **12 months ended 31 December 2002** | **Australia and New Zealand** | **China Region** | **Other** | **Consolidation Adjustments** | **Consolidated Total** |
|---|---|---|---|---|---|
| | **$m** | **$m** | **$m** | **$m** | **$m** |
| **Revenue** | | | | | |
| External segment revenue | 1,373 | 1,266 | 84 | - | 2,723 |
| Inter-segment revenue | 334 | 18 | 4 | (356) | - |
| Share of net profit of equity accounted associates | 24 | - | - | - | 24 |
| **Total revenue** | **1,731** | **1,284** | **88** | **(356)** | **2,747** |
| **Result** | | | | | |
| Profit from ordinary activities before income tax expense | 9 | 234 | (4) | - | 239 |
| Income tax (expense)/benefit | 101 | (11) | 1 | - | 91 |
| **Profit from ordinary activities after income tax expense** | **110** | **223** | **(3)** | **-** | **330** |

# 14.2 Segment Information (continued)

**Balance Sheet disclosure**

| As at 31 December 2003 | Australia and New Zealand $m | China Region $m | Other $m | Consolidation Adjustments $m | Consolidated Total $m |
|---|---|---|---|---|---|
| Segment assets | 21,048 | 6,697 | 869 | (1,590) | 27,024 |
| Equity accounted investments | 132 | 12 | 33 | - | 177 |
| **Total assets** | 21,180 | 6,709 | 902 | (1,590) | 27,201 |
| **Total liabilities** | 17,111 | 4,541 | 817 | 614 | 23,083 |

| As at 31 December 2002 | Australia and New Zealand $m | China Region $m | Singapore $m | Consolidation Adjustments $m | Consolidated Total $m |
|---|---|---|---|---|---|
| Segment assets | 20,521 | 7,352 | 1,073 | (1,590) | 27,356 |
| Equity accounted investments | 319 | 26 | 33 | - | 378 |
| **Total assets** | **20,840** | **7,378** | **1,106** | **(1,590)** | **27,734** |
| **Total liabilities** | **17,544** | **4,958** | **1,010** | **822** | **24,334** |

# 15 Information on audit or review

This preliminary final report is based on accounts to which one of the following applies.

| | | | |
|---|---|---|---|
| ☑ | The accounts have been audited. | ☐ | The accounts have been subject to review. |
| ☐ | The accounts are in the process of being audited or subject to review. | ☐ | The accounts have not yet been audited or reviewed. |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

N/A

Description of dispute or qualification if the accounts have been audited or subjected to review.

N/A

**24 February 2004**

**(All figures are reported in Australian Dollars unless otherwise stated)**

## AXA ASIA PACIFIC HOLDINGS LIMITED
## Results for the 12 months ended 31 December 2003

AXA Asia Pacific Holdings (AXA APH) today announced profit after tax (excluding Health) and before non-recurring items of $537 million for the 12 months to 31 December 2003, up 97 per cent on the result for the corresponding period last year (12 months to 31 December 2002 - $273 million).

Profit after tax and non-recurring items was $926 million, up 181 per cent (2002 - $330 million). Non-recurring items include significant one-off profits from the sale of AXA Health, the 50 per cent interest in Members Equity and our 3.7 per cent stake in AXA Investment Managers.

Commenting on the results, Group Chief Executive Les Owen said, "I am delighted to be able to report such strong financial performance."

“We have made major changes over the last 3½ years to reposition our businesses and it is gratifying to see this paying off.

“Our K5 programme in Australia and New Zealand ended in December and I am delighted to say that we achieved 4 out of the 5 tough, aspirational targets we set ourselves in April 2000. Net retail flows increased 123 per cent to $3.7 billion (2002 - $1.7b). AXA achieved a top 3 ranking for net retail funds flows (ASSIRT Market Share Report for 12 months ended 31 December 2003).

“Operating earnings in Australia and New Zealand (ex Health) were up 17% to $147 million (2002 - $126 million).

“We also saw strong performance in Hong Kong. Despite weak equity markets in the first half, and the impact of SARS, new business and, more importantly, the value of new business grew strongly and investment returns were favourable.

“Operating earnings in local currency were up 21% to HK$800 million (2002 - $662 million).

“Investment earnings for the Group for the 12 months were up 189 per cent to $322 million (2002 - $111 million) due to mainly improved equity markets, partially offset by the appreciation of the Australian dollar against the US dollar.

“We have a very strong capital position having halved our gearing ratio and with significant capital reserves above the regulatory requirements.”

The Directors have declared a final dividend of 5.50 cents per share (20% franked). An interim dividend of 4.75 cents per share (60 per cent franked) was declared on 26 August 2003.

We will continue to investigate capital management strategies to maximise returns for our shareholders, and expect that decisions on any change will be made prior to announcing our interim results.

AXA Asia Pacific Holdings Limited ABN 72 069123011
447 Collins Street Melbourne Victoria 3000 Australia
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www.axa-asiapacific.com.au

## Australia and New Zealand - key points

- Operating Earnings (excluding Health) up 17 per cent to $147 million (2002 - $126 million)
- Achieved 4 out of 5 of our K5 aspirational goals
- Achieved top 3 ranking for net retail fund flows
- Net retail funds flow up 123 per cent to $3.7 billion (2002 - $1.7 billion)
- Funds under management and administration up 8 per cent to $44.2 billion (2002 - $41.0 billion)
- Funds under advice and administration up 28 per cent to $4.2 billion (2002 - $3.3 billion)
- Successful integration of ipac
- Business successfully repositioned for further growth

## Hong Kong – key points

- New business up 14 per cent to HK$1,032 million (2002 - HK$909 million)
- Value of new business up 33 per cent to HK$519 million (2002 - HK$389 million)
- Over 9 per cent investment margin on participating business, well in excess of target 1 per cent per annum
- Aggregate discontinuance rate improved to 8.8 per cent, better than target of 9 per cent
- Funds under management up 23 per cent to HK$40.1 billion (2002 - HK$32.6 billion)
- Further repositioning of distribution channels

## Group financials – key points

- Earnings per share (before non-recurring items) up 74 per cent to 31.4 cents (2002 – 18 cents)
- Return on average shareholders equity 16.2 per cent (2002 – 10.4 per cent)
- Strong balance sheet - ratio of senior debt to total capital resources of 13 per cent (2002 – 26 per cent); ratio of senior and hybrid debt to total capital resources of 30 per cent (2002 – 45 per cent)
- $883 million capital above regulatory requirements
- $268 million capital above internal target surplus

**Future outlook**

Commenting on prospects for the future, Group Chief Executive Les Owen said,

“The second half of 2003 saw more positive equity markets, signs of strong economic performance in the US and in our key markets of Australasia, Hong Kong and China, and some return of consumer confidence.“

“The strengthening and repositioning of the company means we are well placed to benefit from this and to grow market share in all areas of our operations.

“The focus and discipline brought to our Australia/New Zealand operations through the K5 programme has clearly paid off. We are now able to compete with the best. However we have more to do, we have no intention of standing still and will be setting new targets for the next 3-4 years which will be announced in early April.

“The last 12 months have seen a return to growth for AXA in Hong Kong and strong growth in China and I expect this to continue.

“Life insurance penetration in Hong Kong is still relatively low compared to other developed countries and there is significant growth potential through our agency distribution. The Closer Economic Partnership Agreement (CEPA) with China presents a major opportunity, and we are well placed in the growing retirement and long term savings markets through our broadened product range and distribution channels.

“Our priorities in China, with our joint venture AXA Minmetals, are to accelerate the growth in Shanghai and Guangzhou and to prepare for the opening up of new cities and new markets at the end of this year under the terms of China’s accession to the WTO.”

“We see no reason to change the clear, focused strategy that is delivering strong results.

“We would not have achieved the repositioning of the business and such strong financial results without the commitment of all of our people and I know that they are all proud of what we have achieved.”

<u>**Contact**</u>

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03 9618 4985
0412 223 485

Investors: Ronn Bechler, Manager Investor Relations
03 9616 3322
0400 009 774

## ATTACHMENT

### AXA APH Group result for 12 months ended 31 December 2003

| (A$ million) | 12 months to 31 Dec 03 | 12 months to 31 Dec 02 | % increase |
|---|---|---|---|
| **Operating Earnings** | | | |
| Australia & New Zealand (excluding Health) | 147 | 126 | 17% |
| Hong Kong and Singapore | 154 | 153 | 0% |
| **Operating Earnings (excluding Health)** | **301** | **279** | **8%** |
| Investment Earnings | 322 | 111 | 189% |
| Corporate expenses | (42) | (39) | (7)% |
| Interest expense | (44) | (78) | 44% |
| **Profit after tax excluding Health and before non-recurring items** | **537** | **273** | **97%** |
| AXA Australia Health[1] | 10 | 43 | |
| Non-recurring items | 379 | 14 | |
| **Profit after tax and non-recurring Items** | **926** | **330** | **181%** |

[1]The sale of Health was completed on 28 February 2003. Earnings in 2003 are only in respect of the period 1 January 2003 – 28 February 2003.

### AXA Australia and New Zealand

| (A$ million) | 12 months to 31 Dec 03 | 12 months to 31 Dec 02 | Increase |
|---|---|---|---|
| Wealth Management | 91 | 77 | 19% |
| Financial Protection | 56 | 49 | 14% |
| **Operating Earnings (excluding Health)** | **147** | **126** | **17%** |
| Investment Earnings | 45 | 44 | 2% |
| **Profit after tax excluding Health and before non-recurring items** | **192** | **170** | **13%** |
| AXA Australia Health | 10 | 43 | |

### AXA Hong Kong

| (A$ million) | 12 months to 31 Dec 03 | 12 months to 31 Dec 02 | Increase |
|---|---|---|---|
| Operating Earnings | 157 | 156 | 1% |
| Investment Earnings | 275 | 67 | 311% |
| **Profit after tax and before non-recurring items** | **432** | **223** | **94%** |

| (HK$ million) | 12 months to 31 Dec 03 | 12 months to 31 Dec 02 | Increase |
|---|---|---|---|
| Operating Earnings | 800 | 662 | 21% |
| Investment Earnings | 1,403 | 297 | 373% |
| **Profit after tax and before non-recurring items** | **2,203** | **959** | **130%** |

# Investor Compendium

# For the 12 months ended 31 December 2003

## Investor compendium for the 12 months ended 31 December 2003

## Table of contents

# 1 AXA Asia Pacific Holdings

## 1.1 | Highlights

AXA Asia Pacific Holdings' profit after tax (excluding Health profits) and before non-recurring items was $537.1 million for the 12 months ended 31 December 2003, up 97 per cent on the result for the corresponding period last year (12 months ended 31 December 2002 - $273.2 million).

Profit after tax and non-recurring items was $926.0 million, up 181 per cent (2002 - $329.9 million). Non-recurring items include significant one-off profits from the sale of AXA Health, our 50 per cent interest in Members Equity and 3.7 per cent stake in AXA Investment Managers.

We have made major changes over the last three and a half years to reposition our businesses and they are now paying off. Our K5 programme in Australia and New Zealand ended in December and we achieved 4 out of the 5 aspirational targets set in April 2000. Operating earnings in Australia and New Zealand (ex Health) were up 17% to $147.3 million (2002 - $125.8 million). We also saw a strong performance in Hong Kong. Despite weak equity markets in the first half, and the impact of SARS, new business and, more importantly, the value of new business grew strongly and investment returns were favourable. Operating earnings in local currency were up 21% to HK$800.3 million (2002 - $662.0 million).

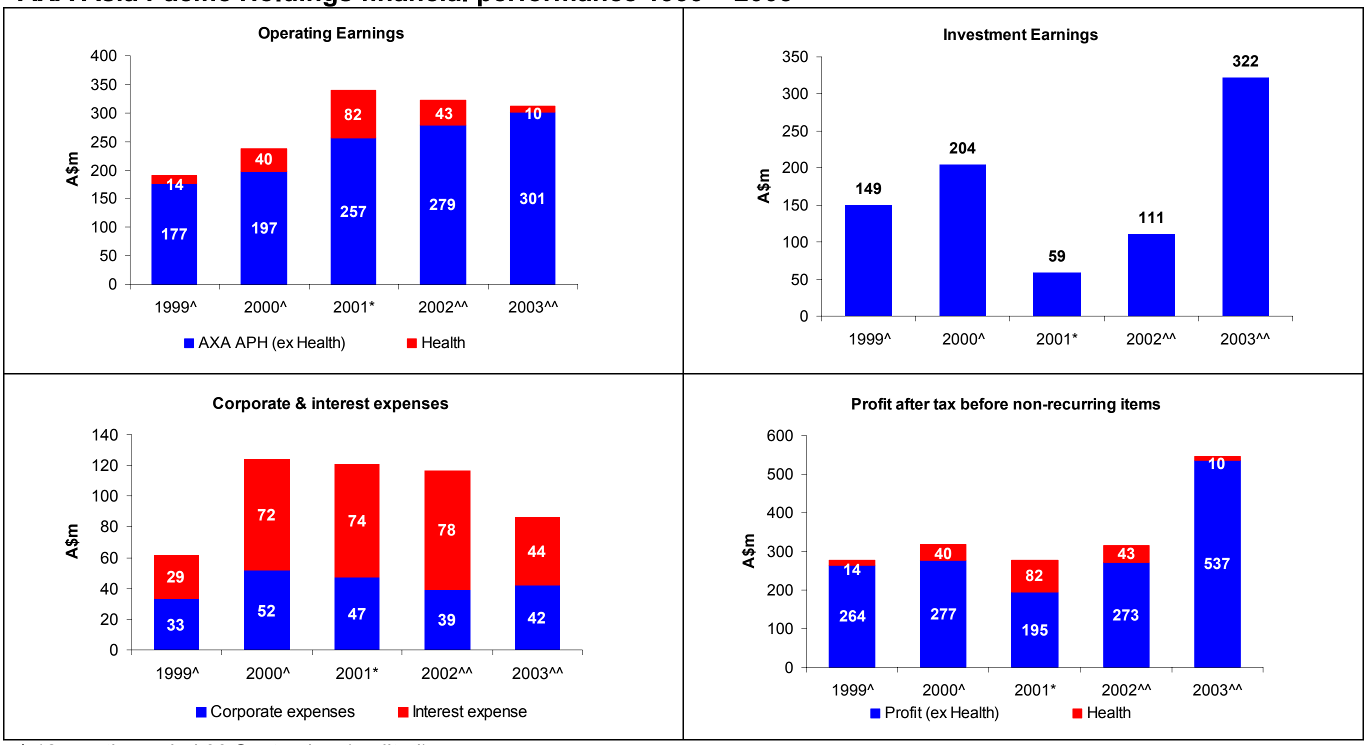
Investment Earnings for the Group were up 189 per cent to $322.1 million (2002 - $111.4 million) due mainly to improved equity markets, partially offset by the appreciation of the Australian dollar ("AUD") against the US dollar ("USD").

We have a very strong capital position. Our gearing ratio has halved and we have significant capital reserves above regulatory requirements.

The second half of 2003 saw more positive equity markets, signs of stronger economic performance in the US and in our key markets of Australasia, Hong Kong and China, and some return of consumer confidence.

The strengthening and repositioning of the company means we are well placed to benefit from this and to grow market share in all areas of our operations. We see no reason to change the clear, focused strategy that is delivering strong results.

**AXA Asia Pacific Holdings financial performance 1999 – 2003**




^ 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 year at a glance

### Financial performance

- Profit after tax (ex Health) and before non-recurring items was up 97% to $537.1 million (2002 - $273.2 million)

- Operating Earnings (ex Health) up 8% to $300.8 million (2002 - $279.2 million)

  - Australia and New Zealand (ex Health) up 17% to $147.3 million (2002 - $125.8 million)
  - in local currency, Hong Kong up 21% to HK$800.3 million (2002 - HK$662.0 million)
  - in AUD, Hong Kong and Singapore operating earnings unchanged at $153.5 million (2002 - $153.4 million)

- Investment Earnings up 189% to $322.1 million (2002 - $111.4 million), with Hong Kong and Singapore investment earnings $276.9 million (2002 - $67.0 million)

- Corporate and interest expenses down 27% to $85.8 million (2002 - $117.4 million)

- Non-recurring items of $379.1 million include significant one-off profits from the sale of AXA Health, our 50 per cent interest in Members Equity and our 3.7 per cent stake in AXA Investment Managers

- Group gearing, measured by senior debt to total capital resources, reduced to 13% from 26% at 31 December 2002

- Total Group assets under management, administration and advice up 5% to $51.1 billion (2002 – $48.5 billion)

- A final dividend of 5.5 cents per share franked to 20%, bringing the total dividend for the year to 10.25 cents per share, up 5% (2002 – 9.75 cents per share)

### Australia and New Zealand

- Operating earnings from advice businesses of $22.8 million, now 15% of total Australia and New Zealand operating earnings (2002 – 10%)

- Net retail funds flow up 123% to $3.7 billion (2002 – $1.7 billion) [1]

- Achieved top 3 ranking for net retail funds flows with 16.2% share of market net flows (based on ASSIRT data for the 12 months ended 31 December 2003)

- Funds under management, administration and advice up 8% to $44.2 billion (2002 – $41.0 billion)

- Funds under advice and administration up 28% to $4.2 billion (2002 – $3.3 billion)

- The performance of AXA's Global Equity Value fund underpinned a strong year for international equity sales

- Australian Value Fund launched in August 2003 – we are now uniquely positioned as the only manager in Australia offering both value and growth investment styles for Australian and international equities

- Financial protection operating earnings up 14% to $56.2 million (2002 – $49.2 million)

- Increased penetration of non-aligned advisers with retail investment and superannunation sales up nearly 50% and product listings on dealer groups up 33% over 2002

- Successfully completed the integration of ipac

- On a like-for-like basis, recurring management expenses down 6% to $298.9 million (2002 - $316.4 million)

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

## Hong Kong

- New business (regular premiums plus 10% of single premiums) up 14% to HK$1,032 million (2002 – HK$909 million), despite the SARS impact in early 2003 and the weak economy in Hong Kong. Excluding general insurance, new business grew 16%
- Value of new business up 33% to HK$519 million (2002 – HK$389 million) reflecting our continued focus on product profitability (up 26% on a like-for-like economic basis)
- Business retention levels further improved with the aggregate discontinuance rate down to 8.8%, well down on 2001 and 2002, and below target of 9.0%
- Investment margin on traditional participating business of 9.4%, well in excess of required 1% spread due to a combination of growth in equity markets and a contraction in US corporate bond spreads
- Funds under management up 23% to HK$40.1 billion (2002 – HK$32.6 billion), driven by net funds flow of HK$3.7 billion and strong investment returns
- Distribution channels broadened, with the number of salaried advisers up 22% to 264; ipac advice business launched in July
- Agent productivity of HK$25,600 average monthly sales, up 1% (2002 – HK$25,200)
- Recurring management expenses down 1% to HK$358.2 million (2002 – HK$363.0 million), despite the growth in sales and inforce business

## China and SE Asia

- AXA Minmetals, our joint venture operation in China, opened a new branch operation in Guangzhou on 28 November 2003. As at 31 December 2003, there were 783 agents in Guangzhou
- AXA Minmetals' operation in Shanghai continued to grow strongly, with sales and total premiums growing by 46% and 34% respectively compared to 2002
- Implementation of our best practice agency blueprint platform improved agent productivity in China
- Launched new bancassurance joint venture with Bank Mandiri, Indonesia's largest bank, in December 2003
- Investment linked products launched in Indonesia and the Philippines; some lower margin par products closed for new business
- Value of new business in China and SE Asia up 78% (constant currency basis)
- Advice business launched in Singapore in May 2003, using the ipac business model

## 1.3 | Financial summary

A more detailed financial summary of the last three years is provided below:

| (A$ million, unless otherwise stated) | 12 months to/ as at 31 Dec 03 | 12 months to/ as at 31 Dec 02 | % change | 12 months to/ as at 31 Dec 01 |
|---|---|---|---|---|
| **Financial performance** | | | | |
| Operating Earnings excluding Health | 300.8 | 279.2 | 7.7% | 256.6 |
| Investment Earnings | 322.1 | 111.4 | 189.1% | 58.7 |
| Corporate expenses | (42.0) | (39.1) | (7.4)% | (46.9) |
| Interest expense | (43.8) | (78.3) | 44.1% | (73.7) |
| **Profit after income tax (ex Health) and before non-recurring items** | **537.1** | **273.2** | **96.6%** | **194.7** |
| Health [1] | 9.8 | 43.1 | | 82.4 |
| Non-recurring items | 379.1 | 13.6 | | 30.8 |
| **Profit after income tax and non-recurring items** | **926.0** | **329.9** | **180.7%** | **307.9** |
| **Shareholder returns** | | | | |
| Earnings per share (before non-recurring items) (cents) | 31.4 | 18.0 | 74.4% | 15.7 |
| Earnings per share (after non-recurring items) (cents) | 53.2 | 18.8 | 183.0% | 17.5 |
| Dividend per share (cents) | | | | |
| - Interim | 4.75 | 4.75 | - | 4.75 |
| - Final | 5.50 | 5.00 | 10.0% | n/a |
| Dividend franking level | | | | |
| - Interim | 60% | 60% | | 0% |
| - Final | 20% | 60% | | n/a |
| Ordinary shares on issue (million) | 1,740 | 1,740 | | 1,762 |
| Weighted average number of ordinary shares (million) | 1,740 | 1,757 | | 1,762 |
| Return on capital | 10.7% | 6.8% | | 6.5% |
| Return on equity | 16.2% | 10.4% | | 9.5% |
| **Financial position** | | | | |
| Shareholders' equity (ex outside equity interests) | 3,688 | 3,060 | 20.5% | 3,016 |
| Hybrid debt | 894 | 1,102 | (18.8)% | 1,184 |
| Corporate debt | 712 | 1,442 | (50.6)% | 1,079 |
| **Capital resources (ex outside equity interests)** | **5,294** | **5,604** | **(5.5)%** | **5,279** |
| Corporate debt/capital resources | 13% | 26% | | 20% |
| **Capital** | | | | |
| Solvency requirement | 1,923 | 2,494 | (22.9)% | 2,503 |
| Additional capital adequacy requirement | 707 | 633 | 11.7% | 702 |
| Excess assets (including target surplus) | 979 | 779 | 25.6% | 583 |
| Outside equity interests | 430 | 340 | 26.5% | 373 |
| **Net assets** | **4,038** | **4,246** | **(4.9)%** | **4,161** |
| **Funds under management, administration & advice** | | | | |
| Funds under management & administration | 51,109 | 48,526 | 5.3% | 41,870 |
| Funds under advice | 4,158 | 3,251 | 27.9% | 1,554 |

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

## Financial performance

Profit after tax (ex Health) and before non-recurring items for the 12 months ended 31 December 2003 was $537.1 million (2002 - $273.2 million).

| Financial performance (A$ million) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Operating Earnings | 300.8 | 279.2 | 7.7% | 256.6 |
| Investment Earnings | 322.1 | 111.4 | 189.1% | 58.7 |
| Corporate expenses | (42.0) | (39.1) | (7.4)% | (46.9) |
| Interest expense | (43.8) | (78.3) | 44.1% | (73.7) |
| **Profit after income tax (ex Health) and before non-recurring items** | **537.1** | **273.2** | **96.6%** | **194.7** |
| Health | 9.8 | 43.1 | | 82.4 |
| Non-recurring items | 379.1 | 13.6 | | 30.8 |
| **Profit after income tax and non-recurring items** | **926.0** | **329.9** | **180.7%** | **307.9** |

**Operating Earnings** (ex Health) for the 12 months ended 31 December 2003 were $300.8 million (2002 - $279.2 million). This positive result is despite a $32 million adverse translation impact to our Hong Kong earnings due to the strong appreciation of the AUD over 2003.

| Analysis of Operating Earnings (ex Health) (A$ million) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Australia & New Zealand | 147.3 | 125.8 | 17.1% | 83.7 |
| Hong Kong | 156.9 | 155.9 | 0.7% | 179.5 |
| Singapore | (3.4) | (2.7) | (37.0)% | (6.6) |
| **Operating Earnings (ex Health)** | **300.8** | **279.2** | **7.7%** | **256.6** |

| Hong Kong Operating Earnings (HK$ million) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Operating Earnings | 800.3 | 622.0 | 20.9% | 712.1 |

We achieved very strong growth in operating earnings (ex Health) in Australia & New Zealand, up 17% to $147.3 million (2002 - $125.8 million). The result was driven by improved equity markets and the delivery of the benefits from the K5 programme including continued expense reductions. The result was also supported by the inclusion of the first full year of earnings from ipac. On a like-for-like basis operating earnings were up 13%.

In Hong Kong, operating earnings in local currency were up strongly by 21%, driven by strong investment returns, improved persistency, good expense controls, increasing level of sales and a change in profit carrier for conventional business. To more closely align emerging profit with services provided to customers, we have changed our assumptions for the profit carrier for conventional participating business. The net impact is to accelerate profit release with a positive impact of approximately HK$73 million (A$14.3 million) for the 6 months ended 31 December 2003 – see section 3 for more detail.

After taking into account the translation effect of the strong appreciation of the AUD, operating earnings were up 1%.

| Analysis of Investment Earnings (A$ million) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Australia & New Zealand | 45.2 | 44.4 | 1.8% | 51.6 |
| Hong Kong | 275.1 | 67.0 | 310.6% | 6.8 |
| Singapore | 1.8 | (0.0) | - | 0.3 |
| **Investment Earnings** | **322.1** | **111.4** | **189.2%** | **58.7** |

| Hong Kong Investment Earnings (HK$ million) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Investment Earnings | 1,402.7 | 296.7 | 372.8% | 47.3 |

**Investment Earnings** for the Group were up strongly to $322.1 million (2002 - $111.4 million) due to improved global equity markets and a contraction in corporate spreads on our US corporate bond portfolio. Mitigating this was the increase in US bond yields and the significant appreciation of the AUD over 2003. The impact of the AUD appreciation was a reduction of A$55 million in Investment Earnings. Earnings are translated at average exchange rates over the year.

Investment earnings in 2002 in Australia and New Zealand benefited from a $27.1 million foreign currency translation gain from assets held in New Zealand. In 2003, as a result of the strengthening of the AUD, there was a foreign exchange translation loss of $8.6 million. The returns on shareholder invested capital otherwise increased as a result of the strong improvement in equity markets.

**Corporate expenses** of $42.0 million were $2.9 million higher than last year due to additional contributions to the defined benefit section of the AXA Staff Superannuation Plan.

**Interest expense** was 44% lower than last year reflecting the fall in US interest rates during the period, the appreciation of the AUD, and lower debt levels due to debt repayments earlier in the year.

**Non-recurring items** of $379.1 million include after tax profits from the sale of AXA Health, the 50 per cent interest in Members Equity and our 3.7 per cent stake in AXA Investment Managers, a reduction in the carrying value of AXA Life Singapore and additional special employer contributions to the defined benefit section of the AXA Staff Superannuation Plan.

As outlined at the time of our 2003 interim results, in relation to the sale of AXA Health, the non-recurring profit after tax includes the impact of a more favourable tax outcome than assumed at the time of the announcement. AXA Asia Pacific has received assessments from the Australian Taxation Office totalling $127 million in respect of this sale. These assessments are in dispute. Based on Senior Counsel’s opinion we have received, no provision for this amount was made in the year as the payment of this tax is considered, based on advice, to be unlikely.

# 2 Australia and New Zealand

## 2.1 | Strategic overview and highlights

### K5 performance

2003 marked the end of the K5 transformation programme that was launched in April 2000, and under which we set out five aspirational objectives and a series of transformation programmes to strengthen and reposition the company.

The table below summarises the final outcomes against the K5 aspirational goals.

| | Aspirational goal | Dec 1999 | Dec 2003 |
|---|---|---|---|
| **K1** | To double the value of new business | $56m | $104m |
| **K2** | To be in the top 5 in net retail fund flows | Outside top 10 | Top 3 |
| **K3** | To reduce our management expense ratio by 50% | 18.8% | 11.3% |
| **K4** | To achieve top quartile rankings in the major surveys of service standards to advisers | 81st percentile (Aust)<br>67th percentile (NZ) | 19th percentile (Aust)<br>4th percentile (NZ) |
| **K5** | To achieve top quartile position in the AXA Global SCOPE survey of employee satisfaction | 51st percentile | 16th percentile |

It was widely recognised that these aspirational targets would be very difficult to achieve. Achieving the K5 aspirational goals was destined to be a major challenge and proved even more so given the general market downturn over the period. We achieved 93% of our K1 target and, in light of difficult market conditions, we believe this represents success. We have therefore achieved four of our five aspirational goals – K1, K2, K4 and K5.

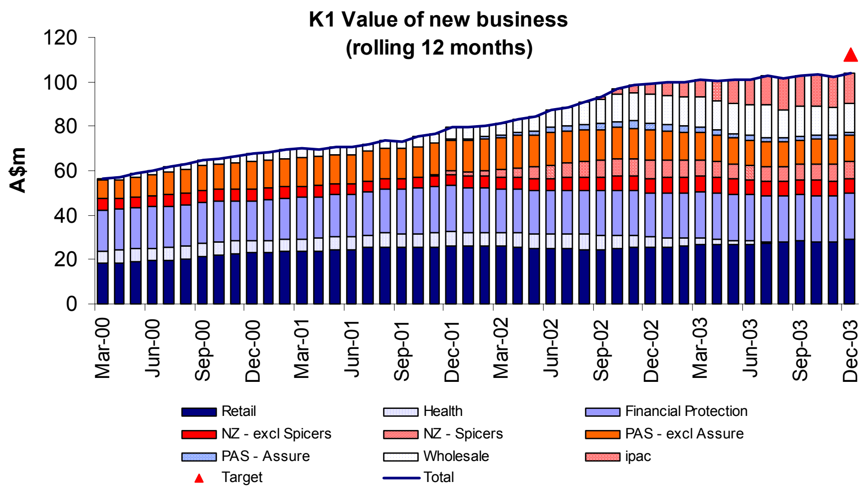
Although we did not meet the K3 objective of reducing our expense ratio by 50% due mainly to lower overall market growth, we did succeed in meeting our absolute cost reduction target and reduced the expense ratio by around 40% which has helped us to grow operating earnings by almost 37% per annum over the last three years.

## K1 – To double the value of new business

We have achieved 93% of our K1 target to double the value of new business. K1 value grew steadily over the 2000, 2001 and 2002 financial years, and remained relatively stable despite difficult market conditions during the first half of 2003.

Over the duration of the K5 programme the value of new business has grown by $48 million from $56 million in 1999 to $104 million in 2003. The largest improvements in value over this period were due to retail and wholesale investments.

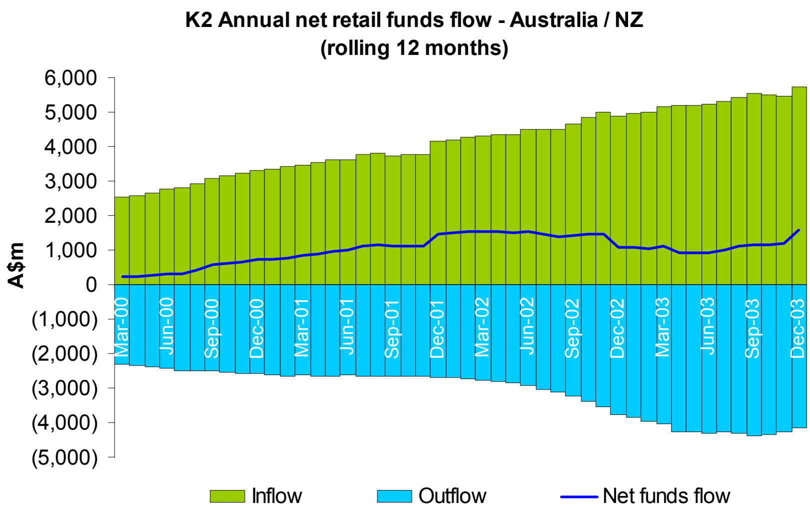
Businesses acquired during the programme period – ipac, Assure and Spicers – contributed a total of $23 million to the value of new business as at 31 December 2003. The value of new business from these acquisitions has more than offset the K1 impact of divesting the Health business.




## K2 – To be in the top 5 in net retail fund flows

K2 net retail funds flow results relative to the market have been continually encouraging. In the recently published ASSIRT 2003 Market Share Report, we were in the top 3 for net retail fund flows. The full year numbers for Plan for Life were not available at the time of publication, but we were in the top 3 for the 12 months to 30 September 2003 and we are confident that we will have retained this position for the full year 2003.

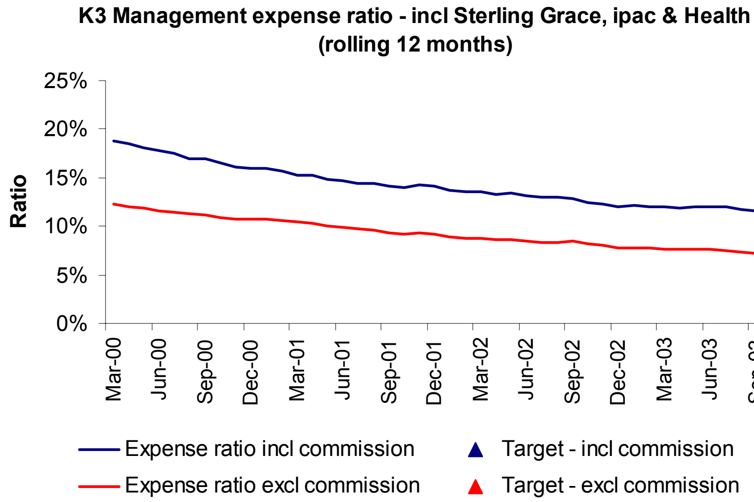
Our increased net retail funds flows were largely driven by strong performances in unit trust, and retirement income sales and the inclusion of ipac fund flows in K2. Along with increased sales, improved retention rates over the period further boosted net flows with the ratio of outflows as a percentage of inflows improving from 91% in 2000 to 72% in 2003.



## K3 – To reduce our management expense ratio by 50%

The K3 ratio continued to improve steadily over 2003. At December the ratio of 11.3% was the lowest since the start of K5 when the expense ratio was at a high of 18.8%. This represents a 40% reduction in the expense ratio over the duration of the programme.

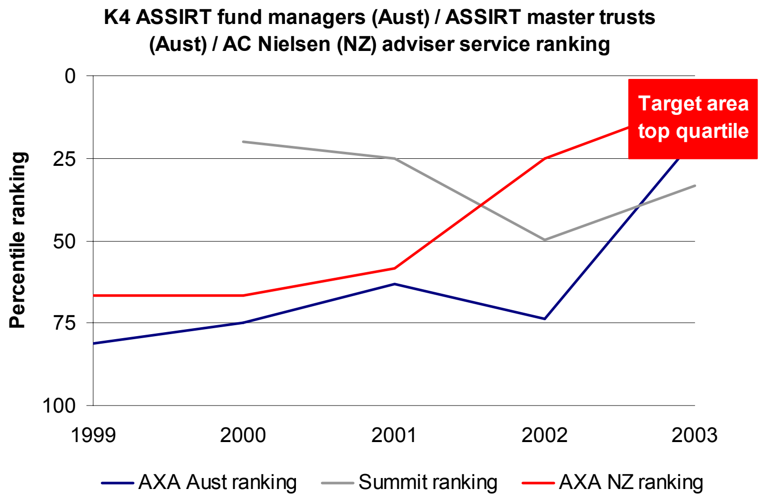
On an absolute dollar basis, we exceeded our expense targets for both management expenses and total expenses including commissions. However K3, as a ratio measure, is reliant on both expense targets being met and the growth in gross inflows. Gross flows were lower than anticipated when K5 was launched due mainly to overall lower market flows due to weak global equity markets.




## K4 – To achieve a top quartile rankings in the major surveys of service standards to advisers

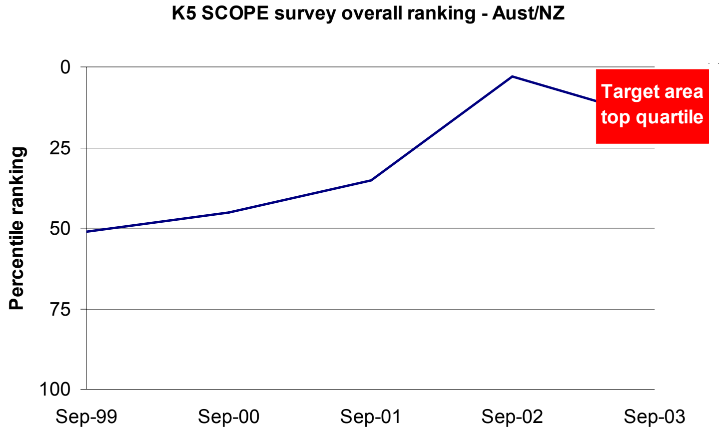
We have successfully improved service standards from a bottom quartile ranking in 2000 to the top quartile in 2003 in both Australia and New Zealand.

AXA Australia now ranks 5 out of 26 fund managers according to the ASSIRT fund manager service survey, placing us at the 19th percentile. This compares to a ranking of 14 out of 19 fund managers in 1999. In New Zealand, the AC Nielson Survey ranked AXA 1st among all providers in 2003. This improvement, from being ranked 8th in 2000, has been driven by increases in satisfaction among brokers and financial planners.



### K5 – To achieve a top quartile position in the AXA Global SCOPE survey of employee satisfaction

Our objective of achieving a top quartile ranking among the global AXA Group for overall employee satisfaction was achieved in 2002 and has been maintained in 2003 where we ranked in the 16$^{th}$ percentile. The 2003 SCOPE employee survey results showed an improvement across nearly all key dimensions of the survey when compared to 2002.

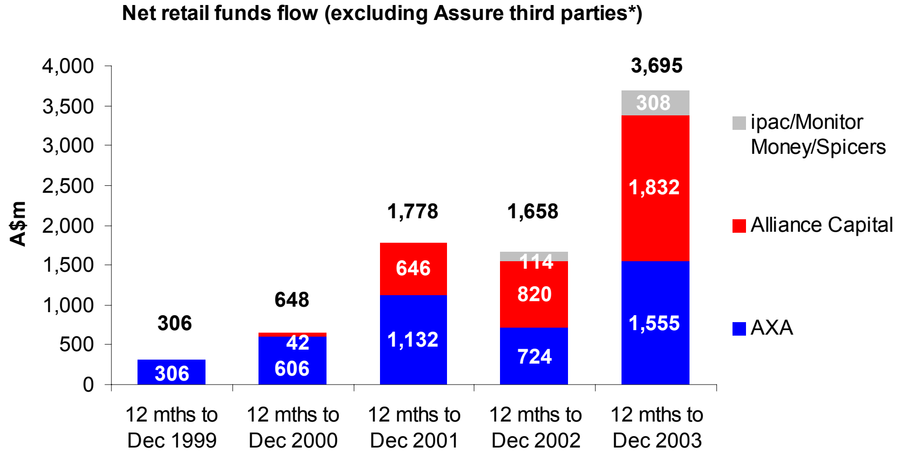



## Progress on strategic imperatives

Supporting the K5 aspirational goals were seven strategic imperatives. In this section we summarise the progress made during 2003.

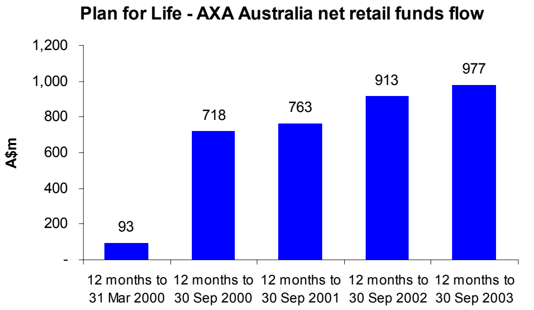
### Grow our share of retail investment and superannuation

We have continued to make strong progress in 2003. Our funds under management and administration have grown 8% to $44.2 billion as at 31 December 2003 (2002 – $41.0 billion). Net retail fund flows for 2003 were up 123% to $3.7 billion (2002 – $1.7 billion).

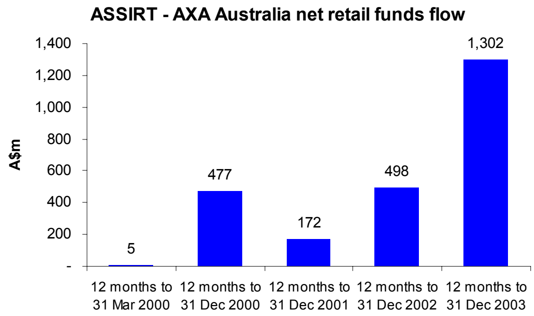



*Note: Net inflow of $254 million and outflow of $277 million in relation to terminated Assure third part contracts have been excluded from the 12 months ended 31 December 2002 and 2003 respectively*

This progress led to an outstanding improvement in our market position. The 2003 ASSIRT Market Share Report showed AXA ranked 2nd with net flows of $1,032 million (ASSIRT definition different from that used in the chart above). The 2003 Plan For Life report was not available at the time of publication of the Investor Compendium. For the 12 months ended 30 September 2003 AXA ranked 3rd.




| | | | | | |
|---|---|---|---|---|---|
| **Rank** | **18** | **9** | **10** | **8** | **3** |
| **Share of market net flow** | **0.5%** | **3.2%** | **2.9%** | **4.7%** | **16.9%** |




| | | | | | |
|---|---|---|---|---|---|
| **Rank** | **42** | **11** | **19** | **8** | **2** |
| **Share of market net flow** | **0.0%** | **2.6%** | **1.0%** | **4.5%** | **16.2%** |

*Note: Plan For Life figures for December 2003 were not available as at publication of this document*

Key initiatives in 2003 included:

- establishing a Bernstein equity team in Sydney to manage a Bernstein Value Style Australian equity portfolio
- launching AXA's Wholesale and Retail Australian Equity - Value Funds, uniquely positioning AXA as the only manager in Australia offering both value and growth investment styles across Australian and international equities
- appointing ipac as the portfolio manager for AXA's multi-manager funds, increasing ipac's scale in this market and delivering increasing profits due to reduced external investment management and asset consultant fees. ipac is one of the largest multi-manager operators in Australia managing $8.1 billion, providing a firm foundation for future AXA multi-manager developments in a rapidly growing market segment.

**Improve retention of funds under management**

Our retention campaigns in 2003 again achieved results in excess of the internal targets we set ourselves. We retained $435 million of funds (2002 - $190 million) through a range of initiatives and through working in close partnership with advisers. The focus of our CRM initiatives in 2003 has been on enhancing retention capability, beginning initiatives to address cross sell and up-sell opportunities, as well as commencing CRM operations in New Zealand.

We will continue to invest in customer relationship management capabilities and have a very strong team in this area which will deliver increasing benefits for AXA and for our customers through further improvements in funds retention.

**Increase the size and productivity of aligned advisers**

Our financial advice networks – AXA Financial Planning and Charter Financial Planning in Australia, and AXA Advisers in New Zealand – are among the largest networks in Australasia and represent a significant strategic strength. At the end of 2003 we had 1,609 advisers (2002 – 1,586).

Although the implementation of the Financial Services Reform legislation has led to some advisers deciding to retire rather than become licensed under the new regime, we have been able to recruit and grow our adviser base through a number of initiatives such as AXA Discovery under which we package up client bases from retiring advisers and sell them on to new recruits into our dealer groups. This initiative attracted 42 advisers and over $30 million in sales in the second half of 2003.

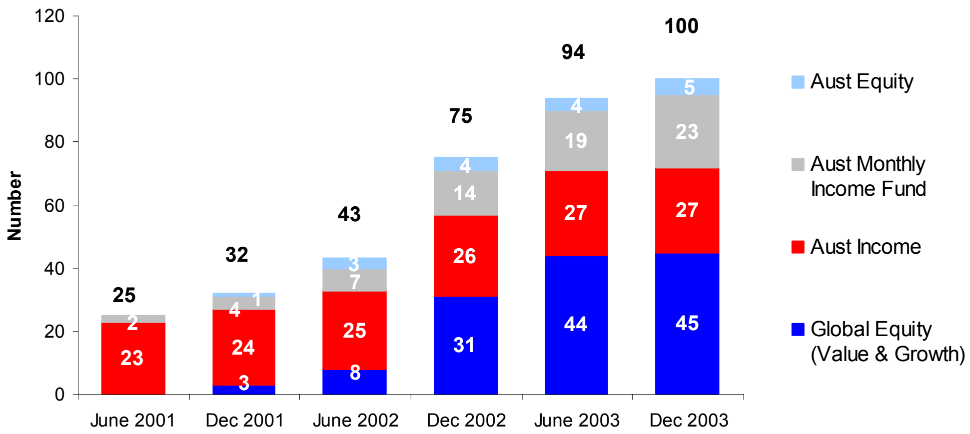
We are leveraging the high quality of ipac's advisory process through training other AXA licensed advisers in the ipac financial advice processes. At the end of the year nearly 400 advisers had been trained and this will further improve the quality of advice, productivity and average funds under advice per client.

**Increase penetration of non-aligned advisers**

During 2003 we continued to increase our penetration of third party aligned and independent advisers ("non-AXA aligned advisers"). Our strong presence was evidenced by the results of the 2003 ASSIRT service level survey. AXA was ranked first out of 26 for the support provided by its business development managers ("BDMs"). Four AXA BDMs ranked in the top 10 for the 2004 Money Management BDM of the Year Award, and 8 were nominated in the top 50.

In Australia, we continued to increase the number of AXA products listed through non-AXA aligned channels. The number of listings our unit trusts had on the approved product lists of the top 50 external dealer groups in Australia stood at 100 at the end of 2003 (2002 – 75).

**AXA product entries in the top 50 external dealer group* product lists**

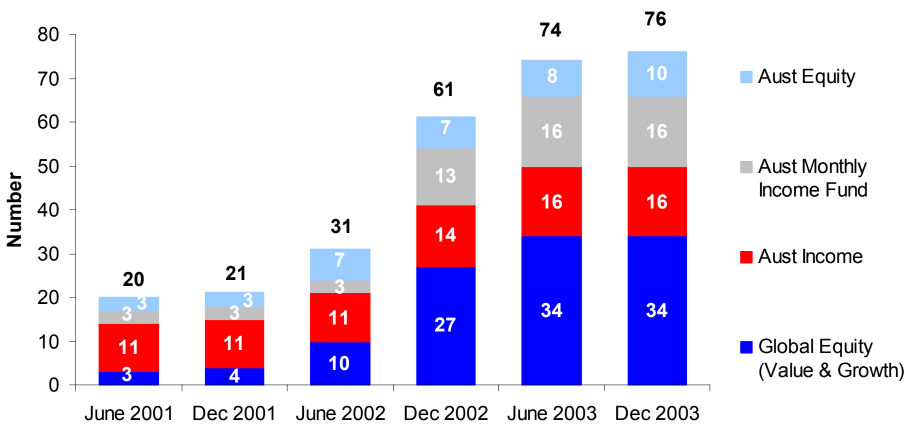



Source: AXA APH management

*(*) 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 top 50*

The number of listings of our unit trusts on the investment menus of the top 10 external master trusts in Australia (excluding AXA's Summit Master Trust) stood at 76 at the end of 2003.

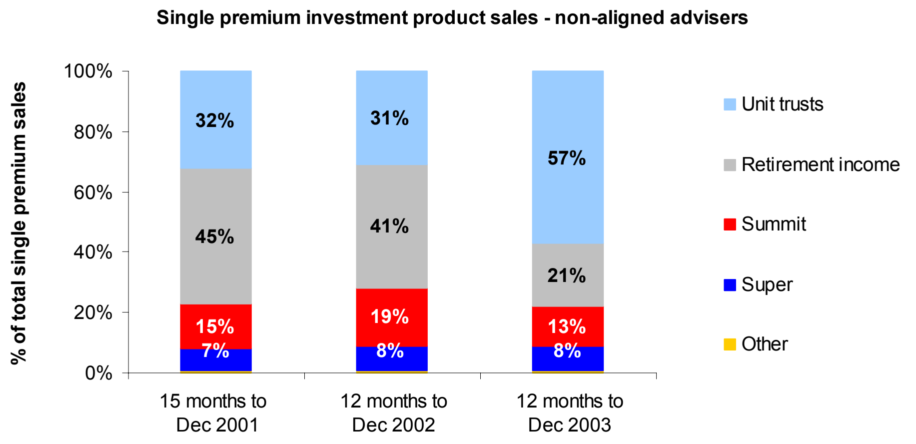
**AXA product entries in the top 10 external master trust* product lists**



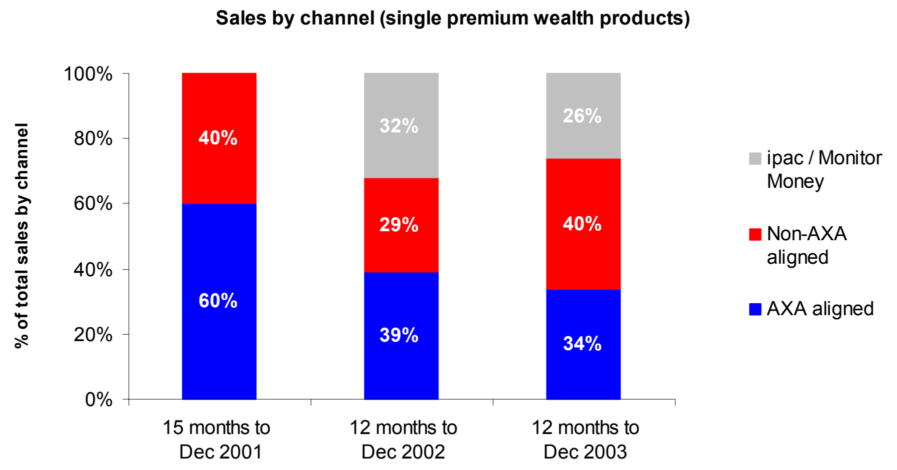

Source: AXA APH management

*(*) 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*

We have increased the weighting of higher margin product sales with strong growth in unit trust and Summit sales through non-AXA aligned channels. Retail unit trust sales through non-AXA aligned advisers increased by 300% in 2003. The following graph shows the evolution of the sales product mix over the last 3 years for non-AXA aligned advisers in Australia.




In 2003, for the first time ever, sales through non-AXA aligned channels exceeded those from the AXA aligned channels.




*Note: 2002 pro forma including ipac for full 12 months*

2003 saw the completion of the integration of Spicers in New Zealand and ipac in Australia. These acquisitions have allowed us to develop a leading presence in the independent financial advice market and further growing our position here is a key element of our future strategy. In New Zealand we have broadened our relationship with brokers and financial planners. As at 31 December 2003, AXA had a relationship with 659 brokers (2002 - 590). Brokers accounted for 15% of our risk sales in 2003 (2002 – 12%).

As a result of the sustained growth in non-aligned sales and the acquisitions of proprietary financial advice networks (ipac and Spicers), we have successfully diversified our distribution channels in Australia and are positioned to grow further in the third party aligned and independent sectors.

**Return our income protection portfolio to profitability**

2003 saw further progress in turning around this previously loss-making segment of our financial protection business. Following the return to profitability in 2002, operating profit was $13.5 million in 2003.

We have restored income protection to profitability through a series of initiatives such as improving management capabilities, tightening product terms and conditions, and enhancing our underwriting and claims management skills. We have lost market share as we returned to profitability and our challenge as we go forward is to start to restore this. However this will not be at the expense of profitability.

**Improve operational efficiency and reduce expense ratios**

K5 has helped to produce a culture of continuous improvement in cost efficiency and in 2003 total management expenses decreased for the fourth year in a row. On a like-for-like basis (adjusting for Health and ipac), total recurring management expenses excluding development costs reduced by 6% to $298.9 million (2002 - $316.4 million). Total management expenses reduced by 5%.

We are increasingly leveraging one of our competitive advantages – the ability to use the global capabilities of the AXA Group. In 2003 we outsourced IT infrastructure to AXA Technology and some non-customer facing information services to AXA Business Services.

**Improve our organisational capability through people**

We have focussed on developing the capability of our people through an integrated approach to core competencies, leadership, culture and values, and organisational alignment initiatives that match business objectives and improve the performance of our people. We will continue to develop and deliver programmes that improve our ability to attract, develop and retain superior performers.

Our success is shown by our ranking in SCOPE, the global AXA Group survey of employee satisfaction. In 2003 we were ranked at the 16th percentile amongst AXA Group companies around the world, with an outstandingly high employee response rate of 95.5%.

## Moving forward in Australia and New Zealand

Although we have performed very well over the last three and a half years against our K5 objectives there is more to do. Our challenge going forward is to leverage our stronger market position and grow further.

As announced in early February, Andrew Penn, previously Chief Financial Officer, is taking on the role of Chief Executive Officer for Australia and New Zealand, reporting to the Group Chief Executive. Following the success of K5, Andrew will be setting out a further set of aspirational objectives. These will be launched to managers and employees throughout AXA in March and will be communicated to the market in late March / early April.

There will be no change to our strategy and we will remain focussed on financial protection and wealth management. We will continue to distribute our products through high quality financial planning networks, and we will, increasingly, build a major financial advice business in Australia and New Zealand. The discipline, focus and challenge brought to the organisation through the clear and simple K5 goals will continue with the objectives we will be setting ourselves for the next few years.

## 2.2 | Financial summary

| Financial performance (A$ million) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Operating Earnings | | | | |
| Wealth management | 91.1 | 76.6 | 18.9% | 59.6 |
| Financial protection | 56.2 | 49.2 | 14.2% | 24.1 |
| **Operating Earnings (ex Health)** | **147.3** | **125.8** | **17.1%** | **83.7** |
| Investment Earnings | 45.2 | 44.4 | 1.8% | 51.6 |
| **Profit after income tax (ex Health) and before non-recurring items** | **192.5** | **170.2** | **13.1%** | **135.3** |
| Health | 9.8 | 43.1 | | 82.4 |
| Non-recurring items | (19.7) | 1.6 | | 29.9 |
| **Profit after income tax and non-recurring items** | **182.6** | **214.9** | **(15.0)%** | **247.6** |

**Operating Earnings** (ex Health) were 17% higher as a result of growth in both Wealth management and Financial protection.

Wealth management operating earnings grew 19% to $91.1 million (2002 - $76.6 million) due to sales growth, favourable investment markets and synergies arising from the successful integration of ipac, acquired in August 2002. Retail and mezzanine funds benefited from positive net fund flows, notably into the Australian Monthly Income Fund and Global Value Equity Fund. Funds under management, administration and advice also benefited from positive net fund flows and strong performance from equities in the second half of 2003.

Financial protection operating earnings grew 14% to $56.2 million (2002 - $49.2 million) predominantly as a result of improved mortality experience on individual life products and continued good experience in income protection.

| Investment Earnings (A$ million) | 12 months 31 Dec 03 | Return % | 12 months 31 Dec 02 | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Equities | 20.1 | 10.2% | (29.3) | 23.9 |
| Fixed interest | 16.1 | 2.8% | 31.2 | 2.1 |
| Property | 1.3 | 4.0% | 2.0 | 5.1 |
| Cash | 7.5 | 3.6% | 12.3 | 12.9 |
| **Portfolio assets [1]** | **45.0** | **4.3%** | **16.2** | **44.0** |
| Other assets | 8.8 | N/A | 1.1 | 3.0 |
| Foreign currency translation of assets in NZ | (8.6) | N/A | 27.1 | 4.6 |
| **Investment Earnings** | **45.2** | **N/A** | **44.4** | **51.6** |

*(1) Weighted percentage return based on portfolio mix. Portfolio mix as at 31 December 2003 is outlined in section 5.7*

**Investment Earnings** were slightly higher than last year. Earnings from portfolio assets were significantly higher than last year as a result of improved equity markets, particularly in the second half. Returns from other assets are also above last year.

Investment Earnings in 2002 benefited from a $27 million foreign currency translation gain from assets held in New Zealand. In 2003, as a result of the appreciation of the AUD, there was a foreign currency translation loss of $9 million.

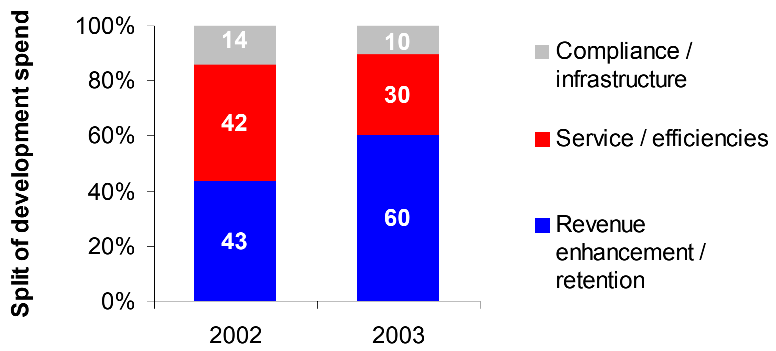
| **Expenses (A$ million)** | **12 months 31 Dec 03** | **12 months 31 Dec 02** | **Improvement** | **12 months 31 Dec 01** |
|---|---|---|---|---|
| Total recurring management expenses | 339.8 | 358.4 | 5.5% | 377.0 |
| Development expenses | 80.5 | 82.7 | 2.7% | 120.1 |
| **Total management expenses** | **420.3** | **441.1** | **4.9%** | **497.1** |
| Total commission and related expenses | 248.0 | 241.3 | (2.7)% | 246.3 |
| **Total expenses** | **668.3** | **682.4** | **2.1%** | **743.4** |

Total management expenses for the Australia and New Zealand businesses reduced by 5% to $420.3 million. Total recurring management expenses of $339.8 million reduced by 6% (2002 - $358.4 million).

The sale of AXA Health in August 2002 reduced recurring management expenses by $27.7 million in 2003 compared to the 12 months ended 31 December 2002, whilst the inclusion of recurring management expenses relating to ipac increased expenses by $23.0 in 2003. Adjusting for these changes in the business, as well as the one-off additional contribution to the defined benefits superannuation fund, the like-for-like reduction in recurring management expenses was 6% to $298.9 million (2002 - $316.4 million).

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 in 2003. We directed more development expenditure towards revenue generation initiatives and our wealth management products in 2003. Our focus has been further development of our distribution capabilities and products.

**Development expenditure spend by initiative**



## 2.3 I Wealth management

Equity markets, although weak in the first half, made a strong recovery over the remainder of the year. 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 depressed over the first half of the year as a result of the adverse market performance in 2002 and early 2003 and the resulting low investor confidence, which reduced inflows.

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

| **Financial performance** <br> **(A$ million)** | **Wealth management (life company)** | **Wealth management (other)** | **Wealth management total** |
|---|---|---|---|
| Operating earnings (12 months to 31 December 2003) | 64.7 | 26.4 | 91.1 |
| Operating earnings (12 months to 31 December 2002) | 56.8 | 19.8 | 76.6 |

**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. The increase in profit relative to 2002 has been driven by higher equity market returns on assets backing retirement income. The profit for superannuation and ordinary savings is in line with 2002. This result was achieved despite lower average funds under management and therefore lower fee income in 2003 compared to 2002.

| **Financial performance** <br> **(A$ million)** | **Retirement income** | **Super-annuation** | **Ordinary savings** | **Total (life company)** |
|---|---|---|---|---|
| **Profit margins released** | **11.5** | **33.4** | **9.1** | **54.0** |
| **Experience profit (loss)** | | | | |
| Expenses | 0.4 | 3.7 | (0.8) | 3.3 |
| Investment | 7.0 | 0.0 | (0.2) | 6.8 |
| Other (incl. Underwriting & surrenders) | (0.1) | 4.6 | 0.6 | 5.1 |
| Capitalised losses & reversals | (6.9) | 2.4 | 0.0 | (4.5) |
| **Operating earnings (12 months to 31 December 2003)** | **11.9** | **44.1** | **8.7** | **64.7** |
| | | | | |
| **Operating earnings (12 months to 31 December 2002)** | **1.8** | **44.1** | **10.9** | **56.8** |

**Retirement income** includes lifetime annuities. The profitability of lifetime annuities depends on the life expectancy of policyholders. In common with experience around the world, increases in life expectancy over recent years in Australia have exceeded those typically assumed in the original pricing. In recognition of this we have strengthened our reserving assumptions for future mortality of annuitants and this has led to capitalised losses on this portfolio. New policies have for some time been priced to reflect the higher life expectancy. The capitalised losses due to the change in the mortality assumption are partly offset by unit cost improvements and expected future investment returns following the increase in Australian interest rates. Overall, operating results have benefited from the significant improvement in equity markets.

**Superannuation** operating earnings mainly arise from the release of planned profit margins. These are released over the lifetime of the products, in line with services provided. The negative investment returns in 2002 and strengthening of the lapse assumptions in December 2002, caused planned profit margins to fall in 2003. Overall profit is in line with last year despite lower average funds under management in 2003. Experience profit has arisen from favourable expense and mortality experience in 2003. We are also experiencing lower levels of surrenders, due to successful retention strategies. Capitalised loss reversals have been achieved from lower expense assumptions applied to group life policies attached to business superannuation.

**Ordinary savings** includes traditional life office 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.

## Wealth management (non-life company environment)

The operating earnings of wealth management products sold outside the life company environment have been reported in the core product groupings of portfolio administration platform services, advice and investments.

| Financial performance (A$ million) | Portfolio admin. | Advice | Investments / other [1] | Total (non-life company) |
|---|---|---|---|---|
| Gross fees / revenues [2] | 67.3 | 110.2 | 45.4 | 222.9 |
| | | | | |
| **Operating earnings (12 months to 31 December 2003)** | **2.9** | **22.8** | **0.7** | **26.4** |
| **Operating earnings (12 months to 31 December 2002)** | **6.9** | **12.2** | **0.7** | **19.8** |

*(1) Investments / other results do not include fees derived by the Alliance Capital joint venture*
*(2) Gross fees / revenues in 2002 were stated net of tax. The above 2003 gross fees / revenues are stated gross of tax*

We have continued to invest in developing our wealth management products and advice capability. All three areas have been subject to redevelopment and organisational changes. These changes include the strategic decision to move towards one portfolio administration platform, the acquisition and integration of ipac and the sale of Members Equity.

There is significant ongoing investment in our **portfolio administration** platform. We have made a considerable investment in improving the functionality of Summit, and have successfully completed the integration of the Assure master trust onto the Summit platform, which will give rise to future cost savings. Operating earnings were down on last year due to higher development costs. The anticipated exit of Symetry and other third party business from the Assure platform has reduced gross fees but has had minimal impact on operating earnings given the very low margins on this business. The termination of these contracts was anticipated when we acquired Sterling Grace and no value was attributed to them.

**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 has been successfully integrated during 2003. Operating earnings from Spicers in New Zealand were impacted by the volatile market conditions in the first half of 2003, but the last few months of 2003 saw a return in investor confidence and a sharp improvement in net funds flows. The Spicers business model is focused on providing post-retirement, lump sum investments in predominantly equity-backed products.

**Investments/other** saw improvements over last year from both the Alliance Capital Joint Venture (“ACM”) and National Mutual Funds Management (“NMFM”). The operating earnings of ACM (of which we have a 50% interest) have improved principally as a result of the increased institutional clients sourced directly by Alliance during the latter part of 2002 and early in 2003. NMFM’s operating earnings are above last year due to higher net revenues from the rate increase on mezzanine Australian Income Fund at the end of 2002 and new inflows into the Australian Monthly Income Fund particularly since July. These products have remained popular during volatile equity conditions. These improvements were offset by the exclusion of profits from Members Equity, which was sold in early 2003.

In 2003 we made additional investments in a number of new product launches, including the Bernstein Australian equity value funds.

### ipac integration

We acquired ipac in August 2002 and we successfully completed the planned integration activities by August 2003. We have achieved cost savings of $10 million in 2003 and will achieve savings of $15 million in 2004 – significantly greater levels than were assumed at the time of the acquisition.

We previously stated at the time of acquisition that we expected the multiple of the price paid to net profit after tax to be in the range 13 to 17 times forecast 2003 earnings in normal market conditions. Although market conditions have been far from normal with falls in equity values leading to reduced income from fees and lower levels of gross inflows, we did, nevertheless, achieve this in 2003.

In addition to cost synergies we are benefiting from significant further synergies. Ipac now acts as the portfolio manager for AXA’s multi-manager funds and now has $8 billion in multi-manager portfolios – one of the largest in Australia – following the transfer of $2 billion from AXA.

## 2.4 | 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 (excluding group life and salary continuance) grew 14% compared to 2002. 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 income protection** [1] | **Individual income protection** | **Financial protection total** |
|---|---|---|---|---|---|
| **Profit margins released** | **12.2** | **25.0** | **N/A** | **0.1** | **37.3** |
| **Experience profit (loss)** | | | | | |
| Expenses | 0.6 | 2.5 | N/A | 0.5 | 3.6 |
| Investment | 1.7 | (8.4) | N/A | 3.3 | (3.4) |
| Other (incl. underwriting & surrenders) | 0.4 | 6.8 | N/A | 3.4 | 10.6 |
| Capitalised losses & reversals | 0.0 | 0.0 | N/A | 6.3 | 6.3 |
| **Operating earnings (12 months to 31 December 2003)** | **14.9** | **25.9** | **1.8** | **13.6** | **56.2** |
| | | | | | |
| **Operating earnings (12 months to 31 December 2002)** | **12.3** | **20.1** | **0.3** | **16.5** | **49.2** |

*(1) Group life & Group income protection, 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. Future profit margins are however expected to decline in line with the expected run off of this business.

The experience for **individual life** has been favourable due to positive mortality and expense experience and an increase in planned profit releases as a result of growth in the size of the portfolio. These gains were partly offset by a reduction in investment earnings.

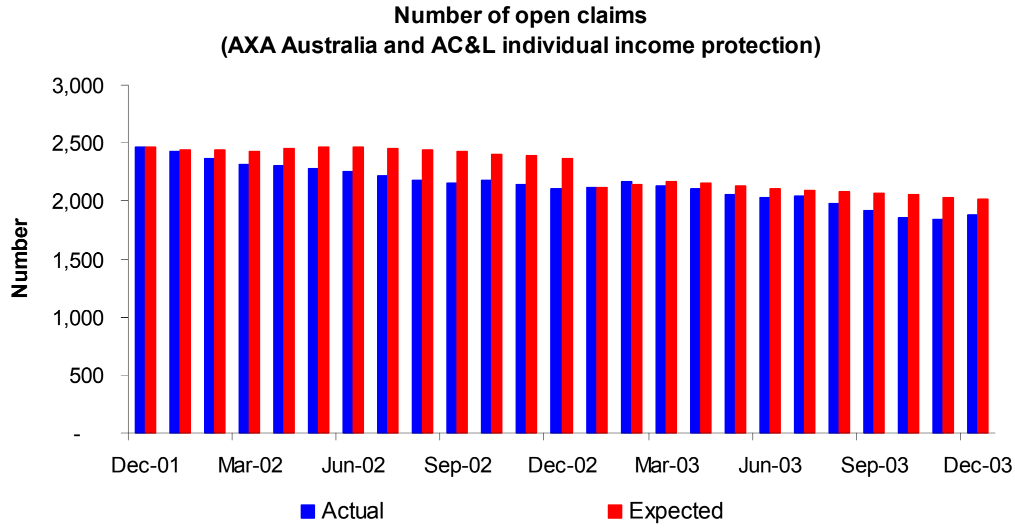
Individual life liabilities under MoS accounting are negative on this profitable product. As a result, this product is notionally allocated negative investment income, offsetting gains on shareholder capital supporting this block of business.

This block of business continues to contribute around 50% of total financial protection operating earnings.

**Income protection** operating earnings includes a further release of capitalised losses of $6 million. This is lower than the capitalised loss reversal last year, which had included one-off improvements in morbidity assumptions. Investment returns improved significantly compared to last year. We are retaining a conservative approach to reserving on this block of business. If current experience continues we would expect further releases of capitalised losses. There is the potential to release $19 million in capitalised losses over the next few years.

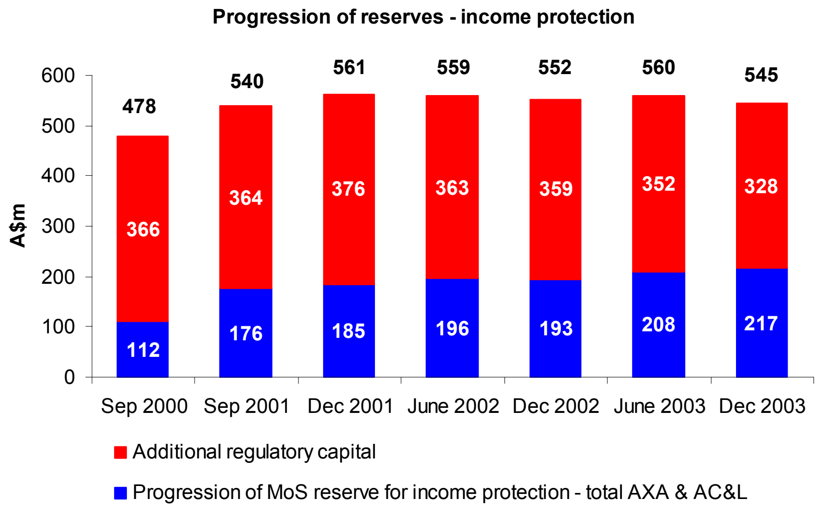
The underwriting result for 2003 was positive, recording a $3 million profit. This is as a result of better claims termination experience than best estimate assumptions. The 2002 underwriting experience was an exceptional result as it included significant positive impacts from fundamental changes to underwriting and claims management.

The chart below shows the progression of open claims since 2001. This chart demonstrates that whilst claims experience was poor in 2001, experience since has been favourable with claims numbers now 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 6 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 regulatory capital is held. The following graph indicates the strength of our capital support for this product line.




The impact of reserves on profit is dependent upon the relative movement of actual and expected reserves. If actual increase in reserves is less than the expected increase in reserves, a profit will arise. During the 12 months ended 31 December 2003, actual reserves increased by $24.6 million to $217.3 million, while the expected reserves increased by $43.0 million, leading to a gross profit impact of $18.4 million.

The main sources of this profit are:

- favourable interest rate movements and slightly favourable lapse experience on active lives reserves
- favourable impact of market movements in interest rates on outstanding claims reserves
- good claims termination experience (higher than expected termination of claims)
- slightly favourable claims incidence experience (fewer claims occurring compared to expected).

## Wealth management

Net retail funds flow were $3,418 million, up 79% (2002 - $1,912 million). Excluding net funds flow from the expected discontinuance of low margin PAS third party business of $277 million (those discontinuances were expected when Sterling Grace was acquired), net retail funds flow were $3,695 million (2002 - $1,658 million).

The significantly higher net funds flow for 2003 reflects a combination of positive net flows across nearly all areas of our Australian business. The highlights were the gross inflow figures achieved in Investment products and ipac, and the retail mandates captured by Alliance Capital Management. In addition, improved management of outflows during difficult market conditions, particularly in superannuation and retirement income products, contributed to the strong net funds flow.

The success in reducing fund outflows was a result of CRM and retention campaigns aimed primarily at our existing superannuation clients. These campaigns not only helped improve our performance on surrenders and lapses, but also contributed to additional investments by existing customers.

There were a number of new business initiatives, including a successful special offer on personal superannuation, tactical product developments on business superannuation and targeted efforts on some key retail and mezzanine unit trusts.

Considerable internal scale benefits and a great deal of positive market interest were generated through moving the portfolio management of AXA's multi-manager portfolios to ipac, which helped both in terms of retention and new sales. We moved $2.0 billion of funds to ipac investment management resulting in total multi-manager funds under management and administration by ipac of $8.1 billion at 31 December 2003.

2003 was also a year of consolidation for our platform business. We migrated the Monitor Money business off the Assure platform and onto the Summit platform. We also developed and launched ipac's iAccess wrap on the Summit Platform, further contributing to economies of scale.

### Retail product flows

| (A$ million) | Inflows | | | Outflows | | | Net flows | | |
|---|---|---|---|---|---|---|---|---|---|
| **Product view** | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Change** | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Change** | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Change** |
| Superannuation | 1,187.3 | 1,112.7 | 74.7 | 948.3 | 1,096.1 | 147.8 | 239.0 | 16.5 | 222.5 |
| Retirement income | 385.5 | 491.5 | (106.0) | 387.5 | 464.2 | 76.7 | (2.0) | 27.3 | (29.3) |
| Investments | 1,729.9 | 940.5 | 789.4 | 771.0 | 587.6 | (183.3) | 958.9 | 352.8 | 606.1 |
| PAS (ex 3rd party business) | 903.2 | 1,053.1 | (149.9) | 494.2 | 711.1 | 216.9 | 409.0 | 342.0 | 67.0 |
| ipac | 909.4 | 323.0 | 586.4 | 606.6 | 221.0 | (385.6) | 302.8 | 102.0 | 200.8 |
| **Subtotal Australia** | **5,115.2** | **3,920.7** | **1,194.5** | **3,207.6** | **3,080.0** | **(127.5)** | **1,907.6** | **840.7** | **1,067.0** |
| **Subtotal New Zealand** | **507.5** | **561.0** | **(53.5)** | **552.9** | **564.0** | **11.1** | **(45.4)** | **(3.0)** | **(42.4)** |
| Retail mandates through ACM | 2,130.5 | 1,579.4 | 551.1 | 298.1 | 759.4 | 461.3 | 1,832.47 | 820.1 | 1,012.4 |
| **Total Aust & NZ retail flows (ex 3rd party business)** | **7,753.3** | **6,060.8** | **1,692.5** | **4,058.6** | **4,403.2** | **344.6** | **3,694.7** | **1,657.6** | **2,037.1** |
| Impact due to closure of 3rd party[1] business | 116.5 | 393.8 | (277.3) | 393.3 | 139.8 | (253.5) | (276.7) | 254.0 | (530.8) |
| **Total Aust & NZ (incl 3rd party business)** | **7,869.8** | **6,454.6** | **1,415.2** | **4,451.8** | **4,543.0** | **91.1** | **3,418.0** | **1,911.7** | **1,506.3** |

*(1) Includes Symetry, Netwealth, Hillross & Chifley*

### Superannuation

In 2003, Business Superannuation flows benefited from enhancements delivered in late 2002, including new point of sales material, reduced rates on insurance and more focus on tactical pricing and sales. Improvements to our Business Superannuation offer continued in 2003, with the launch of a new series of multi-manager portfolios and greater focus on the $5 million to $10 million segment of the corporate market. This marketing approach was successful, resulting in an increase of 26% in the number of superannuation plans with 50 or more members.

Personal Superannuation inflows performed strongly in the second half of the year following a successful campaign during the May / June "Superannuation Season". This campaign was aimed at capturing large superannuation rollovers by offering special terms to investors, and contributed to a solid performance for our Super Directions Personal Super Plan product, which broke the $1 billion funds under administration threshold in 2003.

The transition of multi-manager investment management from AXA to ipac enhanced the attractiveness of the offer to independent financial advisers and their clients. This will allow us to leverage the resources, expertise and scale of ipac in managing the $2 billion funds under administration in the Super Directions products.

The retention campaigns initiated in 2002 and carried through to 2003, had a positive effect on the closed personal superannuation products such as the Retirement Security Plan. These campaigns reduced outflows, resulting in a $32 million increase in net cash flow year on year.

Continuing on the good results of 2002, outflows from Simple and Tailored Super again improved by $67 million in 2003.

### Retirement income

We are represented in the retirement income market both in allocated pensions and immediate annuities.

We participate in the immediate annuities market only on a profitable basis, for both fixed term and lifetime annuities. Although this stance leads to relatively conservative pricing, our market share has remained stable due primarily to our financial strength compared to some competitors in the market.

Our maturity campaigns for short-term annuities continue to deliver benefits, with 34% of all maturing annuities electing to purchase a new annuity contract with AXA.

The focus for Allocated Pension sales was Summit, and sales have been included in the PAS results.

### Investments

Sales of Investment products were up 84% overall, with a 140% increase in retail unit trusts and 102% increase in mezzanine unit trusts.

The face of the retail product offer continues to change with many product providers now requiring an individual investment mandate to be offered within their multi-manager products. Through the joint venture with Alliance Capital, AXA was successful in gaining market share in this segment with net retail mandate cash flows increasing 123% to $1,832 million (2002 - $820 million).

#### *Australian equity value style*

Building on the strong appetite demonstrated by the Australian market for Bernstein managed global equities, ACM established a Bernstein team in Sydney to manage a Bernstein Australian equity value portfolio, targeting both the retail and mezzanine markets. In August 2003, we launched AXA's Wholesale and Retail Australian Equity - Value Funds, uniquely positioning AXA as the only manager in Australia offering both value and growth investment styles for Australian and international equities.

### *Retail and Mezzanine unit trusts*

Retail unit trust sales were $503 million (2002 - $210 million). The growth was largely due to investment sentiment favouring more conservative investments and the timely re-positioning of our mortgage and income products in 2002 coming to fruition.

This repositioning resulted in good product ratings and listings on independent approved product lists, including some of the major banks' financial planning arms. 2003 also saw strong growth in flows into the Global Equity Value fund (managed by Bernstein) and our retail property fund.

This is an encouraging result compared to three years ago when there was a heavy reliance on the capital guaranteed mortgage fund.

Externally sourced mezzanine sales increased to $759 million (2002 - $268 million). As in the retail market, the main growth came from mortgage, Global Equity Value and property funds.

### *Global Equity Value Fund*

AXA's Global Equity Value funds benefited from over $292 million in retail sales in 2003, representing AXA's best year ever for international equity sales, which is an excellent result given the conditions in global equity markets in 2002 and the first half of 2003.

This success was due to the recognition of Bernstein as one of the world's best equity value managers as evidenced by the fund's excellent ratings – for example, van Eyk's "A" rating of this fund.

### *Repositioned mortgage funds*

Mortgage funds are an important part of our market offering, and we have made changes in product design and pricing to be able to profitably sustain our strong position. Mortgage fund sales were over $720 million, significantly contributing to net funds flows. Strong inflows reflect AXA's brand strength, the quality of our in-house commercial lending management capabilities, and fund changes implemented in 2002 providing the opportunity to continue to benefit from strong inflows.

The strategy introduced in 2002 to manage business away from the capital guaranteed Australian Income Fund ("AIF") to the non-capital guaranteed Australian Monthly Income Fund ("AMIF") continued successfully, with more than 80% of new business directed to AMIF. This has reduced our capital commitments whilst retaining our strong market position in the mortgage fund market. The AIF fund size reduced at a slower than expected rate during 2003, despite a 50 basis point price increase in December 2002.

### *Portfolio administration services*

We were ranked the sixth largest master trust provider for funds under administration, according to ASSIRT, with funds under administration remaining constant at $16 billion in 2003, with steady growth of 6.5% in Summit's funds under administration being offset by some one-off transfers out by third party PAS clients. Profits were lower than 2002 primarily due to lower than expected funds under administration caused by difficult market conditions and high levels of development cost. There were significant investments for the Assure platform migration and the ipac platform build, but these investments will provide benefits in future years.

The result is a further $500 million of funds under administration now being administered on the Summit platform, and we will be able to close the Assure business operations in line with the Sterling Grace acquisition strategy. The majority of ipac's new business will now flow to the Summit platform through iAccess allowing the Group to capture future margins.

Encouragingly, Summit achieved overall gross inflows of $837 million and net inflows of over $422 million in a year where net funds flow in the master funds market overall were down by 52% compared to 2002 (12 months to September, as reported by Plan For Life).

Significant investments were made to underpin future growth on the Summit platform. These included a new e-commerce platform to support the growing number of advisers using the Summit on-line services, new telephony and workflow management systems, and a major development designed to automate all client communications.

The number of Summit users in the independent financial adviser segment increased during 2003 to 550 (2002 – 471). The number of aligned advisers with funds under administration on Summit increased slightly to 805 advisers, although aligned advisers writing new business rose to 576 (2002 – 511).

As with our superannuation business, portfolio management of the Summit Select multi manager product was transferred to ipac in mid 2003. This product (funds under management of $400 million) will now benefit from the scale and expertise of the ipac's multi-manager capabilities.

**Advice**

ipac has three core activities:

1) an in-house financial planning business
2) strategic partnerships with independent financial advice practices
3) multi-manager funds management operation.

ipac's in-house financial planning business expanded into Brisbane in 2003, providing ipac with a presence under its own brand in all capital cities on the eastern seaboard with 34 advisers. ipac continues to build scale through organic growth and the acquisition of smaller advice practices that fit within its business model.

Since the Equity Partner Program was launched in mid-2001, ipac has completed more than 10 acquisitions. In 2003 ipac purchased equity stakes in quality advice firms in Cairns, Brisbane, Perth and Werribee (regional Victoria). ipac also purchased an advisory practice in Newcastle. This practice was incorporated into ipac's Newcastle office, making ipac one of the largest practices in the Hunter region with more than $100 million funds under advice.

ipac's financial planning joint venture with insurance and wealth management group Aon was finalised late 2002 and much of 2003 was spent establishing this initiative.

Following the acquisition of ipac in 2002 a project was established to transition AXA's multi-manager funds under management across to ipac, who are one of Australia's largest multi-manager fund managers and have developed a robust investment process over the last 15 years of operation. ipac managed $5 billion of funds under management for their own products and for a range of other advisory groups.

In mid 2003, over $2 billion of AXA's multi-manager business was transitioned to ipac. While the move resulted in no additional costs to investors, shareholders benefited from investment manager fee reductions driven by increasing ipac's funds under management scale and providing savings in fees to external consultants.

The transition of AXA products to ipac's management provides AXA the opportunity to further develop our multi-manager offers, particularly in the independent financial planning sector.

Looking forward, ipac's expertise, size and operating model provides a firm foundation for AXA to develop further in the multi-manager market, which is recognised as a rapidly growing market segment in Australia.

**New Zealand**

Our New Zealand business responded well to the improvement in global equity markets in the second half of the year. Flows through Spicers improved significantly. Net positive funds flow of NZ$13.3 million were achieved from sales of NZ$236.1 million and outflows of $222.8 million. Sales in the second half of the year were double those of the first half, whilst outflows fell 19% from NZ$264.9 million in 2002 to NZ$222.8 million in 2003. Overall, a combination of positive net sales, improved equity returns and acquisitions saw total funds under management within Spicers grow from NZ$1.5 billion to NZ$1.7 billion.

The difficult market conditions in the early part of the year gave rise to a number of acquisition opportunities and four transactions were completed with total funds under management of NZ$200 million. Of the acquired funds under management, NZ$40 million has been transferred into Spicers products and the remainder will be transferred over the next 15 months.

The integration of Spicers with AXA was completed during the year. The investment management and investment administration for all New Zealand assets were combined, and ipac financial planning tools and processes were tailored for the New Zealand market and rolled out to all Spicers advisers in the last quarter of 2003. Total adviser numbers have grown from 63 to 67, across a national network of 27 offices.

Our wholesale and mezzanine business grew by 11% to NZ$97 million. Sales favoured fixed interest orientated funds, namely AXA's mortgage backed fund, and the AXA Enhanced Income Fund. A new retail portfolio administration service (AXA PAS) was launched to New Zealand investment advisers in May and has attracted 97 registered users.

## Financial protection

We are a market leader in most segments of financial protection in Australia and New Zealand. Business growth continued at a steady pace through 2003 as we benefited from the measures taken in 2001 and 2002 to strengthen underwriting and claims management.

We continued to build on the 2002 re-positioning of the AXA and Australian Casualty & Life ("AC&L") brands, using the two brands to successfully deliver improved offers to two distinct market groups: AXA for business / high sums insured protection needs, and AC&L for personal protection needs. In August 2003 we launched additional tools for the business insurance market, including technical tools to assist advisers and clients at point of sale.

### Financial protection new business

| (A$ million) | New business | | | Discontinuances | | | In-force | | |
|---|---|---|---|---|---|---|---|---|---|
| **Regular premium** | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Increase** | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Improve-ment** | **At 31 Dec 03** | **At 31 Dec 02** | **Increase** |
| Long term risk | 2.0 | 2.1 | (0.1) | 7.6 | 7.9 | 0.2 | 60.3 | 65.9 | (5.7) |
| Individual IP | 20.2 | 21.4 | (1.2) | 26.1 | 34.7 | 8.6 | 181.5 | 187.4 | (5.9) |
| Individual life | 34.0 | 31.3 | 2.8 | 23.2 | 22.5 | (0.7) | 176.1 | 165.3 | 10.8 |
| Group life & IP | 19.3 | 27.6 | (8.4) | 14.6[1] | 42.7 | 28.1 | 105.6[1] | 100.9 | 4.6 |
| **Subtotal Australia [1]** | **75.5** | **82.4** | (6.9) | **71.6** | **107.9** | 36.3 | **523.5** | **519.6** | 3.9 |
| New Zealand | 20.3 | 17.1 | 3.2 | 13.9 | 14.0 | 0.1 | 123.1 | 112.0 | 11.1 |
| **Total Aust & NZ** | **95.8** | **99.6** | (3.8) | **85.4** | **121.9** | 36.4 | **646.6** | **631.6** | 15.0 |
| Single premium | 27.8 | 25.0 | 2.7 | | | | | | |
| One off adjustment due to loss of low margin industry plan | | | | 11.5 | | | (11.5) | | |

*(1) Excluding loss of one large $11.5m plan*

### Long term risk

Overall a good result for this product line which has mostly been replaced by term insurance in the market, with the industry seeing little new business replacing outflows. Our new business inflows for the year equalled those of 2002, and discontinuances were less than in 2002. Our net position, 9% down on 2002, is consistent with the behaviour of the market, where market in-force has dropped 8.6% in the year to September, 2003 (source Plan For Life).

### Individual income protection

Our new business result of $20.2 million, compared with $21.4 million last year, was satisfactory and we have been able to maintain market share in a relatively flat market whilst writing profitable new business. Retention rates were 25% higher than in 2002, with most of the improvement coming through in the second half of the year, an encouraging sign that our market share in this now profitable portfolio has stabilised.

**Life, Trauma, TPD – Australia**

Despite increased market competition, this portfolio continues to show solid growth. Total in-force premiums increased by 6.5% to $176 million (2002 - $165 million). This was the result of steady inflows which improved in the last quarter of 2003, following the roll-out of sales tools to the market in August, and reductions in discontinuance rates.

**Group Life & Salary Continuance (Income Protection) – Australia**

The overall net premium inflow position at the end of 2003 was $4.6 million up on 2002, after adjusting for the one off loss of one large industry plan where we refused to compete at levels of premium we felt would not be profitable. Our decision not to retain this business is consistent with our strategy to only win or retain business on appropriately profitable terms. Excluding the loss of this plan, in-force premiums as at 31 December 2003 were $94.1 million or 7% down on 31 December 2002.

**New Zealand**

As a consequence of our strategy to increase our share in the broker market, it is pleasing to report that Individual Term Life business increased in volume by 14% on 2002, with an increase in Individual Income Protection of 6%.

A concentrated effort in the Group Life sector has led to an increase in volumes of 36% over 2002 which is positive in the context of increased prices in this market, and consistent with our strategy of focusing on profitable segments.

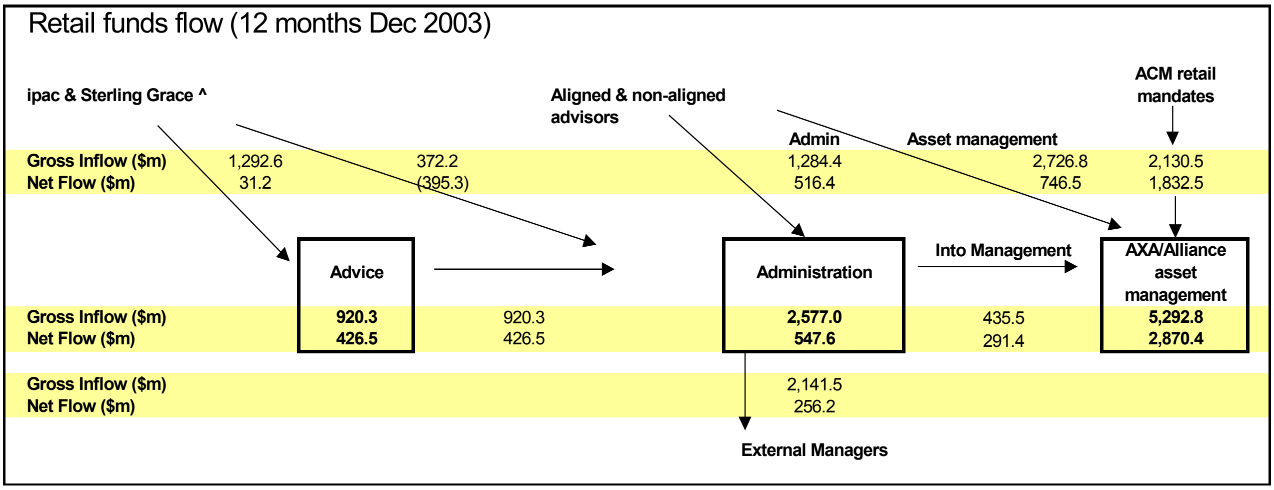
Our retention efforts have had a positive impact on the long term risk book with outflows from the conventional product group being only 65% of 2002 levels.

## 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 will enable us to extract greater value and scale, and benefit from margins right across the value chain.

The following table illustrates our gross and net retail funds flows for the 12 months ended 31 December 2003. Net advice flows of $426.5 million have increased following the inclusion of ipac flows for a full 12 month period.

Asset management flows from AXA aligned and non-AXA aligned advisers represent direct investment flows not administered on the AXA PAS platform, together with traditional retirement income and offsale superannuation business. The $291.4 million net flows from administration into Alliance Capital reflects the increasing market acceptance of the success of the Alliance Capital joint venture. The result has been greatly assisted by better retention in superannuation products & higher inflows of Mezzanine Unit Trusts as previously noted.




### Reconciliation of funds flow into management, administration and advice

The following table is an alternative view of the above and reconciles to retail product flows previously shown in section 2.5. Additionally, we are double counting advice flows to illustrate the point that we are collecting an advice fee and an administration fee on 100% of those flows.

| 12 months ended 31 December 2003 | Funds flow | |
|---|---|---|
| (A$m) | Gross flow | Net flow |
| **ipac and Sterling Grace** | | |
| - advice flow | 920.3 | 426.5 |
| - administration flow | 372.2 | (395.3) |
| **AXA aligned and non-aligned advisers** | | |
| - administration flow [1] | 1,284.4 | 516.4 |
| - administration to investment management flow | 435.5 | 291.4 |
| - investment | 2,726.8 | 746.5 |
| **Retail funds flow (K2 measure)** | **5,739.3** | **1,585.5** |
| **Alliance retail mandates** | | |
| - investment management | 2,130.5 | 1,832.5 |
| **Retail funds flow (K2 measure plus Alliance retail mandate flow)** | **7,869.8** | **3,418.0** |
| Advice to administration flow | 920.3 | 426.5 |
| **Total funds flow (K2 measure plus Alliance retail flow and Advice flow)** | **8,790.1** | **3,844.5** |

*(1) Includes adjusted PAS third party flows*

From a practical standpoint, we collect the following fees:

- an advice and administration fee on 100% of funds flowing into our advisory network (ie. $426.5 million net flow in the 12 months ended 31 December 2003). We have therefore double counted advice flows in the above table to illustrate the point that we collect an advice and an administration fee on 100% of these flows
- an administration fee on 100% of the total $547.6 million flows into our administration platforms
- an asset management fee on $291.4 million (which is 53% of the $547.6 million net funds) flowing from our administration platforms to AXA/ ACM asset management
- an asset management fee on the $746.5 million form the aligned and non-aligned advisory network and $1,832.5 million from ACM retail mandates going to AXA / ACM asset management.

Our goal is to lift volume and percentage of flows across the chain, thereby increasing the margin captured at each point – advice, administration and investment management.

**Funds under advice and administration**

Funds under advice grew by 28% fuelled particularly by strong growth in ipac. We receive an advice fee from Monitor Money, ipac (including ipac financial planners as well as business partners which ipac will eventually have 100% ownership of) and Spicers retail. We are including the ipac full year net flow result for the first time having acquired the business in August 2002.

| **A$ million** | **Funds under advice and administration [1]** | | | | **Net funds flow** | | |
|---|---|---|---|---|---|---|---|
| **Product view** | **At 31 Dec 03** | **At 31 Dec 02** | **% increase** | **At 31 Dec 01** | **12 months 31 Dec 03** | **12 months 31 Dec 02** | **% increase** |
| ipac | 2,552.1 | 1,799.8 | 41.8% | 0.0 | 412.2 | 80.0 | 415.3% |
| Assure - Monitor Money | 543.0 | 529.2 | 2.6% | 572.0 | (6.6) | 3.7 | n/a |
| Spicers (NZ) | 1,062.9 | 922.0 | 15.3% | 982.1 | 20.9 | (0.3) | n/a |
| **Total** | **4,158.0** | **3,251.0** | **27.9%** | **1,554.1** | **426.5** | **83.4** | **411.2%** |

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

**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 of $44.2 billion increased by 7.9% during 2003.

In aggregating funds under management and administration, some funds are counted twice (e.g. 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.

Transfers in the internal management of monies to AXA's multi-manager specialist, ipac, have resulted in a significant decrease in the size of some of AXA's unit trusts. However, these funds under management remain within the AXA Group and are reflected in higher funds under management for ipac.

| A$ million | Funds under management & administration | | | | Net funds flows | | |
|---|---|---|---|---|---|---|---|
| Manager view | At 31 Dec 03 | At 31 Dec 02 | % Increase | At 31 Dec 01 | 12 months 31 Dec 03 | 12 months 31 Dec 02 | % Increase |
| AXA | 1,601.4 | 1,613.5 | (0.8%) | 1,733.4 | (12.0) | (133.0) | - |
| ACM joint venture | 30,057.0 | 27,318.5 | 10.0% | 25,102.6 | 2,449.0 | 2,554.4 | (4.1%) |
| Deutsche property funds | 1,570.0 | 1,550.0 | 1.3% | 1,527.0 | 12.0 | 4.6 | 160.9% |
| ipac | 8,080.0 | 5,049.0 | 60.0% | 0.0 | 2,505.0[1] | 78.6 | >> |
| External managers | 4,453.0 | 3,980.4 | 11.9% | 3,977.9 | (172.9) | 650.4 | - |
| **subtotal** | **45,761.4** | **39,511.4** | 15.8% | **32,340.9** | **4,781.1** | **3,155.0** | 51.5% |
| Internal double count (ipac / ACM) | (1,516.0) | (553.0) | 174.1% | 0.0 | (939.6) | (256.0) | - |
| **Subtotal excl exiting 3rd party business** | **44,245.4** | **39,979.7** | **10.7%** | **33,379.9** | **3,564.7** | **3,153.0** | **13.1%** |
| Exiting 3rd party business[3] | 0.0 | 1,021.3 | - | 1,039.0 | (276.7)[2] | 254.0 | - |
| **Total incl 3rd party business** | **44,245.4** | **41,001.0** | **7.9%** | **34,418.9** | **3,288.0** | **3,407.0** | **(3.5%)** |

*(1) Includes one off AXA multi-manager transfer of $2 billion from Other Fund Managers and internal transfers from ACM to ipac*

*(2) Includes adjusted PAS 3rd party outflows (Adjustment is to exclude the FUA as at Nov 2001 when the Sterling Grace business was acquired. This was done on the basis that we did not count this as an inflow at the time)*

*(3) Includes Symetry, Netwealth, Hillross & Chifley*

Retail funds under administration grew 11% and overall funds under management and administration grew by 8%. In difficult market conditions and where net industry flows contracted significantly, we managed to grow net retail funds flow by 123% over 2003.

| A$ million | Funds under management & administration | | | | Net funds flows | | |
|---|---|---|---|---|---|---|---|
| Source of funds | At 31 Dec 03 | At 31 Dec 02 | % Increase | At 31 Dec 01 | 12 months 31 Dec 03 | 12 months 31 Dec 02 | % Increase |
| Retail funds | 23,960.0 | 21,576.7 | 11.0% | 17,372.8 | 1,862.7 | 838.0 | 122.3% |
| Retail mandates | 5,215.0 | 3,383.0 | 54.2% | 1,468.8 | 1,832.0 | 820.0 | 123.4% |
| Institutional funds | 15,070.4 | 15,020.0 | 0.3% | 14,538.3 | (130.0) | 1,495.0 | - |
| **Subtotal excl exiting 3rd party business** | **44,245.4** | **39,979.7** | **10.7%** | **33,379.9** | **3,564.7** | **3,153.0** | **13.1%** |
| **Exiting 3rd party business** | 0.0 | 1,021.3 | - | 1,039.0 | (276.7) [1] | 254.0 | - |
| **Total incl 3rd party business** | **44,245.4** | **41,001.0** | **7.9%** | **34,418.9** | **3,288.0** | **3,407.0** | **(3.5%)** |

*(1) Includes adjusted PAS third party outflows (adjustment is to exclude the funds under administration as at Nov 2001 when the Sterling Grace business was acquired – this was done on the basis that we did not count this as inflow at the time)*

### 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). Funds under management excludes funds under administration which are managed externally to the AXA group. AXA funds under management grew primarily due to strong net flows into our Australian Monthly Income Fund.

The following table is a view by fund manager. Overall funds under management grew by 9%, with net funds steady despite the difficult market conditions.

| A$ million | Funds under management | | | | Net funds flow | | |
|---|---|---|---|---|---|---|---|
| Manager view | At 31 Dec 03 | At 31 Dec 02 | % Increase | At 31 Dec 01 | 12 months 31 Dec 03 | 12 months 31 Dec 02 | % Increase |
| AXA managed | 1,601.4 | 1,613.5 | (0.7%) | 1,733.4 | (12.0) | (133.0) | - |
| Alliance Capital joint venture | 30,057.0 | 27,318.5 | 10.0% | 25,102.6 | 2,449.0 | 2,554.4 | (4.1%) |
| Deutsche | 1,570.0 | 1,550.0 | 1.3% | 1,527.0 | 12.0 | 4.6 | 160.9% |
| **Total** | **33,228.4** | **30,482.0** | **9.0%** | **28,363.0** | **2,449.0** | **2,426.0** | **0.9%** |

The following table is an alternative view of funds under management providing a "source of funds" view. Retail funds grew by 7.2% and institutional funds were steady despite the loss of a $1.5 billion fixed interest / cash single client mandate. Net retail mandates grew by 54% on the back of $1.5 billion Global equity growth and value fund mandates from large retail providers. A retail mandate is a "fund of fund" mandate sourced from retail customers (ie. not a corporate or industry superannuation fund or a transfer from another fund manager).

| A$ million | Funds under management | | | | Net funds flow | | |
|---|---|---|---|---|---|---|---|
| Source of funds | At 31 Dec 03 | At 31 Dec 02 | Increase | At 31 Dec 01 | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase |
| Retail funds | 12,943.0 | 12,079.0 | 7.2% | 12,355.9 | 747.0 | 111.0 | >> |
| Retail mandates | 5,215.0 | 3,383.0 | 54.2% | 1,468.8 | 1,832.0 | 820.0 | 123.4% |
| Institutional funds | 15,070.4 | 15,020.0 | 0.3% | 14,538.3 | (130.0) | 1,495.0 | (108.7%) |
| **Total** | **33,228.4** | **30,482.0** | **9.0%** | **28,363.0** | **2,449.0** | **2,426.0** | **0.9%** |

## 2.7 | Advisers and agents

| Number of advisers at | 31 Dec 03 | 31 Dec 02 | Increase | 31 Dec 01 |
|---|---|---|---|---|
| **Australia** | | | | |
| Comprehensive Advisers [1] | 603 | 538 | 12% | 483 |
| General Advisers [1] | 476 | 506 | (6)% | 550 |
| Other Advisers | 46 | 77 | (40)% | 89 |
| **Total AXA financial advice networks** | **1,125** | **1,121** | **0%** | **1,122** |
| ipac / Monitor Money | 59 | 59 | - | 20 |
| **Total Australia** | **1,184** | **1,180** | **0%** | **1,142** |
| **New Zealand** | | | | |
| AXA Advisers | 359 | 344 | 4% | 328 |
| Spicers | 66 | 62 | 6% | 63 |
| **Total New Zealand** | **425** | **408** | **5%** | **391** |
| **Total** | **1,609** | **1,586** | **1%** | **1,533** |

*(1) Comprehensive advisers and General advisers were formerly reported as Level 3 and Level 2 advisers, respectively. Comprehensive advisers have been trained to provide the most comprehensive and complex financial advice and are accredited to provide advice on the broadest range of products*

AXA financial advice networks include AXA Financial Planning and Charter in Australia and the AXA and Quantum networks in New Zealand. The small increase in adviser numbers reflects our continued focus on recruiting quality advisers, practices and referral networks.

Recruiting quality advisers has resulted in AXA networks being able to reduce the number of low producing advisers while maintaining the overall adviser numbers.

The number of advisers for Spicers has increased as a result of the acquisition and successful integration of 3 practices.

# 3 Hong Kong

## 3.1 | Strategic overview and highlights

Despite challenging market conditions in the first half of 2003, in particular the outbreak of SARS and weak equity markets, our business continued on its growth path, driven by continued broadening of our distribution channels and expansion of our product range.

**Hong Kong insurance market**

The Hong Kong life insurance market continues to experience strong growth having grown 15% period-on-period for the 9 months ended 30 September 2003. Hong Kong's economy improved in the second half of 2003 with third quarter GDP increasing by 4% compared with a decline of 0.5% in the second quarter. Unemployment levels also improved with the latest unemployment rate of 7.3%, compared to 8.7% during June (SARS period).

Since the implementation of the individual visit scheme in July 2003, residents of 16 mainland China cities are able to visit Hong Kong on individual visas, helping to boost the local Hong Kong economy. From 1 January 2004, economic relations between mainland China and Hong Kong have been boosted following the implementation of the mainland China and Hong Kong Closer Economic Partnership Agreement ("CEPA"). With CEPA, mainland visitors are allowed to bring up to USD 5,000 on each visit to Hong Kong.

We have also seen a rebound in equity markets since the second quarter of 2003, with the Hang Seng index increasing by 31% in the second half. SARS had little negative impact on the growth of the financial protection market, rather aiding its growth through heightened awareness of the need for, and value of, adequate financial protection.

With the strong performance in equity markets in the second half of 2003, equity based investment linked products have increasingly gained acceptance and popularity. Customers are now refocussing their investment strategies towards equity based investment linked business. We continue to launch new products into the market. FUTURE, a unit-linked individual retirement plan, was launched in April 2003. Unit-linked product sales accounted for 28% of individual life sales during the 12 months ended 31 December 2003 (2002 – 25%).

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.

Hong Kong residents are increasingly becoming aware that the Mandatory Provident Fund ("MPF") will not provide sufficient funds to maintain their lifestyle in retirement. This will drive growth in funds under management in the retirement market and will lead to significant opportunities in retail investment funds and pensions.

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.

**SARS**

Life in Hong Kong between March and May of 2003 was significantly impacted by SARS. We acted quickly to address the SARS situation putting in place a number of initiatives to respond to customer needs.

Whilst customers were reluctant to make appointments during this time, SARS appears to have heightened people's general awareness regarding financial protection. Despite SARS, sales in the first half of 2003 were 9% higher when compared to the same period last year. Overall, the financial impact of SARS claims on our business was not material. If anything it has heightened awareness of the need for, and value of, adequate financial protection, providing a long term positive impetus.

## M6 performance

Three years ago we established our M6 transformation programme, where we set 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 continue to perform strongly against these objectives. If we continue the trend we have seen in the past two years, most of these goals will be within reach.

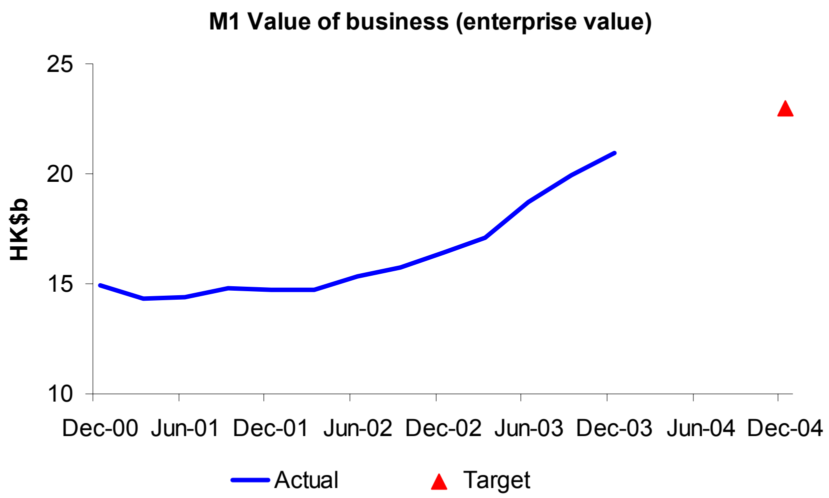
The table below outlines our performance against the M6 aspirational goals during the 12 months ended 31 December 2003.

| | Aspirational goal | 2000 | 2003 |
|---|---|---|---|
| **M1** | Enterprise value of HK$23 billion (as at year end) | HK$14.9b | HK$20.5b |
| **M2** | Gross premium income of HK$10 billion | HK$6.3b | HK$6.9b |
| **M3** | Assets under management of HK$42 billion | HK$28.1b | HK$40.1b |
| **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 | 49 |
| **M6** | Value of new business of HK$753 million | HK$321m | HK$519m |

### M1 – Enterprise value of HK$23 billion

Enterprise Value is on track towards the M1 goal of HK$23 billion in 2004. At the end of 2003, the M1 measure had increased by 38% since the launch of the M6 initiatives in 2000.

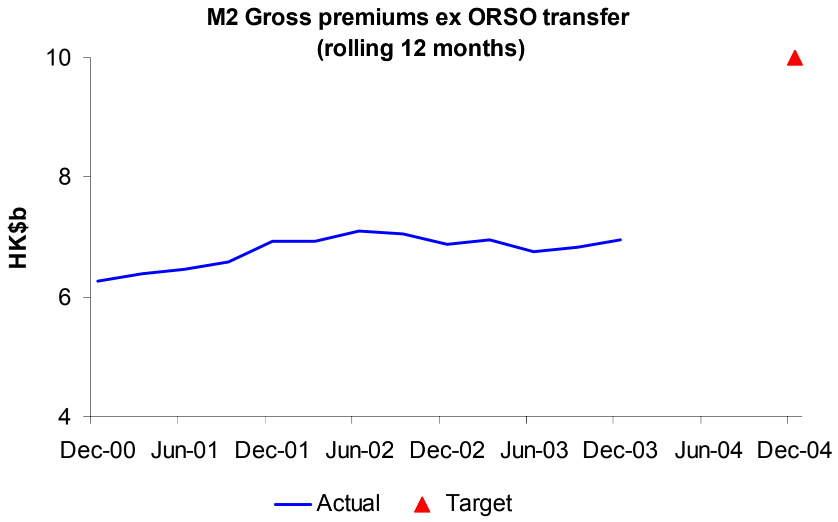
Persistency continues to improve, and is now at levels consistent with our long term assumptions. Mortality experience continues to be favourable and our already low expense ratios continue to be reduced. The improvement in investment markets in 2003 has reduced the amount of crediting rate recoveries assumed in our embedded value to close to zero on a market value basis – see pages 38-39 for further information on this (M1 is made up of embedded value plus value of one year's new business with a conservative multiple of 8 times).



**M2 – Total premium income of HK$10 billion**

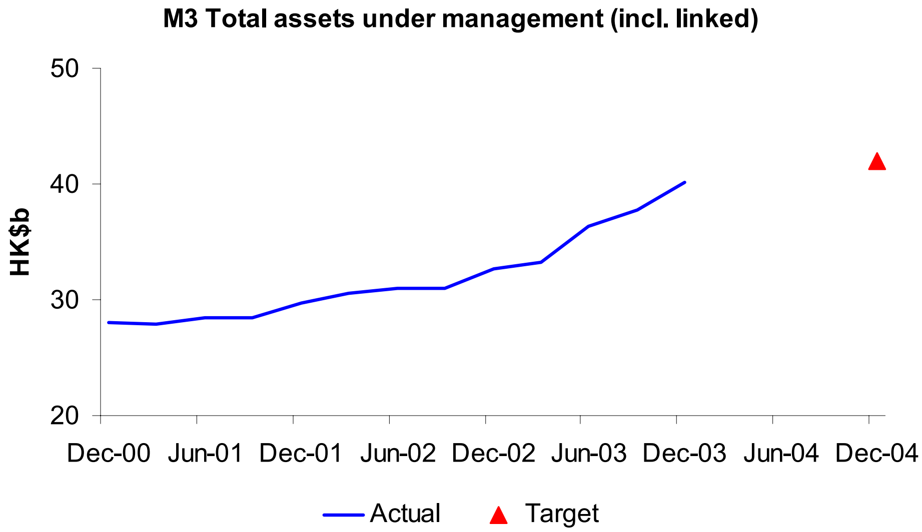
Total premiums received continue to be strong at HK$6.9 billion, although below our M2 target reflecting lower single premium sales during 2003 (total premiums for the previous corresponding period included HK$176 million of Vitamin C single structured bond premiums and HK$59 million from the similar Global Express offer).

Growth in employer sponsored business was subdued particularly in the SARS affected months, and the low interest rate environment made it difficult to replicate structured bonds. Lower single premiums were partially offset by growth in individual life sales following new product developments, and successful diversification of distribution channels. New sales mix has been biased towards the more profitable regular premium contributions, rather than single premiums, which is positive for shareholder value creation, but adversely impacts on this measure.



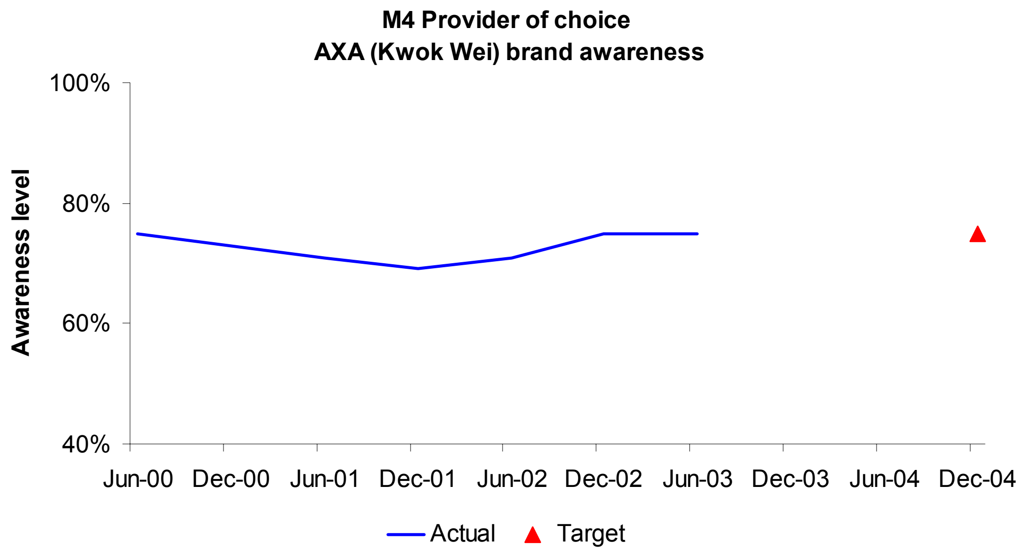

**M3 – Assets under management of HK$42 billion**

We are well on track towards our M3 goal driven by strong net funds flows of HK$3.7 billion (rolling 12 months), together with the improvement in investment markets. We achieved a 14.5% return on the portfolio for the 12 months ended 31 December 2003.



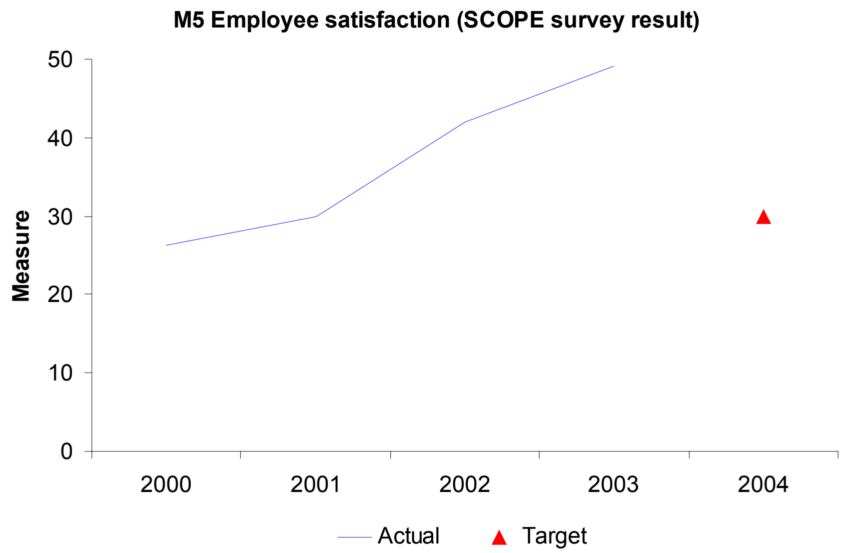
### M4 – Build AXA as preferred brand of choice

Our brand strength remains very high on all measures, and is achieving our M4 target. Brand surveys, conducted each half year by an independent third party, found that the AXA brand was recognised by 100% 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, a strong distribution force and the continued effort to gain media exposure through press relations.



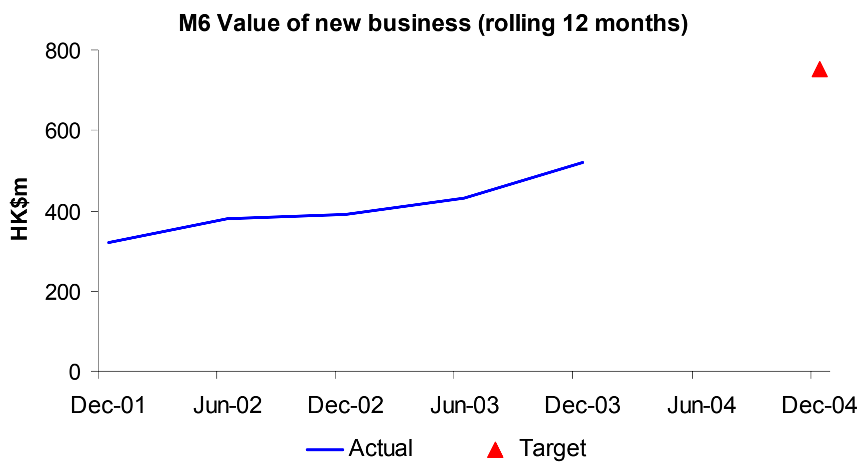

### M5 – Employee satisfaction of greater than 30 in AXA Global SCOPE survey

Our employee satisfaction result was very pleasing with an overall SCOPE score of 49, compared to our M5 target of 30. We are in the top quartile in the AXA global SCOPR 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 a 33% increase in value of new business (26% on a like-for-like economic basis). This compares favourably to 14% sales growth (16% excluding General Insurance) and is attributable to our ongoing focus on product profitability including tactical re-pricing and close management of sales mix.

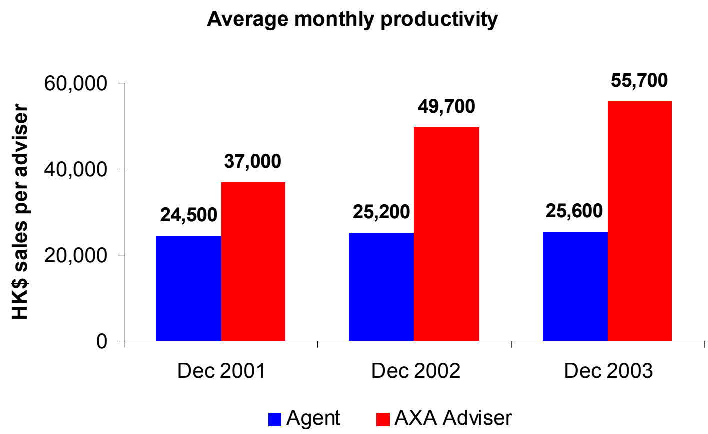



Excludes MPF one-off impact of HK$57m in 2001, and includes value of indexation

The M6 objectives are supported by eight strategic imperatives. Outlined below is the progress made during 2003.

### Increase the number and productivity of aligned advisers

Agent numbers are important but our continued priority remains agent productivity, which is fundamental to profitable sales. In 2003, productivity of advisers improved by around 1% despite the difficult environment in the first half of the year.

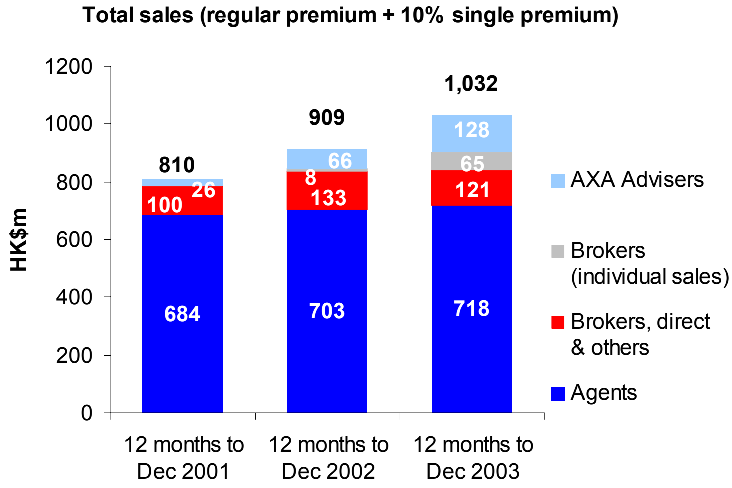



To grow and further improve the productivity and professionalism of our agency force, we have developed a best practice platform, leveraging AXA's experience in Asia, Australia and the rest of the world. This is a critical programme as it ensures that our pay, practices, management framework, development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

### Build profitable new aligned and broker /IFA channels

We have further broadened our distribution capability with broker and company managed agency distribution now representing 30% of total sales. In particular, we now have 264 AXA Advisers (2002 - 217), the largest salaried sales force in Hong Kong. As can be seen from the chart above, AXA Adviser productivity levels are more than twice that of commissioned advisers, and accounted for 12% of our sales in 2003.

We have also continued to develop our broker channel strategy and capability. In 2003, individual life business from broker channels contributed 6% of total sales, an eight-fold increase over 2002.




### Build AXA as preferred brand of choice

Brand awareness is extremely important in attracting new clients and retaining existing clients. In 2003, we continued to be among the top three preferred brands in the Hong Kong market with unaided brand awareness of 75%, in line with our target under the M6 programme.

According to provisional statistics released by the Office of the Commissioner of Insurance for the first three quarters of 2003, we ranked third in terms of in force premiums and sixth in new annualized premiums in the individual insurance market. Our new business market share has increased from 6.1% last year to 6.5% this year.

### Deliver investment margins

A key financial target for our traditional participating business is to earn an average return on our assets at least 1% 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. Strong equity returns and out-performance against benchmarks by our investment management team in 2003, together with reduced policyholder dividends 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.

The margin, ie the total return less that which has been credited to policyholders was 9.8% - 9.4% after adjusting for fixed interest gains – see table below. Crediting rates in 2003 on the NL series were 4.75%. This follows steps we took to reduce crediting rates by 75 basis points in January and again by 25 basis points in August.

| Earning rates for assets supporting policy liabilities | % |
|---|---|
| Investment / interest income | 4.4 |
| Gains on fixed interest portfolio | 0.4 [1] |
| Gains on equities | 9.8 |
| **Total** | **14.6** |
| Credited to policyholders | (4.8) |
| **Investment margin** | **9.8** |
| **Investment margin (ex fixed interest gains)** | **9.4** |

*(1) Approximately (0.5)% due to yield increase and 0.9% due to contraction in 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 3 years to early 2003, we (along with many 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 assets market values, within reasonable limits.

2003 overall was a strong year for investment markets, and our investment earnings have significantly exceeded crediting rates, and on a market value basis, recovered the amounts of over crediting in previous years. However, in future if interest rates rise, this would lead to a fall in the value of the bond portfolio which, if not compensated by movements in other asset classes, would lead to the position where again the amounts credited to our policyholders exceeds the movement in market value of assets supporting this participating business. On an economic basis, the deficit has reduced compared to last year and we are on track to recover this, based on current crediting rates, over a 3-4 year period.

Changes in the level of the asset share deficit (or surplus) have not been credited to the profit and loss statement in 2003.

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 now closed to contributions from all sources, with future contributions being invested in lower guarantee alternatives. We are focused on further increasing our sales of unit-linked business and MPF business. Unit linked products represented 28% of individual life sales in 2003 (2002 – 25%).

The table below summarises the current position on margins for the main product groupings based on current best estimate assumptions.

| | **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 | 16.4 | 4.25% [3] | 70/30 (Global) | 6.50% | 4.75% [4] |
| "Smart" open Life fund | 1.2 | <1.00% | 50/50 (Global) | 7.50% | 4.00% + TB |
| "DA" Retirement fund (closed to all new contributions) | 3.8 | 5.00% | 80/20 (HK) | 6.25% | 5.00% |
| MPF Guarantee fund | 0.8 | 0.00% | 80/20 (HK) | 6.25% | 1.00% |

*(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%)*

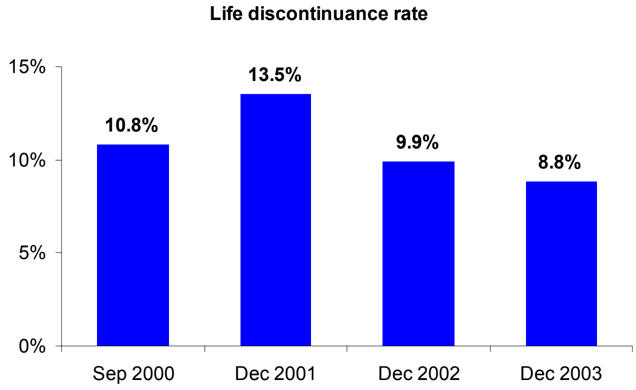
*(4) Current return after crediting rate reduction in August 2003*

The significant assumptions underlying the prospective long-term investment returns for Active Dividend Management are US treasuries, US corporate bonds and global equities of 5.2%, 5.9% and 9.2% respectively.

**Bring persistency back to target levels**

In 2003, the aggregate discontinuance rate for individual life policies was 8.8%, well down on 2001 and 2002, and better than our target of 9.0% (see section 3.2 for a more detailed breakdown of persistency).

We have continued to invest and expand our initiatives to retain clients and pursue cross-sell opportunities. Our dedicated conservation team contributed to a net retention of approximately HK$79 million of in-force annualised premiums in 2003. Our Customer Care Centre, as well as focusing 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 5,000 new sales.




**Deliver operational excellence**

Reflecting our continued focus on operational excellence, the value of new business increased 33% to HK$519 million (2002 – HK$389 million). New business volume growth was 16% (excluding General Insurance), with additional benefits arising from our ongoing focus on product profitability (including tactical re-pricing activities and mix of new sales).

We are already one of the most efficient life insurance companies in Hong Kong. However, we continue to identify areas of efficiency improvement. In 2003 recurring management expenses reduced by 1%, despite increased levels of sales and improved retention of inforce policies.

Our regional life policy administration system was successfully implemented in Hong Kong in May. This platform, capable of being used in our other businesses in Asia, will deliver significant benefits – for example, speed to market for new product developments, and compliance and risk management functionality.

**Improve organisational capability through our people**

During 2003 we further reinforced our management and people capabilities and strengthened the operational structure in Hong Kong, including the appointment of a number of senior managers from both within the AXA Group and externally, with particular focus on sales and marketing functions.

The positive impact of these changes has resulted in an improvement of our SCOPE result (the global AXA Group employee survey) where we ranked well in the top quartile.

**Prepare for the growth of savings and investment markets**

With a full range of traditional products on offer that combine savings, life insurance protection and a flexible range of rider protections, together with our successful "Honey" range of unit linked long term savings and investment products, we are well placed in the market and continue to see strong sales growth.

Recognising the increasing sophistication of investors and the growing demand for advice, we launched ipac financial planning services in Hong Kong in July 2003, building on the proven business model in Australia.

We maintained our share of around 5% of the Mandatory Provident Fund market, and we are one of a small number of participants to have achieved critical mass in this market. We have strong customer service capabilities and our investment performance has been strong, with 3 of 4 industry comparable funds in the top quartile for investment performance in 2003.

The recently established Asian Regional Life Centre provides a platform for further efficiency improvements and consistency between regional entities through the sharing of capabilities and processes in areas such as financial control, asset/liability management, information systems, agency training, and product design and development.

**Operating Earnings** were up only slightly in AUD reflecting the depreciation of the USD. In local currency**,** Operating Earnings were up 21% reflecting improvements in persistency, investment returns and a change in profit carrier for conventional life business. The change in profit carrier had a positive impact of HK$73 million on earnings in the 6 months ended 31 December 2003. Excluding this, Operating Earnings were 10% above last year. Mortality experience also continues to be favourable.

Overall operating results were affected by the impact of prior year investment losses on retirement business, which are spread into future years under Australian GAAP "Margin on Services" methodology. This business has been closed to new schemes since 2001 and new contributions since the second quarter of 2003.

| **Financial performance (A$ million)** | **12 months 31 Dec 03** | **12 months 31 Dec 02** | **Increase** |
|---|---|---|---|
| Operating Earnings | 156.9 | 155.9 | 0.7% |
| Investment Earnings | 275.1 | 67.0 | 310.6% |
| **Profit after income tax before non-recurring items** | **432.0** | **222.9** | **93.8%** |
| Non-recurring items | - | - | - |
| **Profit after income tax and non-recurring items** | **432.0** | **222.9** | **93.8%** |

| **Financial performance (HK$ million)** | **12 months 31 Dec 03** | **12 months 31 Dec 02** | **Increase** |
|---|---|---|---|
| Operating Earnings | 800.3 | 662.0 | 20.9% |
| Investment Earnings | 1,402.7 | 296.7 | 372.8% |
| **Profit after income tax before non-recurring items** | **2,203.0** | **958.7** | **129.8%** |
| Non-recurring items | - | - | - |
| **Profit after income tax and non-recurring items** | **2,203.0** | **958.7** | **129.8%** |

| **Financial performance (HK$ million)** | **12 months 31 Dec 03** | **12 months 31 Dec 02** |
|---|---|---|
| **Expected profit margins released** | **772.0** | **696.3** |
| Experience profit (loss) | | |
| - Expenses | (27.7) | (20.2) |
| - Investment return | 75.4 | (64.5) |
| - Other (incl. underwriting & surrenders) | (19.4) | 50.4 |
| Capitalised losses & reversals | - | - |
| **Operating earnings** | **800.3** | **662.0** |

**Profit margins released** benefited from sales growth and assumption changes to reflect recent improvement in mortality rates and in levels of management expenses.

To more closely align emerging profit with benefits provided to customers, we have changed our assumptions for the profit carrier for conventional participating business. The net impact is to accelerate profit release with a positive impact of approximately HK$73 million. 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.

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 AXA China Region ("AXA CR") whole 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.

AXA CR's 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 is no longer appropriate to use policyholder dividends as the sole profit carrier as this defers profit margin to an inappropriate degree. As such, we have changed to use 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 National Life series, in particular death benefits.

These increases have been partially offset by:

- investment market losses in 2002 which, under the Australian GAAP Margin on Services methodology, have the effect of lowering the level of future profit margins to be release from our retirement business, and therefore creating a 'drag' effect to Operating Earnings

- corporate overheads of HK$16 million that were not allocated to specific products under Margin On Services.

**Expenses** continue to track favourably. Last year's favourable expenses led to a re-setting of expected 2003 expenses to lower levels. The expense loss arises due to some non-recurring charges, and a higher proportion of expenses this period that are not deferred under Margin on Services methodology.

**Investment returns** were extremely strong this year due to the favourable equity markets in the second half and a contraction in corporate spread on US bonds, partially offset by the increase in US bond yields. This led to experience profits on our non-participating and retirement business lines.

**Other** includes profits from favourable mortality experience offset by losses on surrender experience (where we are tracking well) and some other small miscellaneous losses. Although mortality experience continued to be favourable, there were lower experience profits this year reflecting the improved underlying mortality assumptions, and the correspondingly higher profit loadings released as noted previously. Our surrender experience has further improved and in aggregate the discontinuance rate in 2003 was below our long term assumption. However, we have achieved lower levels of discontinuance at early durations and slightly higher levels at longer durations, which has resulted in some surrender losses on a Margin on Services basis.

## Persistency

| Persistency (12 months to) | Period | 31 Dec 03 | 30 Jun 03 | 31 Dec 02 | 30 Jun 02 | 31 Dec 01 | 30 Jun 01 |
|---|---|---|---|---|---|---|---|
| **By premiums** | | | | | | | |
| Aggregate discontinuance [1] | | 8.8% | 9.7% | 9.9% | 10.2% | 13.5% | 14.7% |
| Individual life – non-linked | 13 | 79.6% | 76.8% | 75.0% | 75.7% | 75.3% | 74.2% |
| (Smart series) | 25 | 72.0% | 69.2% | 67.5% | 67.9% | 65.6% | 63.1% |
| | 61 | 54.9% | 50.9% | 48.2% | 47.8% | 43.4% | 40.7% |
| Individual life – unit-linked | 13 | 68.3% | 75.7% | 87.6% | 89.5% | N/A | N/A |
| | 25 | 60.7% | 68.1% | 80.2% | 86.9% | N/A | N/A |

*(1) Rolling 12 months*

Aggregate discontinuance rates on individual life policies continue to improve, achieving a rate of 8.8% in 2003, compared with 9.9% in 2002 and 13.5% in 2001. This improved performance is better than our target of 9.0%.

Persistency rates for non-linked individual life business have improved at all durations. However, we did experience higher first year unit-linked withdrawals in 2003. We expect this to improve in future following changes to agent compensation to more closely align bonus payments to persistency.

### Recurring management expenses

| Expenses (HK$ million) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Change | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Total recurring management expenses | 358.2 | 363.0 | **1.3%** | 398.9 |
| Development expenses | 41.7 | 29.4 | **(41.8%)** | 24.7 |
| One-off expenses | 3.1 | 19.0 | **83.7%** | 42.6 |
| **Management expenses** | **403.0** | **411.4** | **2.0%** | **466.2** |
| Total commission and related expenses | 742.1 | 736.9 | **(0.7)%** | 717.7 |
| **Total expenses** | **1,145.1** | **1,148.3** | **0.3%** | **1,183.9** |

**Recurring management expenses** are down 1%, following reductions of 9% in 2002 and 2% in 2001 despite the growth in sales and inforce business. Staff numbers are now 524, down 6% from 31 December 2002, reflecting our successful process improvement initiatives. Incremental expenses on the M6 programme projects and other non-recurring activities were HK$44.8 million for the 12 months ended 31 December 2003. The increase in project expenses reflects our focus on M6 programme initiatives to build future value.

### Investment Earnings

| Investment Earnings (HK$ million) | 12 months 31 Dec 03 | Return % | 12 months 31 Dec 02 | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Equities | 979.7 | 31.8% | (512.0) | (402.9) |
| Fixed interest | 437.3 | 6.5% | 805.5 | 449.5 |
| Property | (22.5) | (11.3)% | (16.2) | (20.3) |
| Cash | 8.2 | 1.2% | 19.4 | 21.1 |
| **Investment Earnings [1]** | **1,402.7** | **12.9%** | **296.7** | **47.4** |

*(1) Weighted percentage return based on portfolio mix. Portfolio mix as at 31 December 2003 is outlined in section 5.7*

**Investment Earnings** of HK$1,402.7 million were significantly higher reflecting strong equity returns with the MSCI World Index increasing by 31% in 2003, together with an 83 basis points contraction in US corporate bond spreads. These gains were partially offset by the increase in US bond yields from 3.83% in December 2002 to 4.27% in December 2003. These returns also reflect out-performance of our investment management team against benchmarks.

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.

## 3.3 | Sales and funds flow

New business showed strong growth, despite the SARS epidemic. We achieved total new business of HK$927 million on an index basis (new regular premium plus 10% single premium, excluding General Insurance), an increase of 16% (2002 - HK$802 million). Rolling 12 months discontinuance has improved significantly with an aggregate rate of 8.8% for the 12 months ended 31 December 2003, compared to 9.9% for the 12 months ended 31 December 2002.

| **Annual premium products (HK $million)** | **New business** | | | **Discontinuance** | | | **In-force** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Change** | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Change** | **At 31 Dec 03** | **At 31 Dec 02** | **Change** |
| Individual life (non-linked) | 582.7 | 523.6 | 11.3% | 489.8 | 541.7 | 9.6% | 4,640.4 | 4,547.5 | 2.0% |
| Individual life (unit-linked) | 226.2 | 142.0 | 59.3% | 110.5 | 45.2 | (144.5)% | 361.8 | 246.1 | 47.0% |
| **Total individual life** | **808.9** | **665.6** | **21.5%** | **600.3** | **586.9** | **(2.3)%** | **5,002.2** | **4,793.6** | **4.3%** |
| Group retirement (incl. MPF) | 40.1 | 27.0 | 48.5% | 89.5 | 92.5 | 3.2% | 1,196.7 | 1,246.2 | (4.0)% |
| Group risk | 32.8 | 61.7 | (46.8)% | 48.5 | 26.7 | (81.6)% | 296.2 | 312.0 | (5.1)% |
| **Total** | **881.7** | **754.2** | **16.9%** | **738.3** | **706.1** | **(4.6)%** | **6,495.1** | **6,351.8** | **2.2%** |
| General insurance (P&C) [1] | 105.5 | 107.1 | (1.5)% | | | | | | |

*(1) Total premium*

| **Single premium products (HK$m)** | **Inflows** | | | **Outflows** | | | **Net flow** | | | **FUM** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Change** | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Change** | **12 mths 31 Dec 03** | **12 mths 31 Dec 02** | **Change** | **At 31 Dec 03** | **At 31 Dec 02** | **At 31 Dec 01** |
| Individual Life (incl. unit-linked) | 119.6 | 294.9 | (59.4)% | 8.6 | 12.3 | 30.1% | 111.1 | 283.6 | 60.8% | 921.3 | 716.9 | 444.1 |
| Group Retirement [1] | 328.1 | 181.1 | 81.2% | 62.2 | 80.1 | 22.3% | 265.9 | 101.1 | (163.0)% | | | |
| **Total** | **447.7** | **476.0** | **(5.9)%** | **70.7** | **92.4** | **23.4%** | **377.0** | **384.7** | **2.0%** | **921.3** | **716.9** | **444.1** |

*(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 22% reflecting the increase in Honey unit-linked top up sales and the good performance of Smart Jumbo (non-linked endowment) with HK$245 million annualised contributions.

Annual premium discontinuance on our traditional life business reduced by 10% compared to last year due to the success of our Customer Care and conservations teams. However, higher levels of discontinuance on our younger unit-linked policies have offset this. This reflects the growing level of inforce together with uncertain equity markets and the difficult operating environment in the SARS affected months.

In April 2003 we launched a unit-linked individual retirement plan, “FUTURE”, with total regular premium sales of HK$30 million achieved in the eight months to 31 December 2003. We also launched a single premium non-linked endowment plan, “Smart Return”, in October 2003 with HK$62 million of sales achieved during the 3 months ended 31 December 2003.

Employer sponsored retirement and insurance business has grown slowly in 2003 due to difficult economic conditions. In the competitive group risk and general insurance markets, we continue to place greater emphasis on profitability and achieving low combined ratios as opposed to volume growth.

New sales mix has been biased towards the more profitable regular premium contributions, rather than single premiums, which is positive for shareholder value creation, but adversely impacts the new single premiums sales levels. In addition, last year's single premiums included $235 million sales from Vitamin C structured bonds and the similar Global Express offer.

## 3.4 | Funds under management

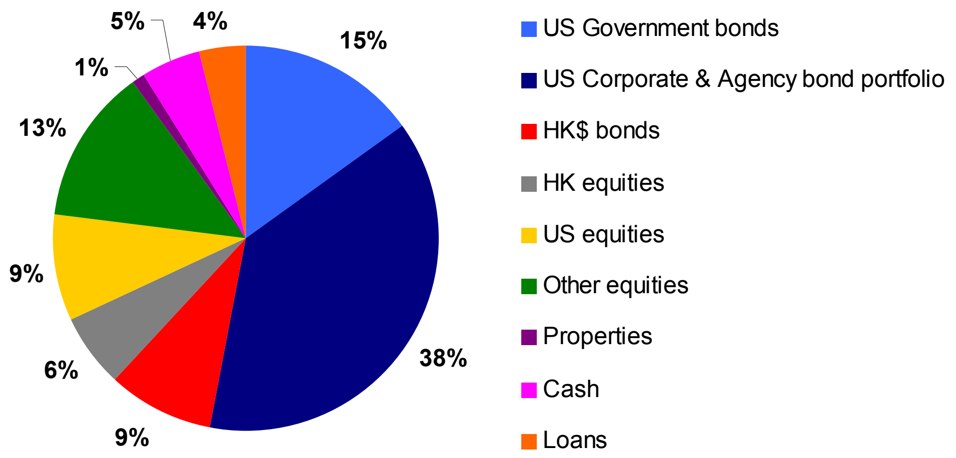
Funds under management continued to grow driven by strong net funds flow of HK$3.7 billion and improved investment markets.

| Breakdown of major funds (HK$b) | As at 31 Dec 03 | As at 31 Dec 02 | As at 31 Dec 01 |
|---|---|---|---|
| "NL" closed life fund | 16.4 | 13.8 | 12.9 |
| "Smart" open life fund | 1.2 | 0.5 | 0.2 |
| "DA" retirement fund (closed to all new contributions) | 3.8 | 3.8 | 3.6 |
| "Retirement" % guarantee fund (incl. MPF guarantee) | 0.8 | 0.4 | 0.3 |
| "Honey" unit-linked life | 0.9 | 0.7 | 0.4 |
| "MPF" non-guaranteed | 2.6 | 1.7 | 1.3 |
| Other (including Shareholder) | 14.4 | 11.7 | 11.0 |
| **Funds under management (incl. Linked)** | **40.1** | **32.6** | **29.7** |

*Note: 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*

### Portfolio composition

This chart below shows our investment portfolio mix at 31st December 2003 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 | 32% |
| Corporate | AAA | 3% |
| Corporate | AA | 9% |
| Corporate | A | 29% |
| Corporate | BBB | 27% |
| **Average** | **A** | |

On a weighted basis, our average target 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-.

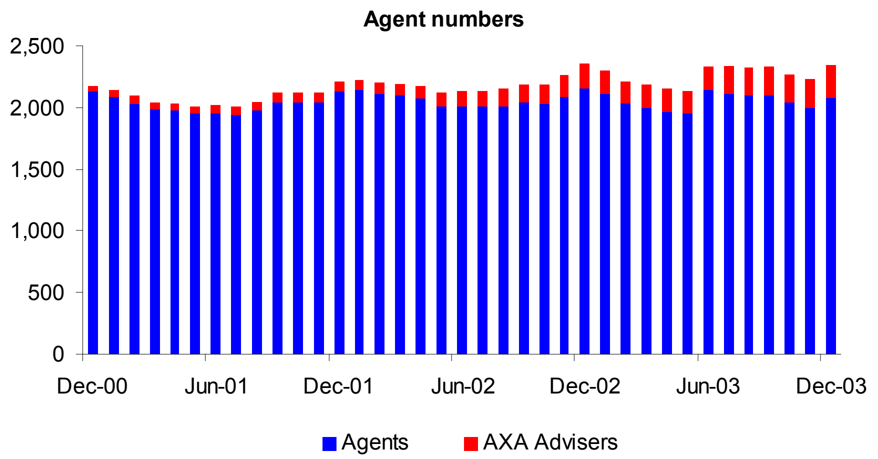
## 3.5 | Advisers and agents

| | At 31 Dec 03 | At 31 Dec 02 | Change | At 31 Dec 01 |
|---|---|---|---|---|
| Commissioned agents managed by agency leaders | 1,333 | 1,453 | (120) | 1,583 |
| Commissioned agents managed by salaried staff | 747 | 702 | 45 | 554 |
| **Total commissioned agents** | **2,080** | **2,155** | **(75)** | **2,137** |
| Salaried advisers (including managers and trainees) | 264 | 217 | 47 | 84 |
| **Total advisers** | **2,344** | **2,372** | **(28)** | **2,221** |

Commissioned agent numbers decreased by 3% over the 12 months ended 31 December 2003, mainly due to termination of low productive agents and a focus on productivity.

AXA Phoenix, commissioned agents managed by our salaried staff, increased by 6% in 2003 compared to last year and by 35% since the end of 2001.

Salaried adviser numbers have grown strongly and have maintained high levels of productivity.



# 4 China and South East Asia

## 4.1 | Strategic overview and highlights

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 and South East Asia. 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, and to deliver high levels of shareholder return.

Our approach is based on a multi-channel, multi-product offering with enhanced operational effectiveness through extensive sharing of processes, IT systems and products. This is supported by the strong regional management teams now in place together with an ongoing focus on people development.

We have strengthened our risk management capabilities with a very clear focus on product profitability, investment governance, internal control and compliance, as well as robust performance reporting with a key focus on value creation. The outworkings of this focus is the development of a single business model to provide a sound platform for profitable growth in the Asian region.

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% p.a. over the last two decades, 6.5% p.a. higher than world average) and low insurance penetration (less than 2%).

Today in China, the regulatory environment restricts our joint venture business – AXA Minmetals – to life insurance products only and to Shanghai and our newly 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 both in terms of geographic cover and product offering. By the end of 2004 we will be able to begin marketing group and retirement products and we will no longer be subject to geographical restrictions.

Singapore is also an attractive market. GDP per capita is amongst the highest in the world, the Central Provident Fund continues to provide growth in savings and the market is rapidly moving towards a sophisticated wealth management model. Recognising this, we launched ipac financial planning in May 2003 leveraging ipac's proven business model in Australia.

In other South East Asian markets the demographics and low insurance penetration rates combine to offer huge potential for those players that can develop competitive and profitable distribution channels. Whilst the markets of the Philippines, Thailand and Indonesia are small today, they are rapidly growing and taken collectively with Singapore, are equivalent to one of the top 20 insurance markets in the world.

Our strategy is to become a top 5 player in each of these markets through organic growth and partnering opportunities. We have developed a bancassurance model which has been successfully implemented in the Philippines. This model is now being rolled out in Thailand and Indonesia in conjunction with our banking partners (which are the largest banks in each of these markets). Through these partnerships, we have access to over 15 million banking customers through a network of over 2,000 bank branches. As at 31 December 2003, we were present in 750 branches with further expansion planned for 2004.

**Ownership structures**

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

## 4.2 | China – Shanghai and Guangzhou

We operate in China through a joint venture with AXA-Minmetals Assurance Co. Ltd and our parent company, AXA SA. In the current regulatory environment, the joint venture is restricted to selling only life insurance products in its two branches in Shanghai and Guangzhou. There is potential for significant growth as we currently have access to only 2% of the entire China life market today.

With China's progression into the WTO, restrictions on foreign joint ventures will be lifted in terms of product offering and geographical restrictions. By end of 2004, we expect to be able to begin marketing group and retirement products within our two branches and also expanding into other provinces.

The operation in Shanghai has continued to achieve strong growth since its inception in June 1999. Gross premiums in local currency were up 34% to RMB 14.5 million (2002 – RMB 93.0 million). New business volumes were strongly ahead despite the disruptive effect of SARS, assisted by our best practice Regional Agency Blueprint implemented during the second half of 2003.

The joint venture's Guangzhou branch was opened in November 2003 with 783 agents at 31 December 2003 and annualised premiums of RMB 5 million. This branch will strengthen our position in the Chinese market and is consistent with our strategy of concentrating on growth markets where we can achieve a leading position within a reasonable time frame.

## 4.3 | Singapore

The Singapore market was particularly challenging this year, with sales for the whole industry down 24% compared to 2002. This was mainly due to the impact of SARS and a relatively flat economy.

In spite of the very challenging market conditions, AXA Life Singapore ("AXA LS") was able achieve a 9% increase in gross premium income of S$219.2 million (A$171 million) compared to S$201.7 million (A$222 million) achieved in 2002. This is mainly due to the revision of the product range and improved adviser productivity levels. Unit-linked business represented 49% of regular premium new business sales (2002 – 26%) and 99% of single premium business (2002 – 95%).

During 2003, the Singapore regulator announced a new risk based capital regime to be introduced with effect from 1 January 2004. We expect the overall impact on Group capital will not be material although it will require some restructuring of capital.

Recognising the significant growth opportunities in Singapore's wealth management market due to large bank deposits and Central Provident Fund ("CPF") monies. In 2003 we launched a new strategy to focus on the wealth management and financial protection markets. ipac Financial Planning was launched in May 2003, leveraging our proven Australian business model. This should position us very strongly with first mover advantage in the local financial planning market.

This strategy builds on the Singapore Financial Advisor Act legislated in April 2002 to promote higher standards in the areas of financial planning and advice. Key initiatives implemented during 2003 include:

- commencement of a programme providing training and software support to enable our existing tied agents to become qualified financial planners and at the same time strengthen our distribution capacity. In support of this, the Monetary Authority of Singapore has granted us a unit trust license

- introduction of a new designation, AXA Financial Planner, in August 2002, based on both external financial planning qualifications and internal accreditation and training requirements. As at 31 December 2003, we had 179 financial planners.

In the recent Financial Adviser Representative of the Year Awards by the Asian Financial Planning Journal, two of the top ten finalists were from AXA businesses in Singapore with an ipac financial planner being awarded 1st Runner up.

As previously announced in our results for the 6 months ended 30 June 2003, to take into account the significant appreciation of the Australian Dollar compared to the Singapore Dollar over the period, we reviewed the carrying value of AXA Life Singapore and reduced this by A$25 million during the year. This adjustment has been included in non-recurring items of the Group profit & loss account.

## 4.4 | The Philippines

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. In the most recent industry data, we ranked 1st in new business (first year premium plus single premium income) and 4th for total premium income in this market.

Investment-linked products were successfully launched this year, leveraging the successful "Honey" series from Hong Kong. Other products were re-priced reflecting our move to focus on selling more profitable products. This has led to a lower level of sales compared to last year, but with an increase in the value of sales created for our shareholders. Given our increased marketing activities in the bancassurance channel and our planned implementation of our best practice Regional Agency Blueprint, we are well placed for new business growth in the future.

## 4.5 | Thailand

AXA Thailand is a joint venture with Krung Thai Bank, Thailand's leading bank with around 6 million customers and 609 branches.

For the 12 months ended 31 December 2003, AXA Thailand recorded gross premium income of A$38 million (Bht 1,126 million), up 45% (2002 – Bht 779 million). Sales of annual premium products were up 48% reflecting strong growth in both the agency and the bancassurance channels, the latter assisted by Krung Thai Bank's strong position in the home loans market.

## 4.6 | Indonesia

In January 2003, we entered into a new bancassurance joint venture with Bank Mandiri. Bank Mandiri is the largest bank in Indonesia with approximately 700 branches and over 7 million corporate and individual customers.

The new venture, AXA Mandiri Financial Services ("AMFS") will leverage the strengths of our existing life insurance business in Indonesia together with our proven successful bancassurance model currently operating in the Philippines. AMFS will be running in parallel with our existing joint venture with the Tempo Group, AXA Life Indonesia ("AXA LI"), leveraging economies of scale through the establishment of a common back office to service both joint ventures.

In 2003, AXA LI re-priced products with the aim of increasing profit margins and reducing risk. This is beneficial for the value of new business. The premium income for the 12 months ended 31 December 2003 was A$36 million (Rp229 billion), up 33% (2002 - A$27 million / Rp173 billion). During the year, we successfully launched several regular premium investment linked products based on the successful Hong Kong product, HONEY. Single premium sales for 2003 were up 65% compared to last year.

AXA LI is ISO 9001 accredited for underwriting, policy administration, claims and customer service.

## 4.7 | Financial summary

The financial results outlined in the table below only relate to AXA Life 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$m) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase | 12 months 31 Dec 01 |
|---|---|---|---|---|
| Operating Earnings | (3.4) | (2.5) | (0.9) | (6.6) |
| Investment Earnings | 1.8 | 0.0 | 1.8 | 0.3 |
| **Profit after income tax before non-recurring items** | **(1.6)** | **(2.5)** | **0.9** | **(6.3)** |

AXA LS' profit after tax improved as a result of improved investment markets, improved product profitability and reduced expense levels.

## 4.8 | Sales

### Gross premium income

In local currency, our China and South East Asian businesses experienced solid growth in premium income compared to last year. AUD equivalent premiums however are adversely impacted by the significant strengthening of the Australian Dollar.

| Gross premium income (A$m) | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase |
|---|---|---|---|
| China | 20.0 | 19.0 | 1.0 |
| Singapore | 171.3 | 221.6 | (50.3) |
| The Philippines | 63.5 | 93.0 | (29.5) |
| Thailand | 37.9 | 32.0 | 5.9 |
| Indonesia | 36.1 | 34.0 | 2.1 |

| Gross premium income (In millions) | Currency | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Increase |
|---|---|---|---|---|
| China | RMB | 124.5 | 93.0 | 33.9% |
| Singapore | SGD | 219.2 | 201.7 | 8.7% |
| The Philippines | PHP | 2,648.9 | 2,786.1 | (4.9)% |
| Thailand | THB | 1,126.3 | 778.9 | 44.6% |
| Indonesia | IDR | 229,466.1 | 173,037.8 | 32.6% |

The table below provides an overview of the movement of the Australian Dollar against various currencies.

| Appreciation in Australian Dollar / currency | 12 months to Dec 03 | 12 months to Dec 02 |
|---|---|---|
| USD / HKD / RMB | 33.8% | 10.0% |
| SGD | 31.0% | 3.3% |
| PHP | 39.2% | 13.8% |
| THB | 23.0% | 7.2% |
| IDR | 25.9% | (5.3)% |

### New business

New business increased in Indonesia, Thailand and China. This performance was driven by the implementation of the best practice Regional Agency Blueprint. In Thailand, there have been good performances in both agency and bancassurance channels.

There has been an increased focus this year on further improving the product profitability, with product re-pricing and changes to contract terms and conditions. We have now introduced unit-linked products in the Philippines, China and Indonesia. This has lead to an improvement in the overall value of new business written, although the volume of sales has been impacted in some businesses. Sales were also adversely impacted in Singapore and China as a result of SARS in the first half of the year.

| New business premium – regular premium + 10% single premium (Million) | Currency | 12 months 31 Dec 03 | 12 months 31 Dec 02 | Change |
|---|---|---|---|---|
| China | RMB | 46.1 | 31.6 | 45.9% |
| Singapore | SGD | 20.3 | 21.1 | (3.8)% |
| The Philippines | PHP | 583.9 | 738.4 | (20.9)% |
| Thailand | THB | 645.8 | 449.1 | 43.8% |
| Indonesia | IDR | 66,979.2 | 66,213.1 | 1.1% |

The overall value of new business in China and South East Asia combined has increased by 78% on a constant currency basis, reflecting this increased focus on product profitability.

## 4.9 | Advisers and agents

China has experienced strong growth in agent numbers with an increase of 39% to 1,723 in Shanghai, and 783 agents in our new Guangzhou branch.

Adviser numbers in the other Asian countries have reduced reflecting tougher requirements in adviser qualifications. Whilst we continue to remove non-performing advisers, we are focussing on the development and training of our advisers to boost productivity. The new Regional Agency Blueprint will be implemented in Thailand, Philippines and Indonesia in 2004 to enhance the productivity of advisers and align their compensation with corporate goals to grow shareholder value.

| Adviser Numbers | At 31 Dec 03 | At 31 Dec 02 | Change | At 31 Dec 01 |
|---|---|---|---|---|
| China | 2,506 | 1,236 | 1,270 | 1,334 |
| Singapore | 216 | 361 | (145) | 377 |
| The Philippines | 928 | 1715 | (787) | 1,310 |
| Thailand | 2,789 | 3,659 | (870) | 3,235 |
| Indonesia | 1,128 | 1,697 | (569) | 1,978 |
| **Total** | **7,567** | **8,666** | | **8,234** |

# 5 Value and capital management

## 5.1 | Enterprise value

Enterprise value is an assessment of long-term Group shareholder value. The information provided in this section is illustrative only and will, in future, be provided on an annual basis. It does not necessarily reflect the value that the Directors would place on AXA APH.

The illustrative value range is based on a discounted cash flow methodology, which comprises:

- the value of in-force, being the present value of future profits expected to be derived from all current in-force policies managed plus the amount of regulatory capital expected to be released to shareholders over time
- an estimate of the value of future new business
- Group net worth, being the value of net assets held in excess of the regulatory capital included in the value of in-force
- corporate expenses capitalised
- less corporate debt and hybrid capital, and a provision for the full year dividend.

The value of future new business is estimated as a multiple of the value of new business written in the year to 31 December 2003. The multiples applied are intended to provide a range based on what might be considered reasonable in the market and do not necessarily reflect the view or plans of AXA APH.

| **Illustrative Enterprise Value of AXA APH** | **31 December 2003** | | | | | |
|---|---|---|---|---|---|---|
| **(A$ million)** | **Value of in-force** | **Value of one year's new business** | **Range of multiples (a)** | **(b)** | **Total (a)** | **Total (b)** |
| Australia & New Zealand | | | | | | |
| - Financial protection | 1,298 | 15 | 7 | 9 | 1,403 | 1,433 |
| - Wealth management | 1,262 | 55 | 15 | 20 | 2,087 | 2,362 |
| **Australia & New Zealand** | **2,560** | **70** | | | **3,490** | **3,795** |
| Hong Kong | | | | | | |
| - Financial protection | 1,607 | 77 | 7 | 9 | 2,143 | 2,296 |
| - Wealth management | 88 | 2 | 15 | 20 | 124 | 136 |
| - Health | 148 | 10 | 4 | 7 | 188 | 219 |
| **Hong Kong** | **1,843** | **89** | | | **2,455** | **2,650** |
| **South East Asia** | **26** | **11** | **9** | **12** | **125** | **158** |
| **Total** | **4,429** | **170** | | | **6,070** | **6,603** |
| Corporate expenses | | | | | (312) | (312) |
| Group net worth | | | | | 979 | 979 |
| Debt | | | | | (1,606) | (1,606) |
| **Total value after debt and corporate expenses, before dividend** | | | | | **5,131** | **5,664** |
| Dividend provision | | | | | (96) | (96) |
| **Total value after debt and corporate expenses, after dividend** | | | | | **5,035** | **5,569** |
| **Illustrative value per share [1]** | | | | | **$2.89** | **$3.20** |
| **Illustrative value – constant exchange rate [2]** | | | | | **$3.25** | **$3.60** |

*(1) Based on AUD/USD of 0.75*
*(2) Based AUD/USD as at 31 December 2002 of 0.5631*

Over the past twelve months the mid-point of the illustrative value per share has increased from $2.94 to $3.05. This increase is a result of strong operating profits in Australia and New Zealand, growth in Hong Kong new business, the narrowing of the corporate spread and the improvement in equity markets over 2003. Offsetting this was the appreciation of the AUD. The exchange rate used in the illustrative enterprise value is AUD/USD of 0.75, consistent with the balance sheet exchange rates shown in section 8.

A further illustrative value per share has been provided using AUD/USD of 0.5631, the exchange rate that applied at 31 December 2002. The appreciation of the AUD over the past year reduced illustrative value per share by around 36-40 cents, with the illustrative value range between $3.25 and $3.60 on a constant exchange rate basis.

## 5.2 | Value of in-force – movements

The following table shows the growth of the value of in-force over the year, before economic assumption changes, foreign exchange rate movements and emerging profits.

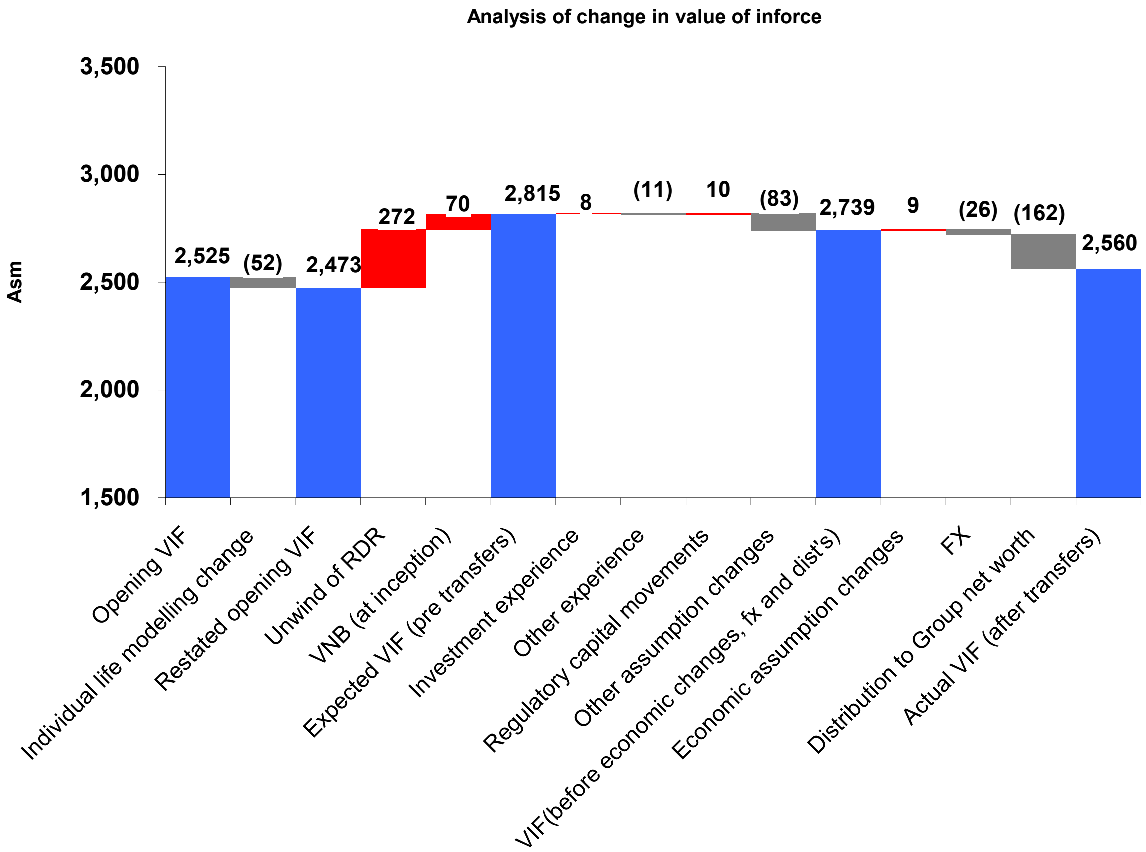
| Value of in-force (A$ million) | 31 Dec 2002 Restated value of inforce[1] | Value of inforce before economic assumption changes, fx and distributions | Increase (%) | Impact of economic assumption changes[2] | FX | Distributions to Group net worth | 31 Dec 2003 Value of inforce |
|---|---|---|---|---|---|---|---|
| Australia & New Zealand | 2,473 | 2,739 | 11% | 9 | (26) | (162) | 2,560 |
| Hong Kong | 2,421 | 2,917 | 20% | 140 | (707) | (507) | 1,843 |
| South East Asia | 24 | 28 | 15% | 0 | (2) | 0 | 26 |
| **Total** | **4,918** | **5,684** | **16%** | **149** | **(735)** | **(669)** | **4,429** |

(1) *The restated opening value of in-force includes improved modelling for Australian and New Zealand individual life business. The modelling changes are described in the detailed commentary below*
(2) *Economic assumption changes in Hong Kong include the reduction of the risk discount rate by 1.0%, consistent with a 1.0% reduction in the assumed return for Hong Kong equities*

The figures above exclude the value of AXA Health. The sale of this business was completed in February 2003. The proceeds from the sale have been used to reduce gearing and are reflected in a reduced level of debt.

### Australia and New Zealand

The value of in-force for Australia and New Zealand has increased by 11% from the restated opening position before economic assumption changes, foreign currency movements and profit distributed to Group net worth. The major movements occurring over the past twelve months are outlined below.



Modelling of individual life products has been improved during the second half of 2003. The opening value of in-force is restated on the new basis. A more conservative approach has been adopted for the valuation of automatic future CPI increases projected on in-force business, resulting in a reduction in the value of in-force of $52 million. CPI modelling changes have a positive impact on the value of new business (described below in section 5.4).

The recovery of investment markets during 2003 increased funds under management balances to marginally higher levels than expected at the beginning of the year. This improved the value of in-force by $8 million.

The successful conclusion of the K5 transformation programme has produced significant savings in expenses for AXA over recent years. However, unit costs have not fallen quite as far as originally anticipated, mainly due to overall market growth being significantly lower than expected during 2002 and 2003 as a result of the difficult equity market environment. One year's further expense reductions have been factored into the value of in-force with unit costs being set at expected 2004 levels. We expect to reach these levels of unit costs, in aggregate, by the end of 2004 based on current business plans.

Other experience items reflect differences in actual experience over 2003 compared with expected experience underlying the valuation as at December 2002.

For the wealth management business, regulatory capital held as at 31 December 2003 was lower than expected. This means that the capital has been released and is available to transfer to Group net worth. Regulatory capital reduced by $36 million, increasing shareholder value by $10 million. A further $120 million of prudential margins have been included in the regulatory capital. This amount is not strictly required to be held under the regulatory capital standards and hence has been held at full value.

Other assumption changes include future annuitant mortality assumptions and expenses. Future annuity mortality assumptions have been strengthened in line with experience around the world and a recent experience investigation. The value of in-force annuity business has been reduced by $35 million reflecting the increase in the liability held. Expense assumption changes for annuities have reduced the value of in-force. The value of in-force is now based on expected 2004 unit costs. Also included is the impact of pricing changes to reposition our individual risk portfolio. This has boosted sales in 2003.

Economic assumption changes have increased the value of in-force by $9 million, driven by an increase in the Australian long-term cash and fixed interest earning rate assumptions (see section 5.3). The fixed interest and cash earning rate assumptions have been increased by 25 and 50 basis points respectively for Australia, and reduced by 25 basis points each for New Zealand. New Zealand equity and property future earning assumptions have also been reduced. Risk discount rates have remained unchanged at 11%.

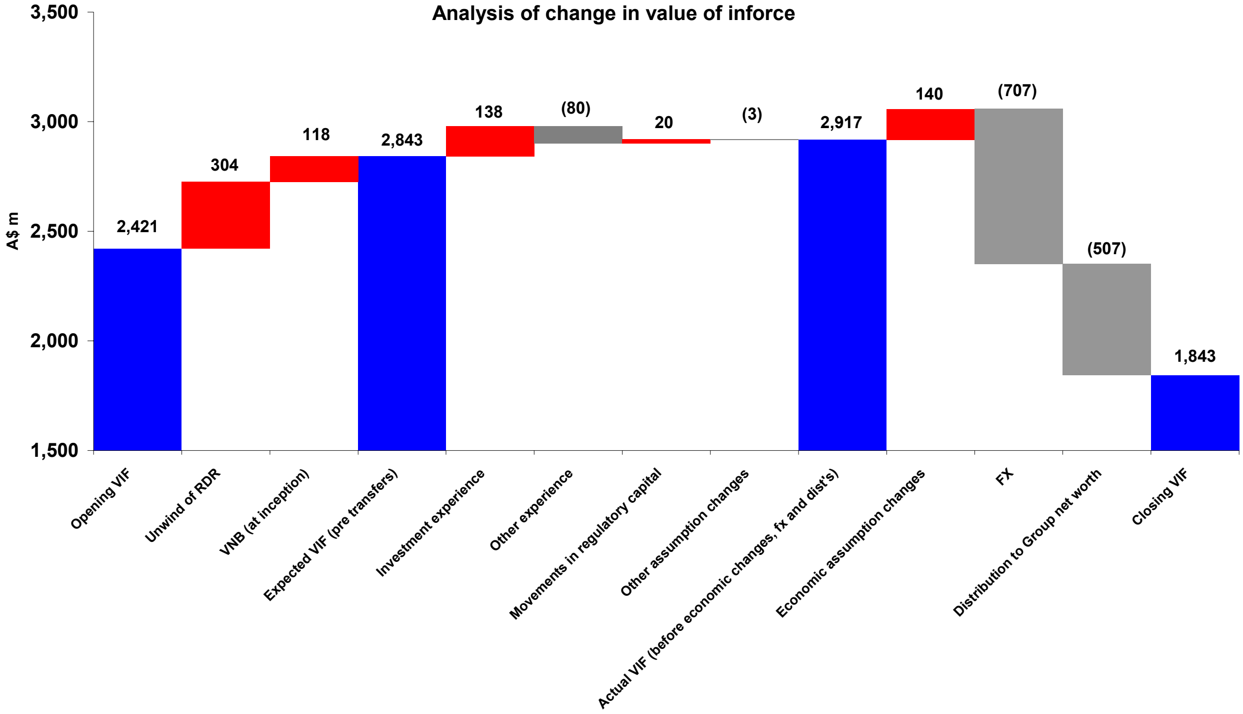
Foreign exchange rate movements have reduced the value of the New Zealand business by $26 million.

The transfer of $162 million of profit to Group net worth includes a distribution of assets of $118 million, and a distribution of franking credits of $44 million.

The risk discount rate has remained at 11% and the long term equity return at 10%. In our view, a 1% difference between the risk discount rate and the assumed equity earning rate is conservative compared to assumptions used in the US and Europe. A reduction of the risk discount rate to 10% would increase the value of in-force by $130 million to $2,690 million.

## Hong Kong

The value of in-force in Hong Kong has increased by 28% before foreign currency movements, economic assumption changes and profit distributed to Group net worth.




The AUD has appreciated against the USD by 34% over the 12 months to 31 December 2003, from 56 cents to 75 cents. As a result, in Australian Dollar terms, the value of in-force of the Hong Kong business has decreased by $707 million over the period. The reduction in the value of in-force due to exchange rate movements is partially offset by hedges held at a Group level. The hedges, which comprise USD debt and swaps, increased in value by $464 million over the period. This offset is not included in the analysis of the Hong Kong value of in-force shown above. It is included in the consolidated assets of the Group and hence reflected in Group net worth. Investment returns during the year have been very strong, driven by a tightening of corporate spreads and strong equity markets in the second half, partially offset by an increase in US bond yields.

Other experience includes persistency, mortality and expense experience. It reflects the difference between actual experience over 2003 compared with expected experience underlying the valuation as at December 2002.

Total regulatory capital has decreased over the period when compared to expected due to strong investment returns on equities. As market bond yields remain below the long term yields assumed in the calculation of the value of in-force, we have made additional provision for the increase in regulatory capital that would occur if market bond yields are increased to that level. The additional provision is held at zero value as it is assumed the provision would offset the capital depreciation if bond yields moved to our long term assumption.

The strong investment return in 2003 also led to a recovery of the previous few years' over-crediting to participating policyholders. In the scenario where market bond yields increase to long term assumed yields, some but not all of this recovery would be reversed. The balance of past over-crediting that would then exist is projected to be recovered over three to four years, assuming current crediting rates are maintained and long term assumed returns are earned.

The impact of other assumption changes includes positive elements relating to mortality, offset by revised assumed long term lapse rates.

Over recent years we have seen significant mortality profits emerge. An analysis of our experience over an extended period has confirmed that our future mortality assumptions can be changed to better reflect this experience.

Lapse assumptions have been refined to realign more closely to experience. Whilst targets for lapses have been achieved, the refinements include lower assumed lapses at short durations, as a result of the persistency incentives for agents, offset by slightly higher assumed lapses at longer durations.

The impact of economic assumption changes has enhanced value by $140 million.

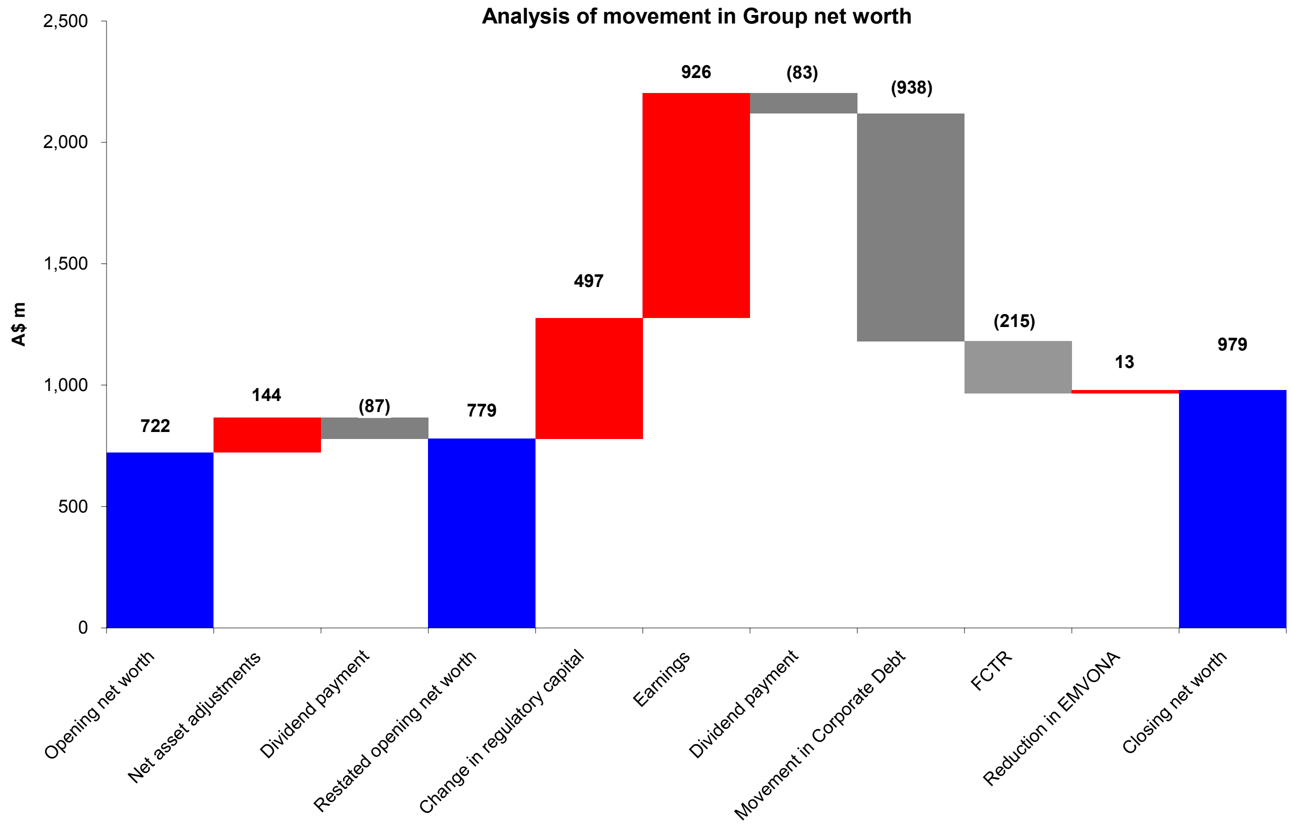
Expected future investment returns have been reduced (see section 5.3). Expected product investment earning rates have been reduced by approximately 0.5% per annum. The negative impact on the value of in-force has been largely offset by a reduction in assumed future policyholder dividend rates assumed in the valuation. The risk discount rate has been reduced by 1.0% from 12.5% to 11.5%. This is in line with the 1.0% drop in Hong Kong equity future earning rate assumptions.

**South East Asia**

The value of in-force of the South East Asian business has increased by 15% in local currency terms and 8% in Australian Dollar terms. The main drivers have been new business growth, expense control and strong investment returns. The appreciation of the Australian Dollar against South East Asian currencies has partly offset these gains.

**Group net worth**

The restated Group net worth has increased by 26%, from $779 million to $979 million, over the calendar year. The major movements are outlined below.




The opening Group net worth as shown in the 31 December 2002 investor compendium was $722 million. A number of adjustments need to be made to this value in order to reconcile the consolidated balance sheet at 31 December 2002, specifically:

- the inclusion of the net assets of AXA Health and the 50% interest in the Members Equity joint venture which were previously held at the value of the gross sale proceeds
- the dividend payment made in April 2003 that was shown separately.

## 5.2 | Value of in-force – movements (ctd)

The restated opening net worth position of $779 million is the sum of the target surplus of $745 million and the excess of net assets over target surplus of $34 million, as shown in Section 5.6 of the investor compendium for the 12 months ending 31 December 2002.

The Group net worth is the total capital resources (excluding outside equity interests) less the regulatory capital requirement and the excess of market value over net assets. Movements in these items, notably those relating to corporate debt, impact on net worth.

Total regulatory capital has decreased over the period by $497 million, largely relating to the impact of the strengthening of the Australian Dollar on the value of regulatory capital in Hong Kong and the sale of AXA Health. The movement is explained in more detail in Section 5.6. This reduction is partially offset by falls in the Australian Dollar value of Hong Kong assets, which is one item that is included in the foreign currency translation reserve ("FCTR").

Profit after tax, including non recurring items over the period was $926 million. This includes the operating and investment earnings component from the distributions from the value of in-force, and significant one off profits from the sale of AXA Health, the 50% interest in the Members Equity joint venture and profit on the 3.7% holding in AXA Investment Managers. Distributed profit from the value of in-force also includes the release of capital from the business.

During the calendar year corporate debt reduced by $730 million and hybrid capital by $208 million. Proceeds from the sale of AXA Health and the 50% interest in the Members Equity joint venture were used to reduce debt, whilst the impact of the appreciation of the Australian Dollar, reduced the value of US denominated debt.

The foreign currency translation reserve (FCTR) has reduced by $215 million. This includes a significant reduction in the value of Hong Kong and Singapore net assets when translated into Australian Dollars, partially offset by a movement in the US Dollar denominated debt and other instruments used as part of our hedging policy offset.

The closing net worth of $979 million supports the target surplus of $615 million plus the excess assets over target surplus of $268 million and the dividend provision of $96 million.

## 5.3 | Value of in-force – assumptions and sensitivity

The following tables show the assumptions used for valuing in-force. The main changes from last year include:

- an increase in assumed returns on Australian bonds following an increase in interest rates
- a reduction of between 0.5% and 1.0% in Hong Kong investment assumptions and discount rates depending on the asset class.

### Economic assumptions

| 31 December 2003 | CPI | Cash rate | Fixed interest | Equities | Property | Risk discount rate |
|---|---|---|---|---|---|---|
| Australia | 2.50% | 5.25% | 5.75% | 10.00% | 7.75% | 11.00% |
| New Zealand | 2.50% | 5.25% | 6.25% | 10.00% | 7.50% | 11.00% |
| Hong Kong | 2.50% | 2.50% | 5.50% | 10.50% | 7.50% | 11.50% |
| US | | 2.50% | 5.70% | 9.20% | | |
| Asia excluding Japan | | | | 10.50% | | |
| Other international | | | | 9.25% | | |

For information, economic assumptions used last year are summarised below.

| 31 December 2002 | CPI | Cash rate | Fixed interest | Equities | Property | Risk discount rate |
|---|---|---|---|---|---|---|
| Australia | 2.50% | 4.75% | 5.50% | 10.00% | 7.75% | 11.00% |
| New Zealand | 2.50% | 5.50% | 6.50% | 11.00% | 8.00% | 11.00% |
| Hong Kong | 3.00% | 3.00% | 5.50% | 11.50% | 8.00% | 12.50% |
| US | | 3.00% | 6.20% | 9.70% | | |
| Asia excluding Japan | | | | 11.50% | | |
| Other international | | | | 9.25% | | |

### Discontinuances, mortality and morbidity

Based on best estimate assumptions consistent with profit reporting and recent company experience.

### Expenses

For Australia and New Zealand expense assumptions are based on expected 2004 unit costs. For Hong Kong expense assumptions are based on end 2003 unit costs.

### Sensitivity tests

The table below shows the sensitivity of the value of in-force business to variations in the key economic and business assumptions, based on the position at 31 December 2003. The sensitivities are indicative only as they assume that the movement in a particular variable is independent of other variables. In addition, the impact on the value of in-force from a movement of a variable is not always symmetrical. In other words, the impact of an increase in assumptions is not necessarily the same as an equivalent fall.

| % Change on value of inforce | Australia & NZ | | Hong Kong | | |
|---|---|---|---|---|---|
| | Financial protection | Wealth management | Financial protection | Wealth manage-ment | Health |
| Increase risk discount rate | | | | | |
| plus 1% | (3.9)% | (4.5)% | (6.1)% | (15.3)% | (5.1)% |
| plus 2% | (7.5)% | (8.7)% | (14.1)% | (29.0)% | (9.7)% |
| Decrease risk discount rate | | | | | |
| minus 1% | 4.6% | 5.4% | 6.4% | 17.1% | 5.6% |
| minus 2 % | 9.3% | 11.3% | 16.0% | 36.3% | 12.4% |
| Change in earnings rate and risk discount rate<br>- equity rate minus 1%<br>- cash/fixed interest rate minus 0.5%<br>- risk discount rate minus 1% | 2.2% | 2.0% | 3.7% | 9.6% | 7.1% |
| Expenses decreased by 10% | 1.9% | 7.1% | 1.3% | 3.8% | 1.7% |
| Discontinuance rates decreased by 10% | 4.0% | 2.9% | 3.4% | 9.6% | 7.1% |
| Mortality rates decreased by 10% | 7.1% | (1.4)% | 3.0% | 0.0% | 0.1% |
| Morbidity incidence rates decreased by 10% | 3.8% | | 0.5% | | |
| Morbidity termination rates increased by 10% | 7.1% | | | | |

## 5.4 | Value of new business

| | Value of one year's new business | | |
|---|---|---|---|
| | **31 December 2003** | **31 December 2002** | **Increase** |
| **Australia & New Zealand (A$ million)** | | | |
| Financial Protection | 15 | 14 | 7% |
| Wealth Management | 55 | 44 | 25% |
| **Australia & New Zealand** | **70** | **58** | **21%** |
| **Hong Kong (HK$ million)** | | | |
| Financial Protection | 446 | 331 | 35% |
| Wealth Management | 14 | 6 | 138% |
| Health | 59 | 53 | 11% |
| **Hong Kong** | **519** | **389** | **33%** |
| Hong Kong (A$ million) | 89 | 89 | 0% |
| **South East Asia (A$ million)** | **11** | **8** | **27%** |

The value of one year's new business is the value from policies written over the twelve months preceding the date of valuation. This basis differs from that underlying the K1 and M6 measures in a number of areas, the most significant of which is that K1 and M6 sales include automatic increments. There are also some differences in economic and other assumptions, which have been kept constant over time in the K1 and M6 measures to aid performance comparisons from period to period.

### Australia and New Zealand

The value of new business has increased by 21% compared to 2002. Whilst the first half of the year saw further falls in equity markets, the second half of 2003 saw markets pick up, creating a better sales environment. Inflows on the wealth management products improved, particularly on mezzanine and retail unit trust products.

The expense assumptions underlying the value of new business allow for one further year's reduction in unit costs to expected 2004 levels.

The value of new business for annuities increased as a result of tactical price increases , despite increased life expectancy assumptions.

Sales of individual life products have increased from 2002. However, market pressure has led to a reduction in prices for some products negating the value of the increased volumes. The value of automatic future CPI increases on a new business policy is now included in the value of new business, in line with industry practice. In the past this was only included in the value of in-force.

The risk discount rate has remained at 11% and the long term equity return at 10%. In our view, a 1% difference between the risk discount rate and the assumed equity earning rate is conservative compared to assumptions used in the US and Europe. A reduction in the risk discount rate to 10% would increase the value of new business by $10 million to $80 million.

**Hong Kong**

The value of one year's new business in local currency has increased strongly by 26% on consistent economic assumptions and 33% under the revised basis. The main drivers of the increase in value have been:

- an increase in new policy sales from HK$829 million to HK$957 million
- repricing of products to improve profitability, including premium rate increases
- the introduction of policy fees for some Honey products
- the launch of a new unit-linked product called Future, similar to Honey but with a fixed term savings focus.

The appreciation of the Australian Dollar against the Hong Kong Dollar has materially impacted the movement when translated into Australian Dollars. The value of one year's new business translated into Australian Dollars has increased marginally from 2002.

**South East Asia**

The value of one year's new business has increased by 38% in local currency terms, driven by strong sales in Singapore of single premium investment linked products during the fourth quarter. This favourable result is despite lower or flat sales volumes in some of the South East Asian operations (see Section 4.8), reflecting the restructuring of some agency operations and a continuing focus on developing and writing profitable products.

After allowing for the strong appreciation of the Australian Dollar against all South East Asian currencies, the Australian Dollar value of the new business increased by 27% compared to last year.

## 5.5 | Capital structure and performance

| (A$m) | As at 31 Dec 2003 | As at 31 Dec 2002 |
|---|---|---|
| **Capital resources** | | |
| - Equity excluding outside equity interests | 3,687.7 | 3,059.8 |
| - Hybrid | 894.1 | 1,101.6 |
| - Corporate debt | 711.6 | 1,441.8 |
| **Total capital resources excluding outside equity interests** | **5,293.4** | **5,603.2** |
| | | |
| **Gearing ratios** | | |
| - Debt/capital resources | 13.4% | 25.7% |
| - (Debt+hybrid)/capital resources | 30.3% | 45.4% |
| - Debt/(equity+hybrid) | 15.5% | 34.6% |
| - (Debt+hybrid) / equity | 43.6% | 83.1% |

Net assets have increased by $627.9 million over the period. Earnings over the period were $926.0 million, which have been offset by the following:

- the payment of an interim dividend of 4.75 cents per share on 3 October 2003, reducing capital by $82.7 million
- a reduction in the Foreign Currency Translation Reserve of $215.4 million. This movement relates to the translation losses on our investments in foreign operations and the foreign exchange movement on the hedges we have against our investment in Hong Kong, offset by gains from the reduction in debt due to the appreciation of the Australian dollar.

This is summarised in the table below.

| Movement of net assets for the 12 months ended 31 December 2003 | A$ million |
|---|---|
| Opening net assets as at 31 December 2002 | 3,059.8 |
| Earnings after tax | 926.0 |
| Interim dividend | (82.7) |
| Foreign currency translation reserve | (215.4) |
| **Closing net assets as at 31 December 2003** | **3,687.7** |

Despite the increase of net assets of $627.9 million, total capital resources decreased by $310.0 million over the period. Major movements included:

- a reduction in the AUD equivalent of the Non-Cumulative Redeemable Preference Shares (“NCRPS”) by $208.1 million due to an appreciation of the AUD/USD exchange rate
- a reduction in corporate debt of $729.8 million. The application of the proceeds from the sale of AXA Health and Members Equity reduced senior debt by $550 million over the period. The appreciation of the AUD/USD exchange rate reduced the AUD equivalent of the senior debt by a further $179.8 million.

This is summarised in the table below.

| Movement of capital for the 12 months ended 31 December 2003 | A$ million |
|---|---|
| Earnings after tax | 926.0 |
| Interim dividend | (82.7) |
| Change in hybrid capital | (208.1) |
| Change in corporate debt | (729.8) |
| Foreign currency translation reserve | (215.4) |
| **Total increase in capital** | **(310.0)** |

## Capital performance

The return on equity and return on capital for the 12 months to 31 December 2003 have increased significantly compared to 2002. They have benefited by the strong investment returns over the period and the improvement in operating results. The decrease in the gearing ratio over the year, following the sale of the Health operations and the reduction in the debt, slightly reduced the return on equity but had no impact on the return on capital.

| | 12 months 31 Dec 03 | 12 months 31 Dec 02 |
|---|---|---|
| Return on capital | 10.7% | 6.8% |
| Estimated weighted average cost of capital | 7.6% - 7.9% | |
| Return on equity | 16.2% | 10.4% |

Return on capital is calculated as earnings after tax before non-recurring items plus interest expense after tax as a percentage of average total capital resources. Return on equity is calculated as earnings after tax before non-recurring items as a percentage of average shareholders' equity excluding outside equity interests.

The weighted average cost of capital ("WACC") takes into account the after tax cost of debt, the estimate cost of equity and the average gearing ratio over the year. The WACC for the 12 months ended 31 December 2003 is estimated between 7.6% to 7.9%. 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%).

## Debt & hybrid

| At 31 December 2003 (A$ million) | Committed | Drawn |
|---|---|---|
| **Senior debt** | | |
| Loan from AXA SA (US Dollar denominated) | 624.3 | 572.0 |
| Loan from AXA SA (net of offsetting deposits) | 180.0 | 100.0 |
| Bilateral standby facilities | - | - |
| Deposit from Sales Trust | 40.0 | 40.0 |
| **Total senior debt** | **844.3** | **712.0** |
| | | |
| **Subordinated debt** | | |
| Hong Kong – Redeemable Preference Shares (US Dollar denominated $463 million) | 614.1 | 614.1 |
| Subordinated debt | 280.0 | 280.0 |
| **Total subordinated debt** | **894.1** | **894.1** |
| | | |
| **Total debt** | **1,738.4** | **1,606.1** |

Senior long-term debt with the global AXA Group is drawn in either Australian or US dollars. Currently, the proportion drawn in US dollars represents 74% of the total drawn debt from the global AXA Group, although all Australian dollar debt, excluding $40.0 million from the Sales Trust, has been swapped using currency swaps to US dollars. The average interest rate for interest bearing debt for the period 1 January 2003 to 31 December 2003 was 4.27%, 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.

### 5.5 | Capital structure and performance (ctd)

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.

| | AUD equivalent (A$ million) |
|---|---|
| Strategy in place: | |
| - Exposure to Hong Kong Dollar hedged | 415 |
| - US Dollar denominated debt (including cross-currency swaps) | 1,515 |
| **Total hedged** | **1,930** |

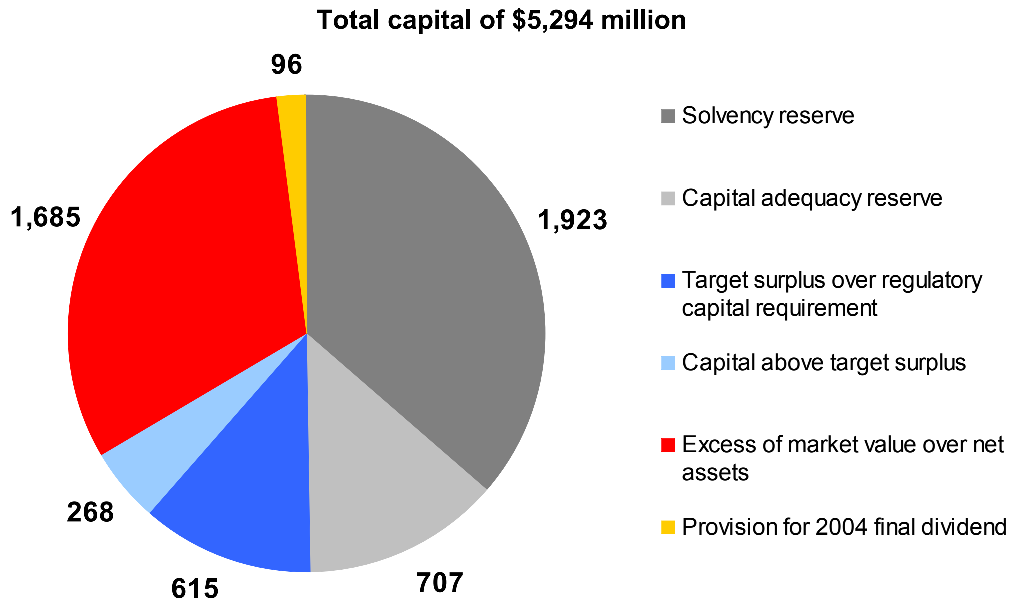
The Board has approved an increase in AUD protection against movements in the HKD, specifically related to hedging the risk associated with the HKD peg to the USD being revalued. This is likely to increase the HKD hedged amount to approximately A$1 billion and will be implemented over the next few months.

## 5.6 | Capital allocation

| At 31 December 2003 (A$ million) | Net assets | Excess of market value over net assets | Total |
|---|---|---|---|
| Australia and New Zealand | 1,137 | 499 | 1,636 |
| Hong Kong | 1,790 | 1,140 | 2,930 |
| South East Asia | 107 | 46 | 153 |
| Surplus capital resources | 574 | 0 | 574 |
| **Total capital (excluding outside equity interests)** | **3,609** | **1,685** | **5,294** |
| Corporate debt | | | (712) |
| Hybrid capital | | | (894) |
| **Shareholder equity (excluding outside equity interests)** | | | **3,688** |
| Outside equity interests in controlled entities | | | 430 |
| **Shareholder equity (including outside equity interests)** | | | **4,118** |

At 31 December 2003 we had total capital resources, being shareholders' equity, hybrid capital and corporate debt, of $5,294 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 ($1,685 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 whole range of asset simulations and then calculates the impacts on cashflows and capital requirements for each simulation, taking into account management policies and policyholder reactions.




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 decreased by $497 million over the 12 months ended 31 December 2003.

Regulatory capital requirements within the Hong Kong business decreased by A$583 million. Of this, A$486 million was as a result of the appreciation of the Australian dollar against the Hong Kong dollar. In local currency terms, the regulatory capital fell by HK$426 million primarily due to good investment returns, particularly for equities. During times of strong investment performance, the Australian GAAP policy liability increases as a direct result of the investment income while the local regulatory reserve remains relatively unchanged. Hence the local regulatory capital required, being the excess of the regulatory reserve over the Australian GAAP policy liability, is reduced.

AXA has adopted a process called Active Dividend Management ("ADM") to reflect adjustments to future policyholder bonus rates on the NL series in Hong Kong. The high investment returns experienced in 2003 have eliminated the ADM balance from a market value perspective. However, our long term asset models assume US bond yields above market yields as at 31 December 2003. Therefore, we have increased regulatory capital to reflect the "economic" ADM balance which would be incurred if asset values restated consistent with long term assumed yields. In this scenario we would expect to recover the balance over a 3 to 4 year period.

Regulatory capital required in the Australian and New Zealand operations increased by A$31 million over the 12 months primarily as a result of strengthening provisions in the regulatory capital. This was partially offset by the sale of the Australian Health operations (which had required $52 million of regulatory capital).

At 31 December 2003 the level of target surplus was $615 million. The $130 million reduction in the target surplus level since 31 December 2002 is due to the appreciation of the AUD against the HKD (reduction of $110 million) and the sale of the Australian Health operations (which had required a $20 million of target surplus). As the target surplus will rise with any future depreciation in the AUD, we consider it prudent to retain an additional buffer above the target surplus level.

## 5.7 | Investment of assets supporting shareholder capital

The policy for shareholder assets is 20%-40% in growth assets (equity and property) with a neutral position of around 30%, with the remainder in fixed income assets and cash. The policy applies, and is managed, at the Group level. Different asset allocation policies may apply to entities within the Group.

| **As at 31 December 2003 (A$ million)** | **Shareholder capital** | **Cash** | **Fixed interest** | **Loans** | **Equities** | **Property** |
|---|---|---|---|---|---|---|
| Australia & New Zealand | 1,173.6 | 342.3 | 551.5 | 10.2 | 237.3 | 32.3 |
| Hong Kong | 2,157.1 | 132.0 | 1,259.8 | 86.8 | 650.0 | 28.5 |
| South East Asia | 19.9 | 10.8 | 9.1 | 0.0 | 0.0 | 0.0 |
| **Total** | **3,350.6** | **485.1** | **1,820.4** | **97.0** | **887.3** | **60.8** |
| Subsidiary assets & other provisions | 257.7 | | | | | |
| Excess of market value over net assets | 1,685.0 | | | | | |
| **Total capital** | **5,293.4** | | | | | |

### 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 | 61% | 83% |
| New Zealand | 21% | 8% |
| Other | 18% | 9% |
| **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 rate (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 | 6.7 |
| 5% increase in world equities | 1.8 |
| 1% increase in bond yields | (14.1) |

### 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 | 56% | 93% |
| Hong Kong | 11% | 7% |
| Other | 33% | 0% |
| **Total** | **100%** | **100%** |

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 13% Asian equities and 20% non-Asian equities (includes European equities (9%), United Kingdom equities (6%) and other markets (5%) – the relative weightings will change over time). US bonds dominate the Hong Kong 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.

## 5.7 | Investment of assets supporting shareholder capital (ctd)

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 | 32.5 |
| 1% increase in US bond yields | (94.7) |

# 6 Corporate governance and responsibility

AXA Asia Pacific Holdings is firmly committed to meeting the highest standards of corporate governance and supports the 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.

## 6.1 | Corporate governance

### The Board

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. Six 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 three directors who are not considered independent are Les Owen (Group Chief Executive), Michel Pinault and Bruno Jantet (who are both executives 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 and Lin Xizhong were appointed as non-executive directors during the 12 months ended 31 December 2003. In accordance with our constitution and the ASX Listing Rules, they will stand for election at the Annual General Meeting to be 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.

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

| 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 | Chairman | | Chairman | Member | Chairman |
| M Butler appointed 25/08/03 | Non-executive, Independent | | Member | | Member | Member |
| P A Cooper appointed 08/09/95 | Non-executive, Independent | | Member | Member | | |
| T B Finn appointed 08/09/95 | Non-executive, Independent | | Chairman | Member | Member | |
| B Jantet appointed 28/11/03 | Non-executive | | | | | |
| Lin Xizhong appointed 30/07/03 | Non-executive, Independent | | | | | Member |
| P H Mafsen appointed 08/09/95 | Non-executive, Independent | | | | Chairman | Member |
| A L Owen appointed 28/04/98 | Executive | Group Chief Executive | | | | |
| M Pinault appointed 28/07/98 | Non-executive | | Member | Member | | Member |

### Audit and Compliance Committee

The purpose of the Committee is to assist the Board in fulfilling it 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 Brian Finn. 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 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
- reviewing the performance of key executives within the Group and ensuring appropriate succession plans are in place.

The Group Chairman is the chairman of the Remuneration and Nominations Committee. The Committee has four members and a majority of the Committee is independent. 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.

The Terms of Reference of the Remuneration & Nominations Committee are available on **www.axa-asiapacific.com.au**.

**Insurance and Operating Subsidiaries Committee**

The purpose of the Committee is to assist the Board in fulfilling it responsibilities in respect of:

- reviewing periodic financial condition reports on the insurance subsidiaries of AXA Asia Pacific, including asset/liability management and other financial models
- reviewing reports on the financial and capital position of non-insurance subsidiaries of AXA Asia Pacific
- approving policy and principles in use from time to time by management for product pricing, including the value of new business
- approving 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 responsibilities in respect of:

- approving broad investment policies and investment strategy
- approving investment mandates including allowable investments, policy ranges, benchmarks and risk control limits for statutory funds, unit linked and mutual funds, and shareholder funds
- reviewing investment performance of key products
- approving the risk management statement
- approving a schedule of delegations to management
- approving large and unusual transactions.

The Group Chairman is the chairman of the Investment Committee. The Committee has five 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 apply to us from the 2004 financial year, we have adopted the best practice recommendations early, in recognition of our commitment to the highest standards of corporate governance and disclosure.

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.

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 two years are also available on our website.

# 7 Financial statements

## 7.1 | AXA Asia Pacific consolidated balance sheet

| (A$ million) | 31 Dec 2003 | 31 Dec 2002 |
|---|---|---|
| **Assets** | | |
| Cash at bank and deposits on call | 1,884.0 | 1,418.0 |
| Receivables | 718.9 | 573.4 |
| Equity securities | 8,175.2 | 8,482.8 |
| Debt securities | 11,545.9 | 12,306.8 |
| Property investments | 2,449.8 | 2,462.9 |
| Other investments | 251.9 | 272.4 |
| Operating assets | 85.5 | 103.9 |
| Deferred tax assets | 284.4 | 343.4 |
| Intangibles | 19.3 | 12.7 |
| Excess of market value over net assets of controlled entities | 1,684.7 | 1,704.9 |
| Other assets | 101.3 | 53.2 |
| **Total assets** | **27,200.9** | **27,734.2** |
| **Liabilities** | | |
| Payables | 1,018.3 | 1,113.4 |
| Current tax liabilities | 84.4 | 75.4 |
| Borrowings | 711.6 | 1,441.8 |
| Provisions | 139.0 | 289.0 |
| Deferred tax liabilities | 314.8 | 200.7 |
| Other liabilities | 128.4 | 185.1 |
| Subordinated debt | 894.1 | 1,101.6 |
| Life insurance policy liabilities | 19,792.8 | 19,927.4 |
| **Total liabilities** | **23,083.4** | **24,334.4** |
| **Net assets** | **4,117.5** | **3,399.8** |
| **Equity attributable to shareholders of the parent entity** | | |
| Contributed equity | 1,129.6 | 1,129.6 |
| Asset revaluation reserve | - | 15.2 |
| Foreign currency translation reserve | (273.9) | (59.0) |
| Shareholders’ retained profits | 2,832.0 | 1,974.0 |
| **Total equity attributable to shareholders of the parent entity** | **3,687.7** | **3,059.8** |
| Outside equity interests in controlled entities | 429.8 | 340.0 |
| **Total equity** | **4,117.5** | **3,399.8** |

## 7.2 | Consolidated profit and loss analysis

| **12 months to 31 December 2003**<br><br>**(A$ million)** | **A&NZ** | **Hong Kong** | **China & South East Asia** | **AXA APH** | **Consolidated AXA APH** |
|---|---|---|---|---|---|
| Operating Earnings (ex Health) | 145.5 | 156.9 | (3.4) | | **299.0** |
| Capitalised losses & reversals | 1.8 | | | | **1.8** |
| **Operating Earnings and capitalised losses & reversals (ex Health)** | **147.3** | **156.9** | **(3.4)** | | **300.8** |
| Investment Earnings | 53.8 | 275.1 | 1.8 | | **330.7** |
| Foreign currency gain from translation of New Zealand net assets | (8.6) | | | | **(8.6)** |
| **Investment Earnings** | **45.2** | **275.1** | **1.8** | | **322.1** |
| **Corporate expenses & goodwill amortisation** | | | | (42.0) | (42.0) |
| Interest expense | | | | (43.8) | (43.8) |
| **Profit after income tax a(ex Health) and before non-recurring items** | **192.5** | **432.0** | **(1.6)** | **(85.8)** | **537.1** |
| Health | 9.8 | | | | 9.8 |
| Non-recurring items | (19.7) | | | 398.8 | 379.1 |
| **Profit after income tax and non-recurring items** | **182.6** | **432.0** | **(1.6)** | **313.0** | **926.0** |

| **12 months to 31 December 2002**<br><br>**(A$ million)** | **A&NZ** | **Hong Kong** | **China & South East Asia** | **AXA APH** | **Consolidated AXA APH** |
|---|---|---|---|---|---|
| Operating Earnings (ex Health) | 108.8 | 155.9 | (2.5) | | **262.2** |
| Capitalised losses & reversals | 17.0 | | | | **17.0** |
| **Operating Earnings and capitalised losses & reversals** | **125.8** | **155.9** | **(2.5)** | | **279.2** |
| Investment Earnings | 17.3 | 67.0 | | | **84.3** |
| Foreign currency gain from translation of New Zealand net assets | 27.1 | | | | **27.1** |
| **Investment Earnings** | **44.4** | **67.0** | **0.0** | | **111.4** |
| **Corporate expenses & goodwill amortisation** | | | | (39.1) | **(39.1)** |
| Interest expense | | | | (78.3) | **(78.3)** |
| **Profit after income tax (ex Health) and before non-recurring items** | **170.2** | **222.9** | **(2.5)** | **(117.4)** | **273.2** |
| Health | 43.1 | | | 0.0 | **43.1** |
| Non-recurring items | 1.6 | | | 12.0 | **13.6** |
| **Profit after income tax and non-recurring items** | **214.9** | **222.9** | **(2.5)** | **(105.4)** | **329.9** |

| **Non-recurring items**<br><br>**(A$ million)** | **12 months to 31 Dec 03** | **12 months to 31 Dec 02** |
|---|---|---|
| Profit on sale of AXA Australia Health | 365.7 | |
| Profit on sale of Members Equity | 40.0 | |
| AXA Life Singapore carrying value | (25.0) | |
| Sale of AXA IM shares | 28.0 | |
| Injection into defined benefits superannuation fund | (19.7) | (12.0) |
| Provision for litigation settlements | (9.9) | |
| Tax benefit on AC&L Part 9 transfer | | 12.0 |
| Tax credit on internal swap wind up | | 13.6 |
| **Non-recurring items** | **379.1** | **13.6** |

## 7.3 | Australia & New Zealand profit and loss analysis

| 12 months to 31 December 2003<br>(A$ million) | Financial Protection | Wealth Management | Investment earnings/other | A&NZ |
|---|---|---|---|---|
| Earnings | | 26.4 | | **26.4** |
| Expected margins released | 39.1 | 54.0 | | **93.1** |
| Experience profit | 10.8 | 15.2 | | **26.0** |
| **Operating Earnings (ex Health)** | **49.9** | **95.6** | | **145.5** |
| Capitalised losses & reversals | 6.3 | (4.5) | | **1.8** |
| **Operating Earnings and capitalised losses & reversals (ex Health)** | **56.2** | **91.1** | | **147.3** |
| Investment earnings | | | 45.2 | **45.2** |
| **Profit after income tax (ex Health) and before non-recurring items** | **56.2** | **91.1** | **45.2** | **192.5** |
| Health | | | | **9.8** |
| Non-recurring items | | | | **(19.7)** |
| **Profit after income tax and non-recurring items** | **56.2** | **91.1** | **45.2** | **182.6** |

| 12 months to 31 December 2002<br>(A$ million) | Financial Protection | Wealth Management | Investment earnings/other | A&NZ |
|---|---|---|---|---|
| Earnings | | 19.8 | | **19.8** |
| Expected margins released | 40.2 | 66.7 | | **106.9** |
| Experience profit | (5.7) | (12.0) | | **(17.7)** |
| **Operating Earnings (ex Health)** | **34.5** | **74.5** | | **109.0** |
| Capitalised losses & reversals | 14.7 | 2.1 | | **16.8** |
| **Operating Earnings and capitalised losses & reversals (ex Health)** | **49.2** | **76.6** | | **125.8** |
| Investment Earnings | | | 44.4 | **44.4** |
| **Profit after income tax (ex Health) and before non-recurring items** | **49.2** | **76.6** | **44.4** | **170.2** |
| Health | | | 43.1 | **43.1** |
| Non-recurring items | | | 1.6 | **1.6** |
| **Profit after income tax and non-recurring items** | **49.2** | **76.6** | **89.1** | **214.9** |

## 7.4 | Hong Kong profit and loss analysis

| (HK$ million) | 12 months 31 Dec 03 | 12 months 31 Dec 02 |
|---|---|---|
| Expected margins released | 772.0 | 696.3 |
| Experience profit | 28.3 | (34.3) |
| **Operating Earnings** | **800.3** | **662.0** |
| Investment Earnings | 1,402.7 | 296.7 |
| **Profit after income tax before non-recurring items** | **2,203.0** | **958.7** |
| Non-recurring items | - | - |
| **Profit after income tax and non-recurring items** | **2,203.0** | **958.7** |

## 7.5 | Sensitivity analysis

The table below outlines operating and investment earnings sensitivities to changes in investment markets and exchange rates. Consistent with our Investor Compendium for the 6 months ended 30 June 2003, 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.

| | Aust/NZ | | Hong Kong/Singapore | | Holding company | |
|---|---|---|---|---|---|---|
| **Profit after tax (A$ million)** | **Operating earnings** | **Investment earnings** | **Operating earnings** | **Investment earnings** | **interest on debt** | **Total profit** |
| +/- 5% in Australian equities | +/-7 | +/-6 | +/-0 | +/-0 | +/-0 | +/-13 |
| +/- 5% in international equities | +/-0 | +/-1 | +/-3 | +/-31 | +/-0 | +/-35 |
| +/- 50 bps in bond yields | -/+2 | -/+7 | -/+5 | -/+52 | -/+0 | -/+66 |
| +/- 50 bps in corporate spread | -/+0 | -/+0 | -/+3 | -/+28 | -/+0 | -/+31 |
| +/- 5% move in AUD/USD [1] | -/+0 | -/+0 | -/+7 | -/+13 | -/+0 | -/+20 |
| +/- 1% move in interest rates [2] | +/-0 | +/-0 | +/-0 | +/-0 | +/-5 | +/-5 |

*(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 66. 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 USD currency movements. The value of Hong Kong profits falls when the USD weakens, but the value of interest payments on USD denominated debt also falls. However, the hedge is only partial.

Relative to the US dollar, the Australian dollar has strengthened by 34% over the year, and was the best performing currency of 2003. 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.

If the average AUD/USD remains at the spot rate levels as at 31 December 2003 throughout 2004, Hong Kong operating and investment earnings will be adversely effected by a further 15% deterioration in average rates from 2003 to 2004.

# 8 Exchange rate table

| | 12 months 31 Dec 03 | 12 months 31 Dec 02 | 12 months 31 Dec 01 |
|---|---|---|---|
| Profit and loss | | | |
| - AUD/USD | 0.65514 | 0.54429 | 0.51210 |
| - AUD/HKD | 5.10157 | 4.24508 | 3.99400 |
| - AUD/SGD | 1.14242 | 0.97229 | 0.91986 |
| - AUD/NZD | 1.12152 | 1.16828 | 1.23034 |
| Balance sheet | | | |
| - AUD/USD | 0.75345 | 0.56310 | 0.51189 |
| - AUD/HKD | 5.84960 | 4.39124 | 3.99163 |

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.

AXA Asia Pacific Holdings Limited
Results for the 12 months ended 31 December 2003

Les Owen, Group Chief Executive
Andrew Penn, Chief Financial Officer

24 February 2004

# Today's agenda

| | |
|---|---|
| • Overview | Les Owen |
| • Full year results | Andrew Penn |
| • Review of activities | Les Owen |

# AXA Asia Pacific Group
## Highlights

- Profit after tax (excluding Health) and before non-recurring items up 97% to $537m (12 months ended 31 December 2002 - $273m)
- Operating Earnings (ex Health) up 8% to $301m (2002 - $279m)
  - Australia & NZ $147m, up 17% (2002 - $126m)
  - Hong Kong $157m, up 1% (2002 - $156m)
    - local currency HK$800m up 21% (2002 - HK$662m)
- Investment Earnings $322m, up 189% (2002 - $111m)
  - Australia & NZ $45m (2002 - $44m)
  - Hong Kong $275m (2002 - $67m)
- Group funds under management and administration up 5% to $51.1b (2002 - $48.5b)
- Very strong capital position

## Australia and New Zealand
## Highlights

- Operating Earnings (ex Health) up 17% to $147m (2002 - $126m)
- Achieved 4 out of 5 of our K5 aspirational goals
- Achieved top 3 ranking for net retail fund flows
- Net retail funds flow up 123% to $3.7b (2002 - $1.7b)
- Funds under management and administration up 8% to $44.2b (2002 - $41.0b)
- Funds under advice and administration up 28% to $4.2b (2002 - $3.3b)
- Successful integration of ipac
- Business successfully repositioned for further growth

# Hong Kong
## Highlights

- New business up 14% to HK$1,032m (2002 - HK$909m)
- Value of new business up 33% to HK$519m (2002 - HK$389m)
- Investment margin on participating business well in excess of 1% spread
- Aggregate discontinuance rate improved to 8.8%, better than target of 9.0%
- Funds under management up 23% to HK$40.1b (2002 - HK$32.6b)
- Further repositioning of distribution channels

# China & South East Asia
## Highlights

- New China branch operation in Guangzhou in November - 783 agents by year end
- Sales and total premiums in Shanghai branch up 46% and 34% respectively (local currency)
- Value of new business in China and South East Asia up 78% (constant currency basis)
- New bancassurance joint venture with Bank Mandiri (Indonesia's largest bank with over 700 branches and 7 million customers) launched in December and now being rolled out to bank branches
- Investment linked products launched in Indonesia and the Philippines

AXA Asia Pacific Holdings Limited
Results for the 12 months ended 31 December 2003

Andrew Penn, Chief Financial Officer

# AXA Asia Pacific Group
## Profit & loss analysis

| 12 months to (A$ million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| Australia & New Zealand (ex Health) | 147.3 | 125.8 | 17% |
| Hong Kong and Singapore | 153.5 | 153.4 | 0% |
| **Operating Earnings (ex Health)** | **300.8** | **279.2** | **8%** |
| Investment Earnings | 322.1 | 111.4 | 189% |
| Corporate expenses | (42.0) | (39.1) | (7)% |
| Interest expense | (43.8) | (78.3) | 44% |
| **Profit after tax (ex Health) and before non-recurring items** | **537.1** | **273.2** | **97%** |
| Divested business – Health | 9.8 | 43.1 | - |
| Non-recurring items | 379.1 | 13.6 | - |
| **Profit after tax and non-recurring items** | **926.0** | **329.9** | **181%** |

# AXA Asia Pacific Group
## Earnings per share and return on equity

| | 2003 | 2002 |
|---|---|---|
| **Earnings per share (cents)** [1] | 31.4 | 18.0 |
| **Return on equity** [2] | 16.2% | 10.4% |

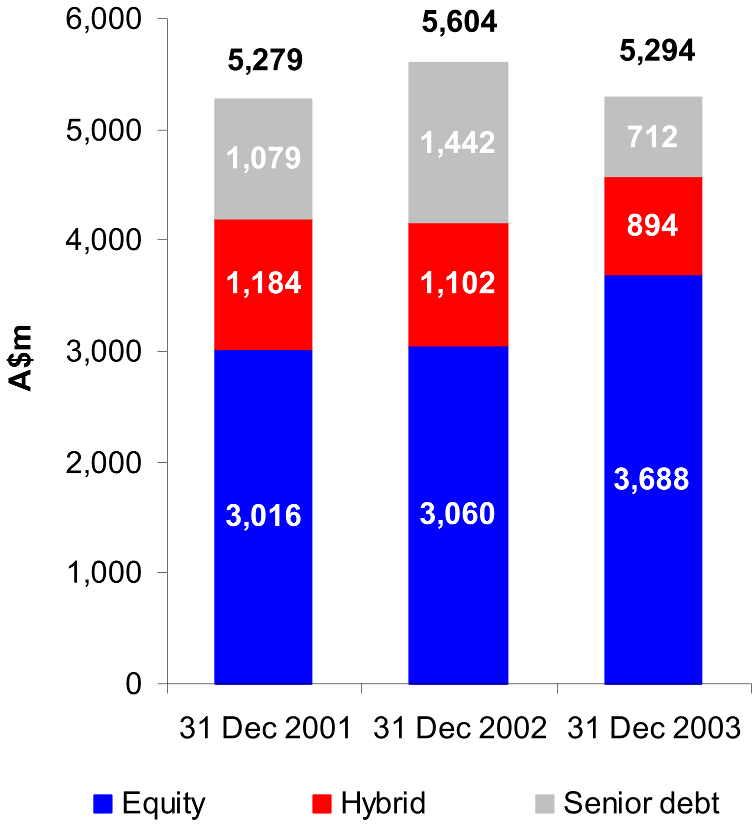
[1] EPS excludes non-recurring items and is for the 12 months to 31 December

[2] ROE calculated as profit after tax and before non-recurring items for the 12 months to 31 December as a percentage of average shareholders' equity

### Dividend

| | Interim Dividend | Franking | Final Dividend | Franking | Total Dividend |
|---|---|---|---|---|---|
| **2002** | 4.75c | 60% | 5.00c | 60% | 9.75c |
| **2003** | 4.75c | 60% | 5.50c | 20% | 10.25c |

# AXA Asia Pacific Group
## Capital structure

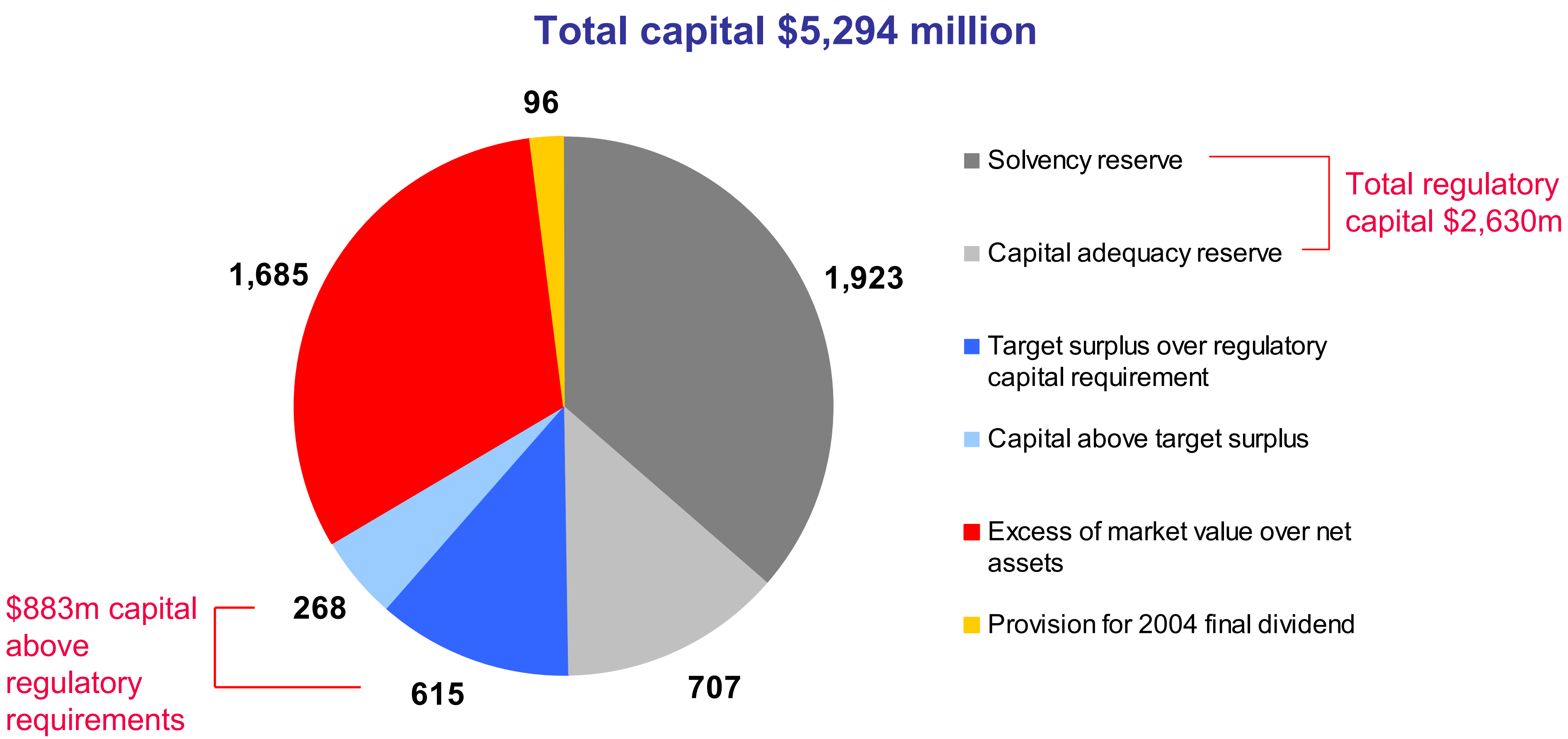



| Gearing ratios | 31 Dec 2003 | 31 Dec 2002 | 31 Dec 2001 |
|---|---|---|---|
| Debt/capital resources | 13% | 26% | 20% |
| (Debt+hybrid)/capital resources | 30% | 45% | 43% |
| Debt/(equity+hybrid) | 16% | 35% | 26% |
| (Debt+hybrid)/equity | 44% | 83% | 75% |

**Financial strength rating** **AA-/AA**

(rating by S&P / Fitch)

# AXA Asia Pacific Group
## Capital usage at 31 December 2003



# AXA Asia Pacific Group
## Illustrative value

| | 31 Dec 2003 | | 31 Dec 2002 | |
|---|---|---|---|---|
| **Range** | **Low** | **High** | **Low** | **High** |
| Illustrative EV [1] | $5.0b | $5.6b | $4.9b | $5.4b |
| Illustrative EV per share [1] | $2.89 | $3.20 | $2.80 | $3.07 |
| EV - constant exchange rate [2] | $3.25 | $3.60 | | |

*(1) Based on AUD/USD = 0.75*
*(2) Based on AUD/USD at 31 December 2002 = 0.5631*

- Increase reflects strong operating profits in Australia and New Zealand and growth in value of Hong Kong new business
- Offsetting this was the appreciation of the Australian dollar, which reduced illustrative EV per share by around 36-40c
- The increase in the mid point of the value range on a constant exchange rate basis was 16% to $3.43 per share

# Australia and New Zealand

## Profit after tax and before non-recurring items

| 12 months to (A$ million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| Wealth management | 91.1 | 76.6 | 19% |
| Financial protection | 56.2 | 49.2 | 14% |
| **Operating Earnings (ex Health)** | **147.3** | **125.8** | **17%** |
| Investment Earnings | 45.2 | 44.4 | 2% |
| **Profit after tax (ex Health) and before non-recurring items** | **192.5** | **170.2** | **13%** |

- Investment Earnings $53.8m, up 210%, excluding impact of foreign currency translation of NZ assets (2002 - $17.3m)

# Australia and New Zealand
## Operating Earnings - Wealth management

| 12 months to (A$ million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| Personal & business superannuation | 44.1 | 44.1 | - |
| Ordinary savings | 8.7 | 10.9 | (20)% |
| Retirement income | 11.9 | 1.8 | 561% |
| Investment business | 0.7 | 0.7 | - |
| Portfolio administration services | 2.9 | 6.9 | (58)% |
| Advice | 22.8 | 12.2 | 87% |
| **Operating Earnings** | **91.1** | **76.6** | **19%** |

# Australia and New Zealand
## Operating Earnings - Financial protection

| 12 months to (A$ million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| Income protection | 13.6 | 16.5 | (18)% |
| Individual term & trauma | 25.9 | 20.1 | 29% |
| Group insurance | 1.8 | 0.3 | 500% |
| Long term risk | 14.9 | 12.3 | 21% |
| **Operating Earnings** | **56.2** | **49.2** | **14%** |

# Australia and New Zealand
## Investment Earnings

| 12 months to (A$ million) | 31 Dec 2003 | Return | 31 Dec 2002 |
|---|---|---|---|
| Equities | 20.1 | 10.2% | (29.3) |
| Fixed interest | 16.1 | 2.8% | 31.2 |
| Property | 1.3 | 4.0% | 2.0 |
| Cash | 7.5 | 3.6% | 12.3 |
| **Portfolio assets** | **45.0** | **4.3%** | **16.2** |
| Other assets | 8.8 | n/a | 1.1 |
| Foreign currency translation of assets in NZ | (8.6) | n/a | 27.1 |
| **Total** | **45.2** | **n/a** | **44.4** |

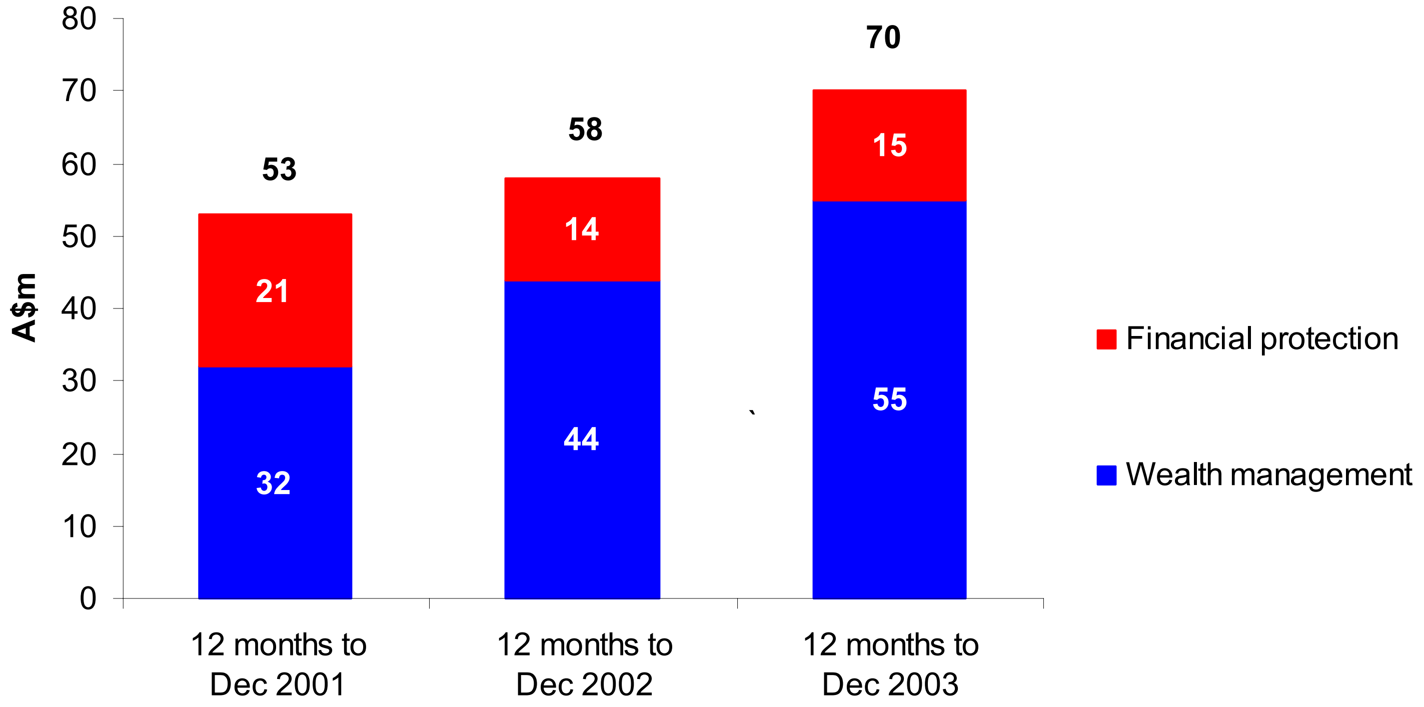
# Australia and New Zealand
## New business / gross inflows

| 12 months to (A$ million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| **Financial protection** | | | |
| **New annual premiums** | | | |
| Long term life | 2.0 | 2.1 | (5)% |
| Income protection | 20.2 | 21.4 | (6)% |
| Individual term & trauma | 34.0 | 31.3 | 9% |
| Group insurance | 19.3 | 27.6 | (30)% |
| Financial Protection – New Zealand | 20.3 | 17.1 | 19% |
| **Total** | **95.8** | **99.6** | **(4)%** |
| **Single premiums** | **27.8** | **25.0** | **11%** |
| | | | |
| **Wealth management** | | | |
| **Gross inflows** | | | |
| Superannuation & retirement income | 1,572.8 | 1,604.2 | (2)% |
| Investments | 2,639.3 | 1,263.5 | 109% |
| Portfolio administration services [1] | 903.2 | 1,053.1 | (14)% |
| Institutional including Alliance Capital | 4,891.5 | 4,934.0 | (1)% |
| New Zealand | 507.5 | 561.0 | (10)% |
| **Total** | **10,514.3** | **9,415.8** | **12%** |

[1] Excludes acquired third party business

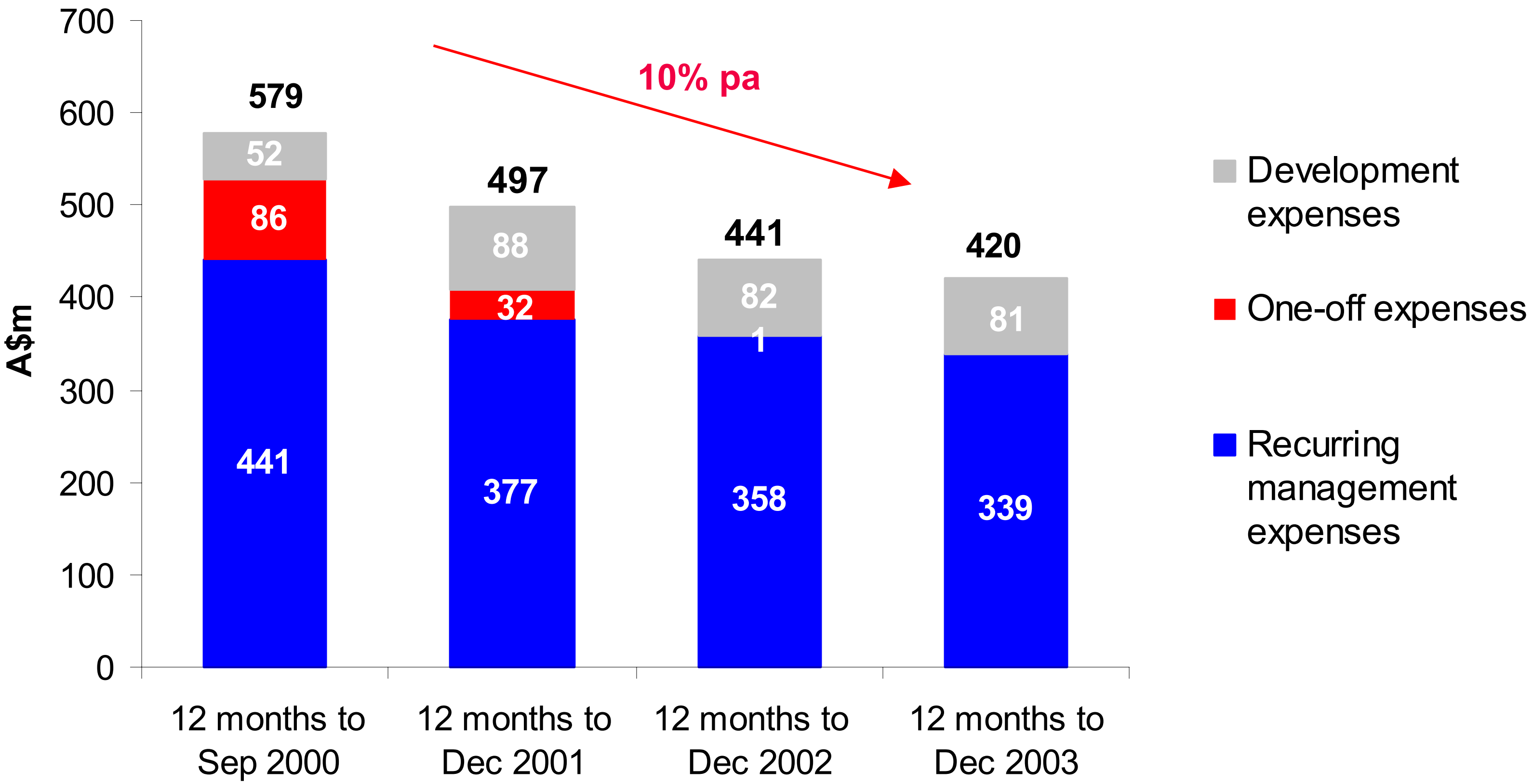
# Australia and New Zealand
## Value of new business

**Value of new business up 21% to $70m [1]**




**[1] Up 10% on like-for-like basis adjusting for methodology changes**

# Australia and New Zealand
## Total management expenses




Total management expenses excluding commission and related expenses

# Hong Kong
## Profit after tax and before non-recurring items

| 12 months to (HK$ million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| Operating Earnings | 800.3 | 662.0 | 21% |
| Investment Earnings | 1,402.7 | 296.7 | 373% |
| **Profit after tax** | **2,203.0** | **958.7** | **130%** |

| 12 months to (A$ million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| Operating Earnings | 156.9 | 155.9 | 1% |
| Investment Earnings | 275.1 | 67.0 | 310% |
| **Profit after tax** | **432.0** | **222.9** | **94%** |

- To more closely align emerging profit with services provided to customers, we have changed our assumptions for the profit carrier for conventional participating business
- The net impact is to accelerate profit release with a positive impact of approx. HK$73 million (A$14 million) for the 6 months ended 31 December 2003
- Due to strengthening of A$, Operating Earnings are 17%, or A$31m, lower than they would have otherwise been and Investment Earnings were negatively impacted by A$56m

# Hong Kong
## Investment Earnings

| 12 months to (HK$ million) | 31 Dec 2003 | Return | 31 Dec 2002 |
|---|---|---|---|
| Equities | 979.7 | 31.8% | (512.0) |
| Fixed interest | 437.3 | 6.5% | 805.5 |
| Property | (22.5) | (11.3%) | (16.2) |
| Cash | 8.2 | 1.2% | 19.4 |
| **Total** | **1,402.8** | **12.9%** | **296.7** |

# Hong Kong
## Investment margin on assets backing par business

- Margin on assets backing participating business exceeded 1% annual margin target

| **Earning rates for assets supporting policy liabilities** | **%** |
|---|---|
| Investment/interest income | 4.4 |
| Gains on fixed interest portfolio | 0.4* |
| Gains on equities | 9.8 |
| **Total** | **14.6** |
| Credited to policyholders | (4.8) |
| **Investment margin** | **9.8** |
| **Investment margin (ex fixed interest gains)** | **9.4** |

* Approximately (0.5)% due to yield increase and 0.9% due to contraction in corporate spread

- Investment margin driven by strong equity markets and contraction in corporate spread, partially offset by increase in bond yields
- Active Dividend Management account deficit eliminated on market value basis. However, US bond yields as at 31 December 2003 were 4.27% compared to our long term assumption of 5.2%

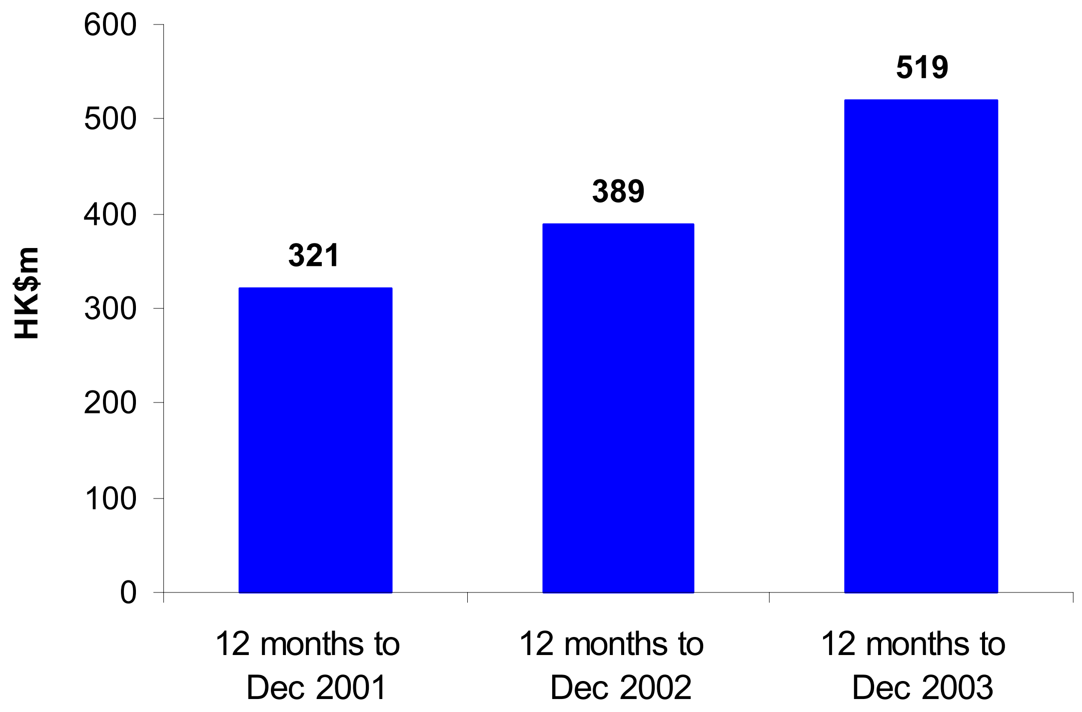
# Hong Kong
## New business

| 12 months to (HK$ million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| **Regular Premium** | | | |
| Individual life (non-linked) | 582.7 | 523.6 | 11% |
| Individual life (unit linked) | 226.2 | 142.0 | 59% |
| **Total individual life** | **808.9** | **665.6** | **22%** |
| Group retirement (incl MPF) | 40.1 | 27.0 | 48% |
| Group risk | 32.8 | 61.7 | (47)% |
| **Total** | **881.7** | **754.2** | **17%** |
| | | | |
| **Single Premium** | | | |
| Individual Life (incl unit linked) | 119.6 | 294.9 | (59)% |
| Group retirement | 328.1 | 181.1 | 81% |
| **Total** | **447.7** | **476.0** | **(6)%** |
| **Total (Regular Premium + 10% Single Premium) excluding general insurance** | **926.5** | **801.8** | **16%** |
| General insurance (P&C) [1] | 105.5 | 107.1 | (2)% |
| **Total (Regular Premium + 10% Single Premium) including general insurance** | **1,032.0** | **909.0** | **14%** |

[1] Total premium

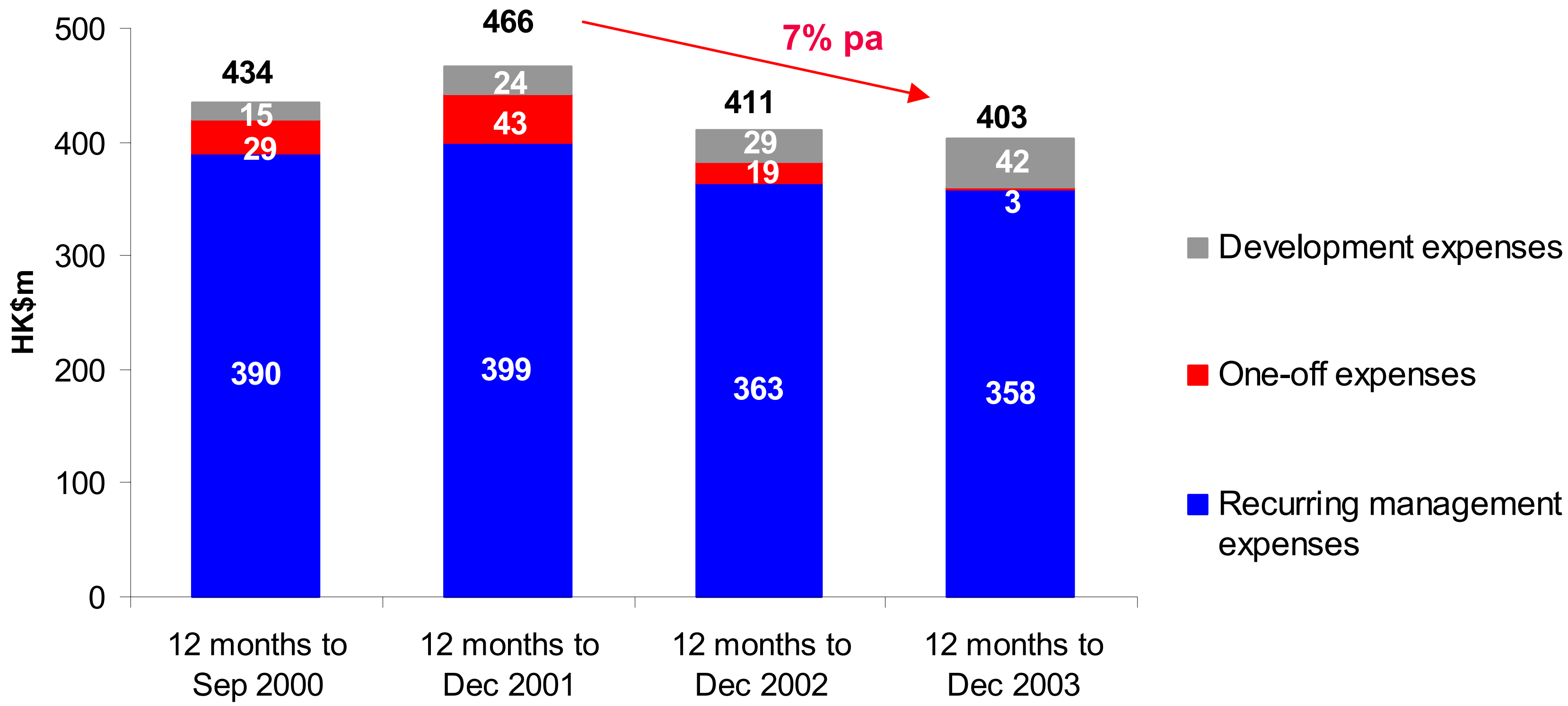
# Hong Kong
## Value of new business

**Value of new business up 33% to HK$519m [1]**




**[1] Up 26% on like-for-like economic basis**

# Hong Kong
## Total management expenses




Total management expenses excluding commission and related expenses

# China & South East Asia
## New business

| 12 months to (million) | 31 Dec 2003 | 31 Dec 2002 | Change |
|---|---|---|---|
| China (RMB) | 46 | 32 | 46% |
| Singapore (Sing$) | 20 | 21 | (5)% |
| Philippines (Peso) | 584 | 738 | (21)% |
| Thailand (Baht) | 646 | 449 | 44% |
| Indonesia (Rupiah) | 66,979 | 66,213 | 1% |

- Increased focus towards improving profitability, with product re-pricing and changes to contract terms and conditions
- Value of new business for the 12 months ended 31 December 2003 for the region up 78% (at constant currency)
- Value of new business A$11m, represented 6% of the total Group

# Summary

- Strong operating performance delivered excellent financial results
- Transformation programmes clearly delivering
- Very strong capital position
  - capital resources well in excess of regulatory requirements
  - gearing levels halved
- We are well placed to continue to grow profitability and provide attractive returns for our shareholders

AXA Asia Pacific Holdings Limited
Review of activities

Les Owen, Group Chief Executive

# Australia and New Zealand
## K5 transformation programme

- In April 2000 we launched the K5 transformation programme to strengthen and reposition the Australian and New Zealand businesses
- At that time:
  - market share was low and declining in fast growing investment and superannuation markets
  - market leader in most risk segments, but income protection was unprofitable
  - management of aligned adviser channel with general agents
  - service and product offer was poorly perceived by non-aligned distribution channels; had low penetration
  - perception of our investment capability and performance was poor
  - high costs relative to competitors
  - mutual culture

# Australia and New Zealand
## Strategic imperatives

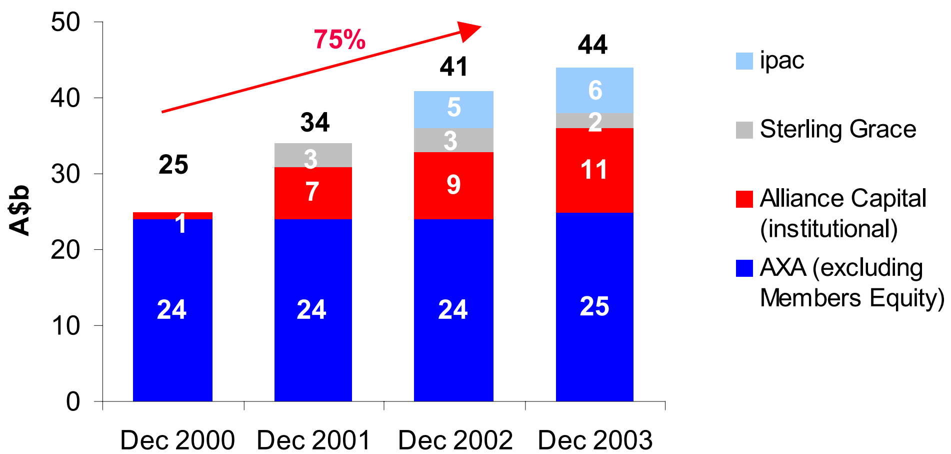
**K5 was underpinned by seven strategic imperatives**

- Grow our share of retail investments and superannuation
- Improve retention of funds under management
- Increase size and productivity of aligned advisers
- Increase penetration of non aligned advisers
- Return our income protection portfolio to profitability
- Improve operational efficiency and reduce expense ratios
- Improve our organisational capability through people

# Australia and New Zealand
## Grow our share of retail investments and superannuation

| From | To |
|---|---|
| Weak local asset management capability | Global asset management through Bernstein and Alliance Capital |
| Product range focussed on financial protection | New mezzanine and retail unit trusts, Bernstein value style, upgraded superannuation and PAS offers |

**Funds under management and administration**

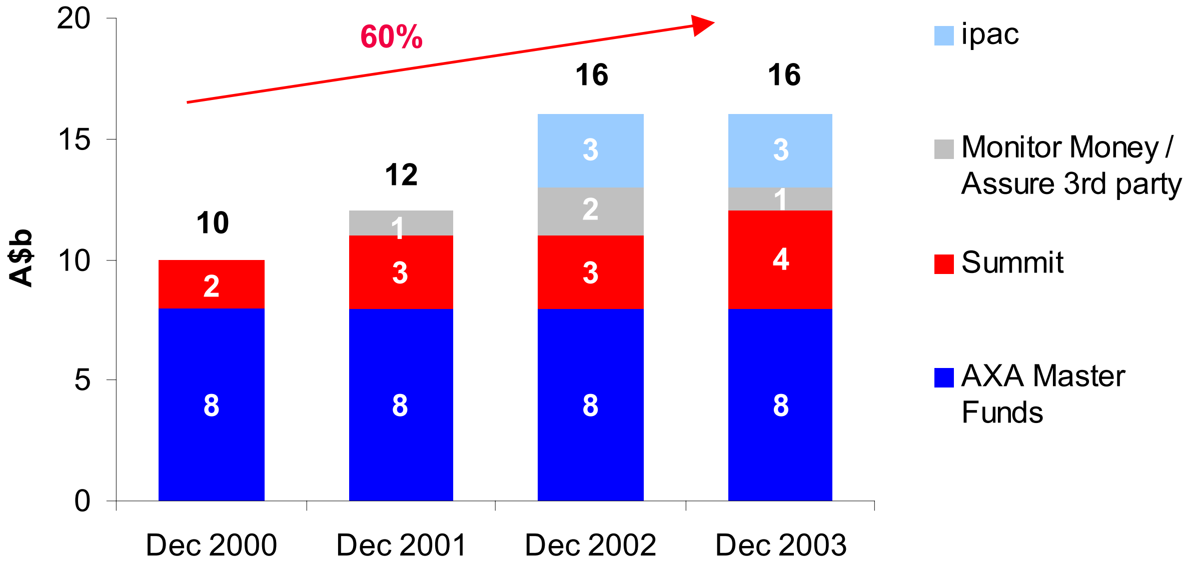


# Australia and New Zealand

## Grow our share of retail investments and superannuation

| From | To |
| --- | --- |
| Sub-scale platform | Top 5 Master Trust/Portfolio Administration System player |

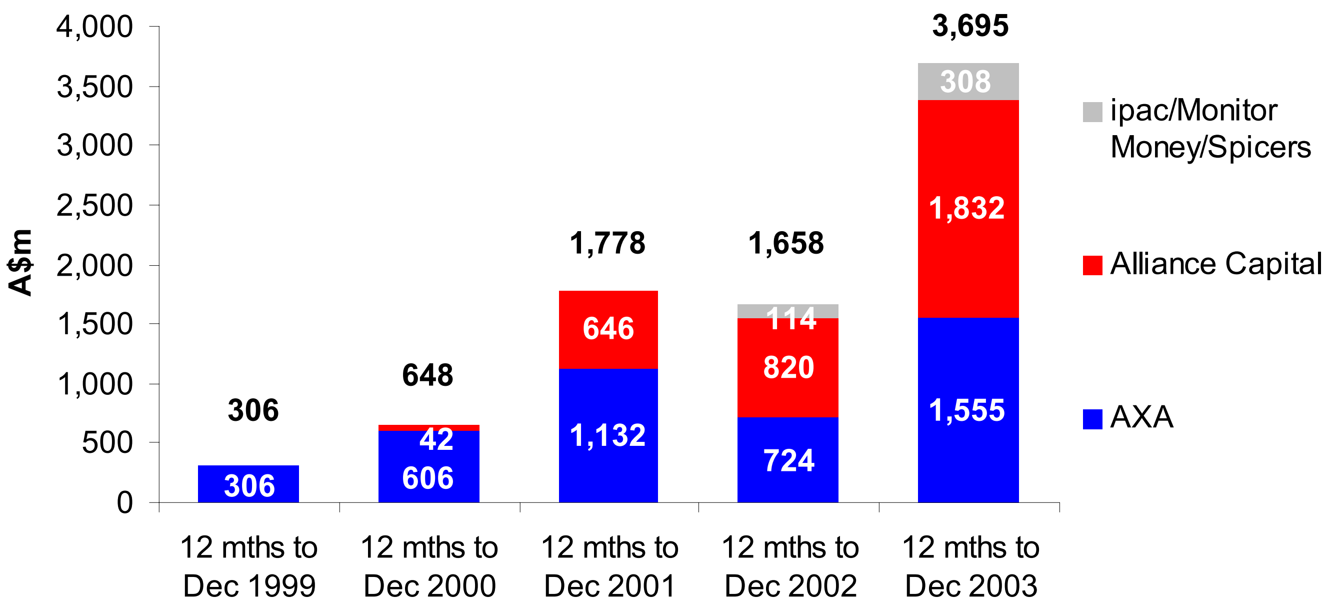
**Master trusts, platforms and wraps - Australia**
**Funds under administration**



# Australia and New Zealand
## Grow our share of retail investments and superannuation

| From | To |
| --- | --- |
| Net funds flow of $0.3b in 1999 | Net funds flow of $3.7b in 2003 |

**Net retail funds flow (excluding Assure third parties*)**

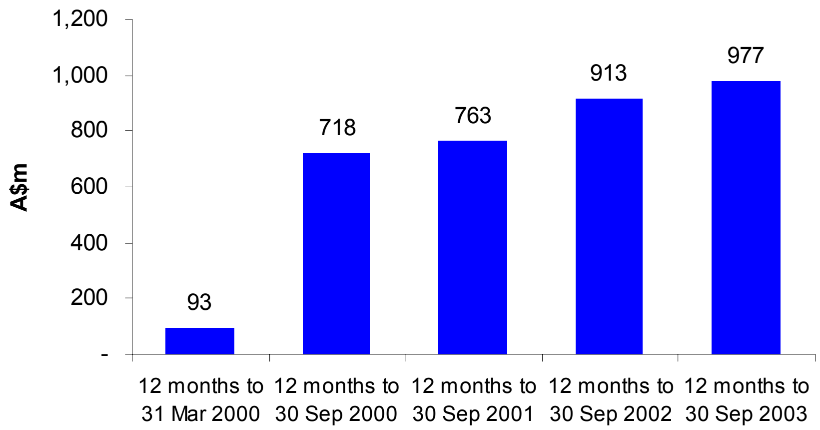



* Net inflow of $254m and outflow of $277m in relation to terminated Assure third party contracts have been excluded from the 12 months ended 31 December 2002 and 2003 respectively

# Australia and New Zealand
## Grow our share of retail investments and superannuation

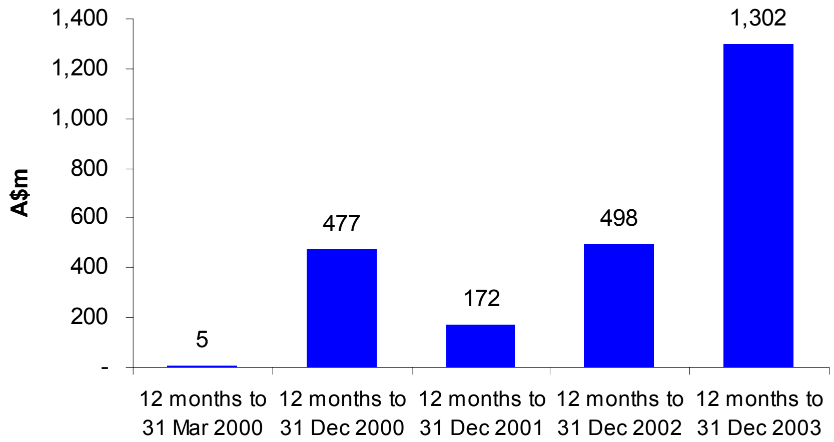
| From | To |
|---|---|
| Outside Top 10 for net retail fund flows | In top 3 for net retail fund flows |

**Plan for Life - AXA Australia net retail funds flow**




| | | | | | |
|---|---|---|---|---|---|
| **Rank** | **18** | **9** | **10** | **8** | **3** |
| **Share of market net flow** | **0.5%** | **3.2%** | **2.9%** | **4.7%** | **16.9%** |

**ASSIRT - AXA Australia net retail funds flow**

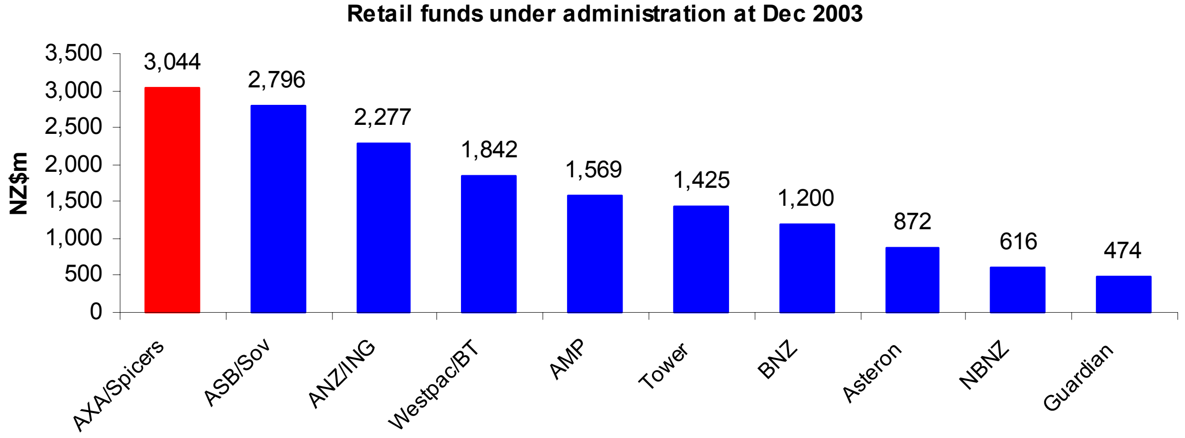



| | | | | | |
|---|---|---|---|---|---|
| **Rank** | **42** | **11** | **19** | **8** | **2** |
| **Share of market net flow** | **0.0%** | **2.6%** | **1.0%** | **4.5%** | **16.2%** |

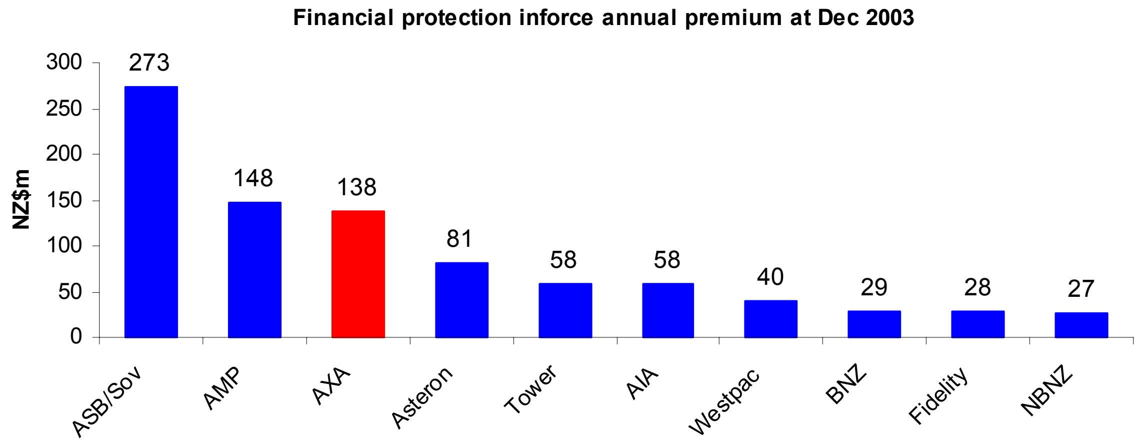
Plan for Life historical data has been adjusted to remove net fund flows associated pre-acquisition with ipac (pre 1 October 2002) and Monitor Money / Assure (pre 1 January 2002)

ASSIRT data for 2000, 2001 and 2002 excludes Summit, Monitor Money and ipac retail

# New Zealand
## Grow our share of retail investments and superannuation




Source: Morningstar and internal analysis




Source: ISI, Dec 2003

# Australia and New Zealand

## Improve retention of funds under management

| From | To |
|---|---|
| High levels of fund redemptions | Structured retention programme - $435m funds retained in 2003 |

| Product group (A$ million) | Retained in alternative product | Retained in existing product | Additional investment in existing product | Total |
|---|---|---|---|---|
| Super & Retirement Income | 96.7 | 190.6 | 64.1 | 351.4 |
| Investments | 10.2 | 35.9 | - | 46.1 |
| Financial protection | 21.7 | 16.1 | - | 37.8 |
| **Total funds retained/acquired** | **128.6** | **242.6** | **64.1** | **435.3** |

- Focus on Super and Retirement income. FUM outflows have declined by 14% in the 12 months to Dec 2003 vs 2002
- $435m retained during 2003, up 229% (2002 - $190m).

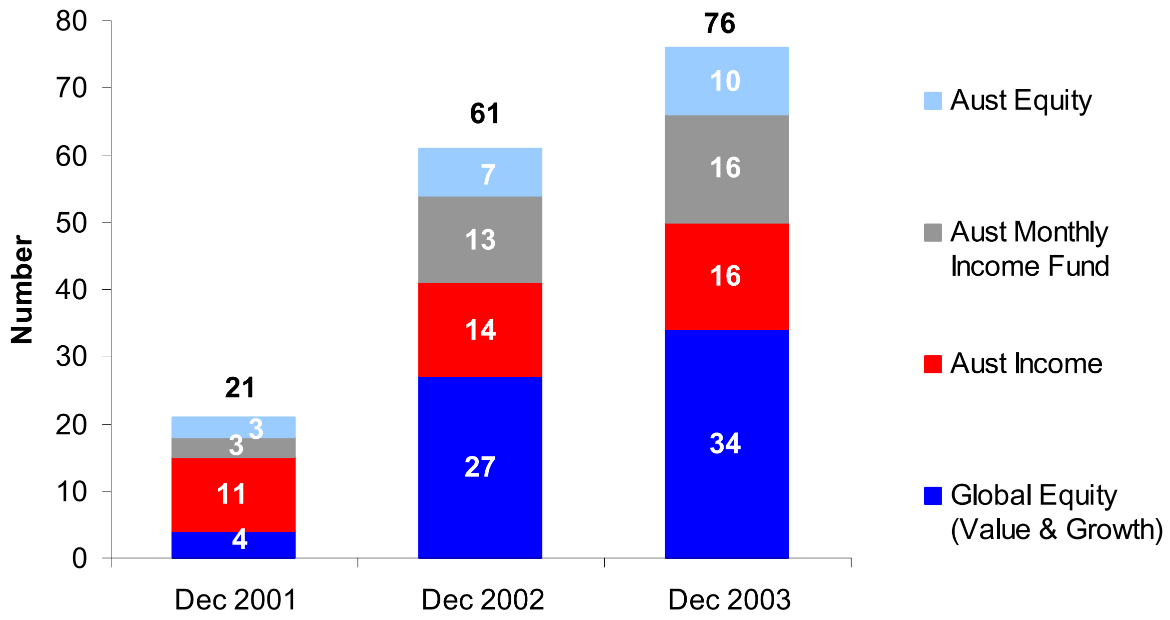
# Australia
## Successful integration of ipac

- Cost savings of $10m in 2003, $15m in 2004 - significantly greater than assumed at acquisition
- Profit after tax for 2003 consistent with 13-17x PE range indicated at time of acquisition despite tough markets
- ipac now acts as the portfolio manager for AXA's multi-manager funds, with $8b funds under management following transfer of $2b from AXA
- ipac now using iAccess on Summit platform
- ipac Equity Partners Programme progressing well
- Nearly 400 AXA advisers trained on ipac's client engagement approach

# Australia
## Increase penetration of non-aligned advisers

| From | To |
|---|---|
| Low penetration of product lists - particularly for equities | Much stronger, balanced penetration - well positioned for growth |

**AXA product entries in the top 10 external master trust* product lists**

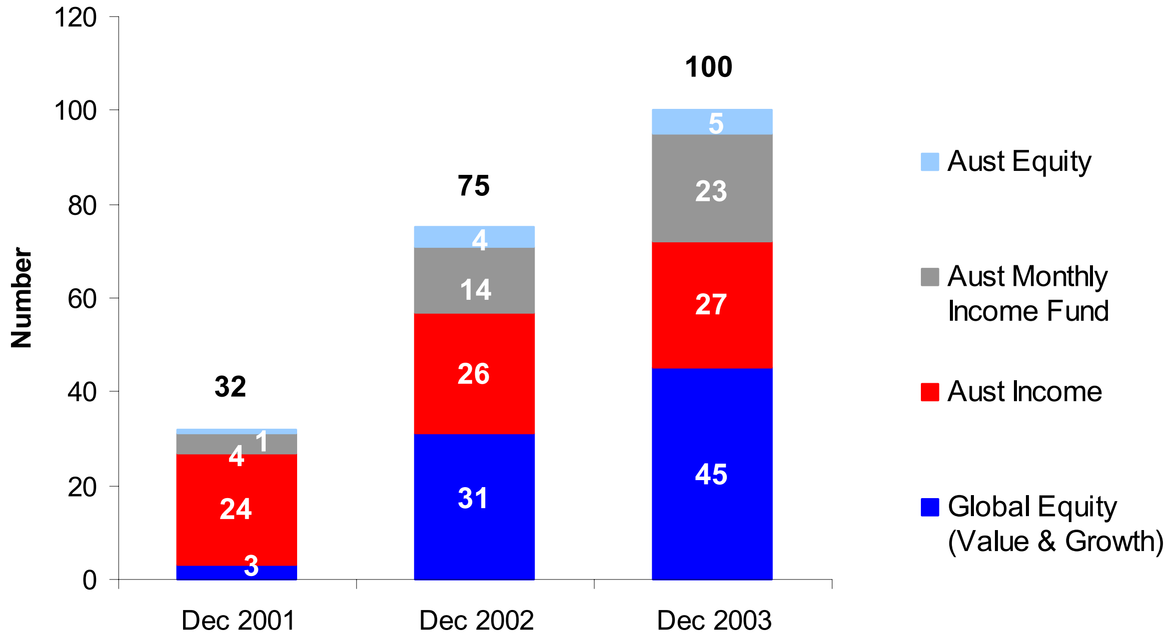



(*) Top 10 external master trusts excluding Summit as at 31 December 2003. For each period, penetration is tracked against the top 10 master trusts. Historical data in this chart may differ slightly from that previously reported due to changes in the top 10.

# Australia
## Increase penetration of non-aligned advisers

| From | To |
|---|---|
| Low penetration of product lists - particularly for equities | Much stronger, balanced penetration - well positioned for growth |

**AXA product entries in the top 50 external dealer group* product lists**




(*) 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 top 50.

# Australia
## Increase penetration of non-aligned advisers

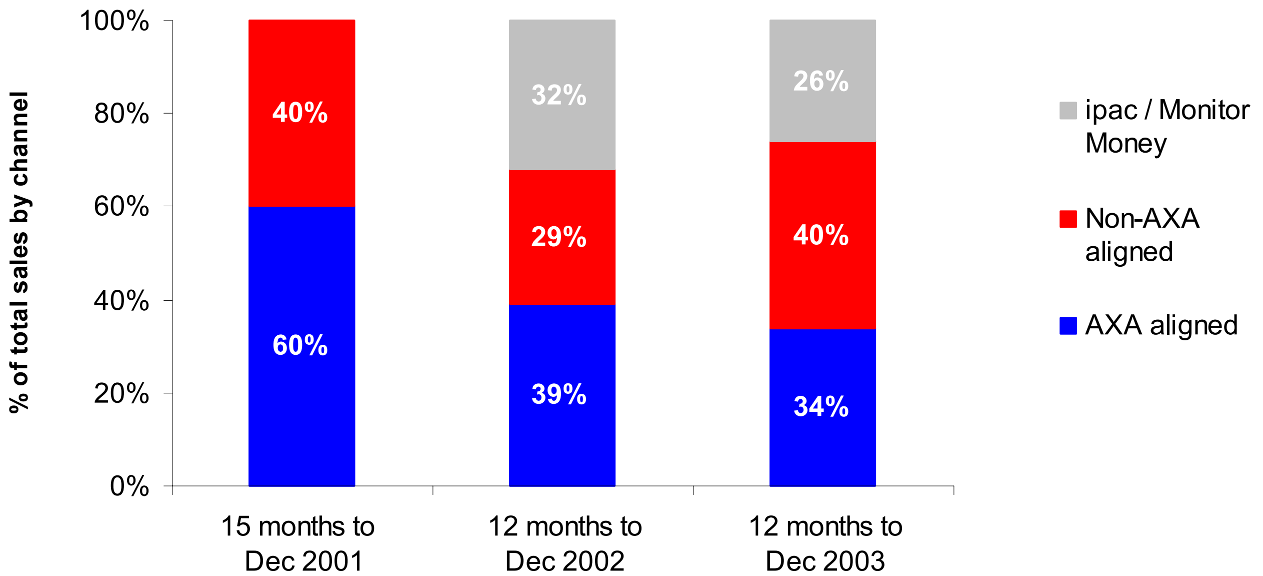
| From | To |
|---|---|
| Low volume of sales to non-aligned advisers, mainly risk, annuities and guaranteed investment products | Significantly increased volume of sales - growth in unit trusts and superannuation |

| 12 months to (HK$ million) | 31 Dec 2003 | 31 Dec 2002 | Increase |
|---|---|---|---|
| Retail unit trusts | 343.4 | 85.7 | 301% |
| Mezzanine unit trusts | 499.2 | 222.9 | 124% |
| Personal superannuation | 91.7 | 64.4 | 43% |
| **Total** | **934.3** | **373.0** | **150%** |

# Australia
## Increase penetration of non-aligned advisers

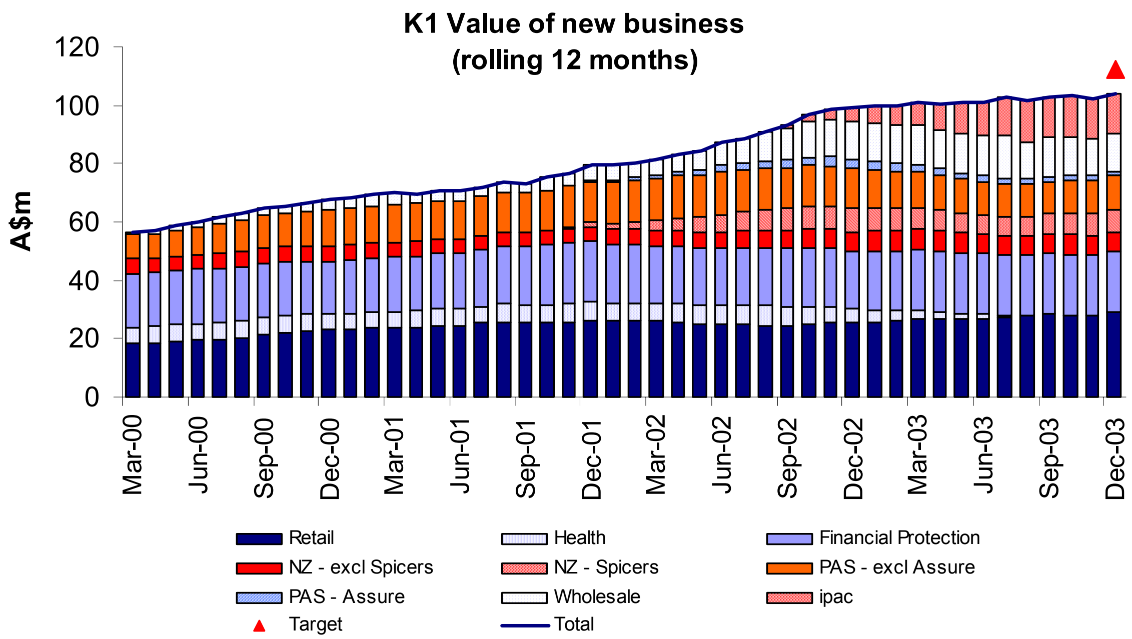
| From | To |
| --- | --- |
| Heavy reliance on traditional aligned channels | Broadened distribution mix |

**Sales by channel (single premium wealth products)**



# Australia and New Zealand
## Progress against K5 goals

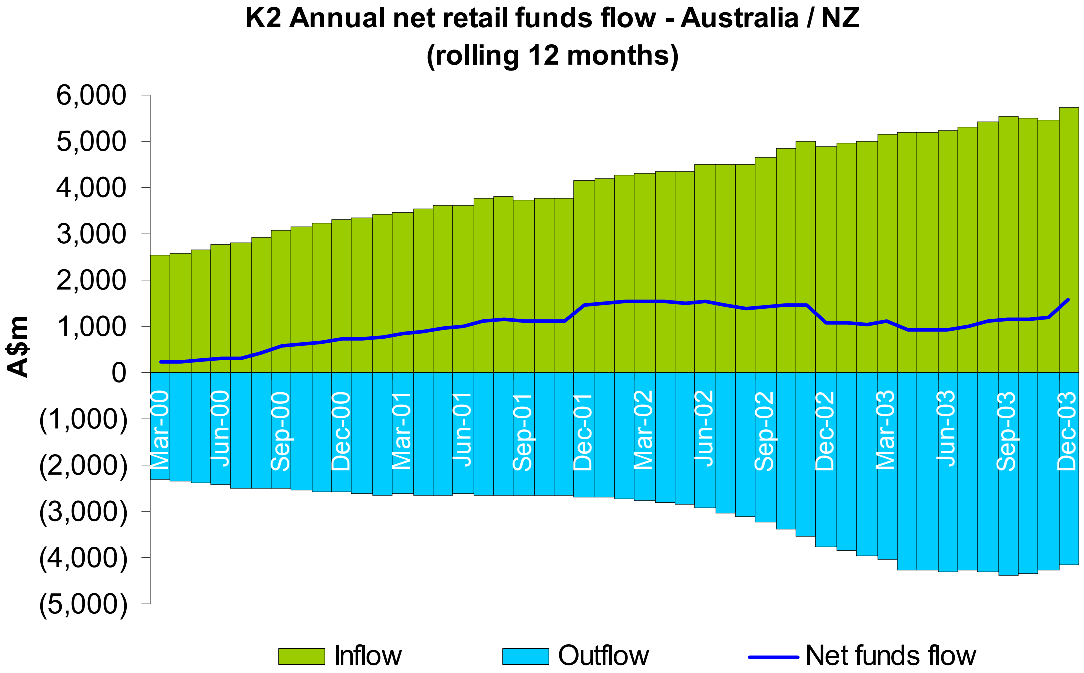
## K1 - Double the value of new business




- Achieved 93% of target in difficult market environment

# Australia and New Zealand
## Progress against K5 goals

### K2 - Top 5 in net retail funds inflow

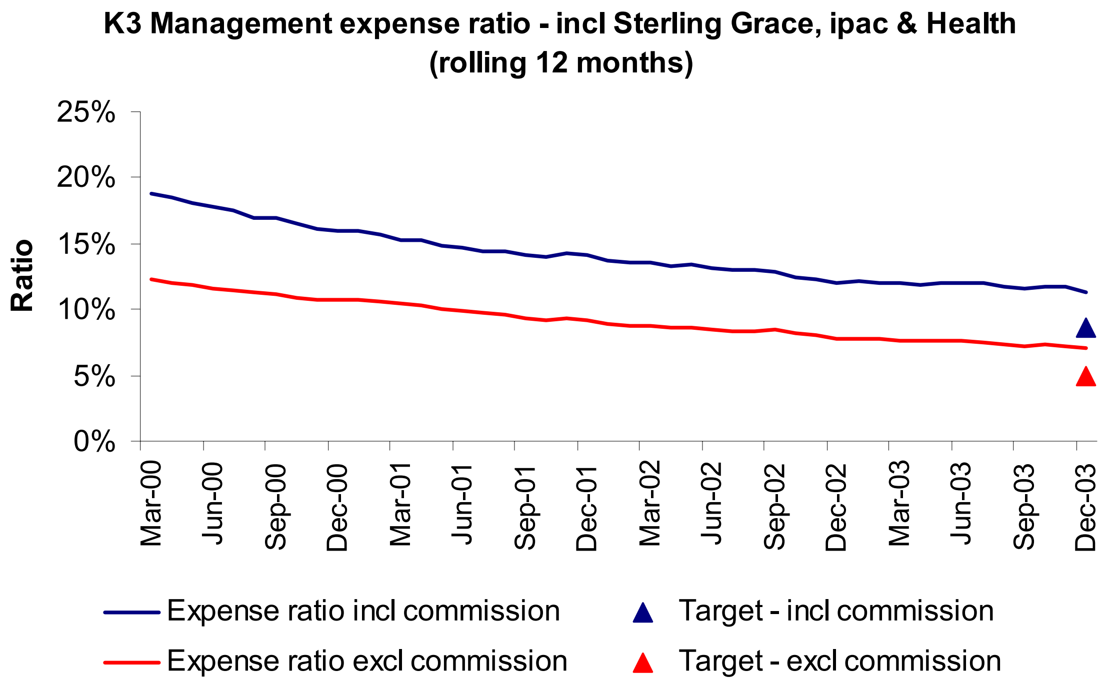



- Top 3 in net retail funds flows (ASSIRT 12 months to 31 Dec 2003)
- Top 3 in net retail funds flows (Plan For Life 12 months to 30 Sep 2003)

# Australia and New Zealand

## Progress against K5 goals

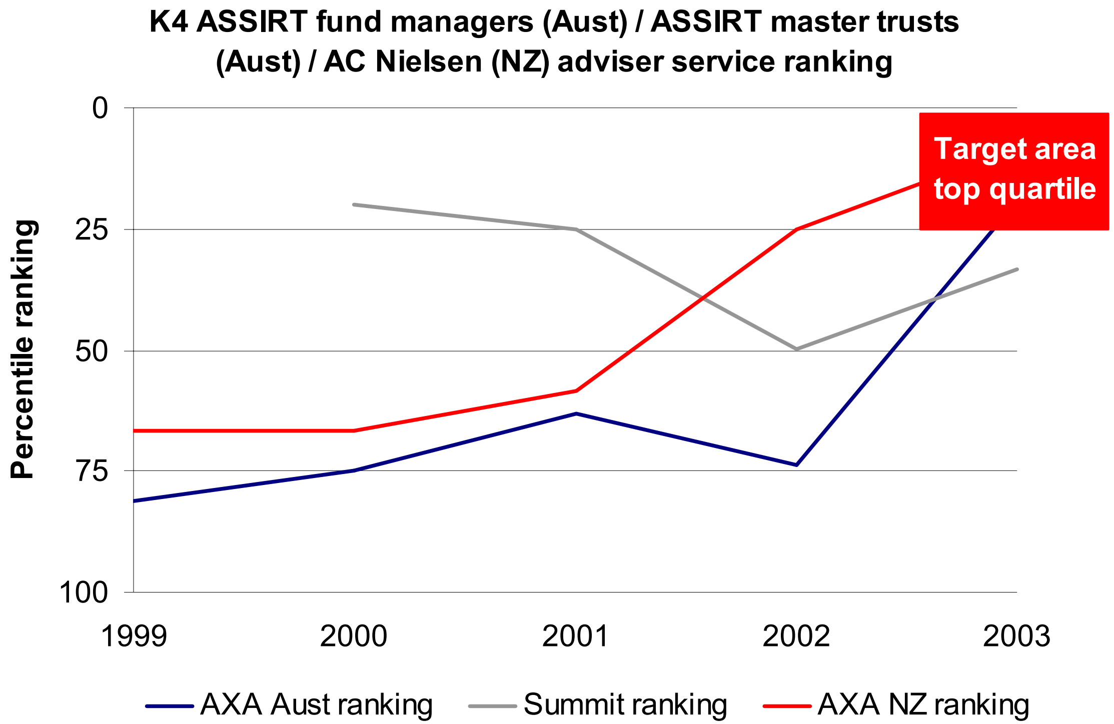
### K3 - Reduce our management expense ratio by 50%




- Reduced management expense ratio by 40%
- Absolute cost reduction target exceeded

# Australia and New Zealand
## Progress against K5 goals

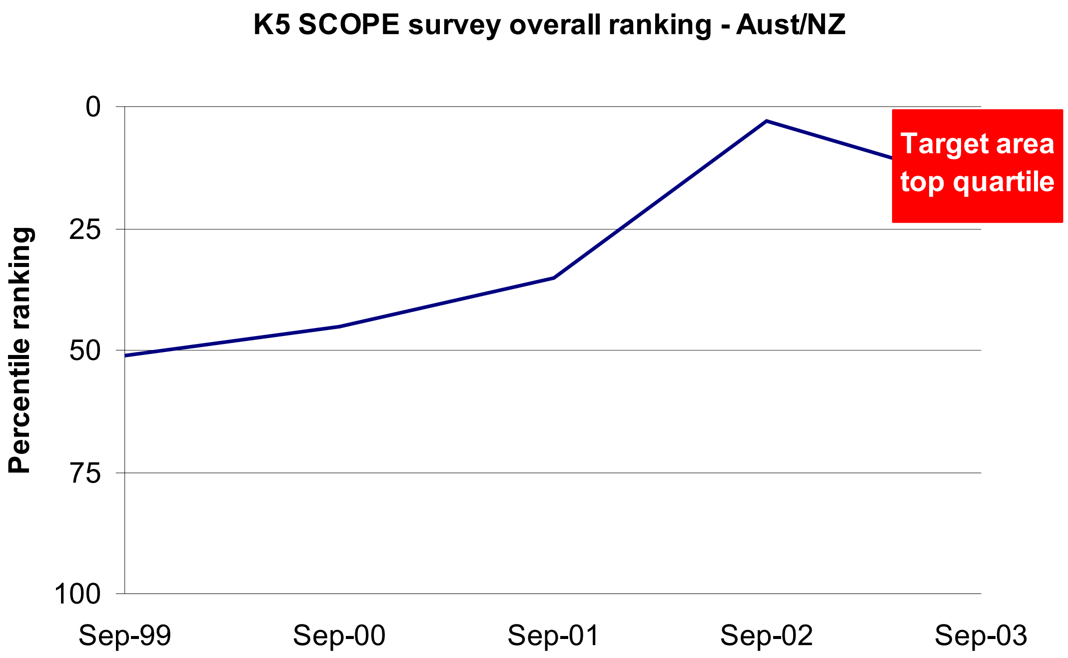
### K4 - Top quartile service ranking




- AXA Australia ranked 5th out of 26 in 2003 (Assirt survey)
- AXA New Zealand ranked 1st among all providers in 2003 (AC Neilson survey)

# Australia and New Zealand
## Progress against K5 goals

### K5 - Top quartile AXA SCOPE survey ranking




- Achieved 16th percentile in 2003

# Hong Kong
## M6 transformation programme

### By end 2004 our aspiration is to achieve

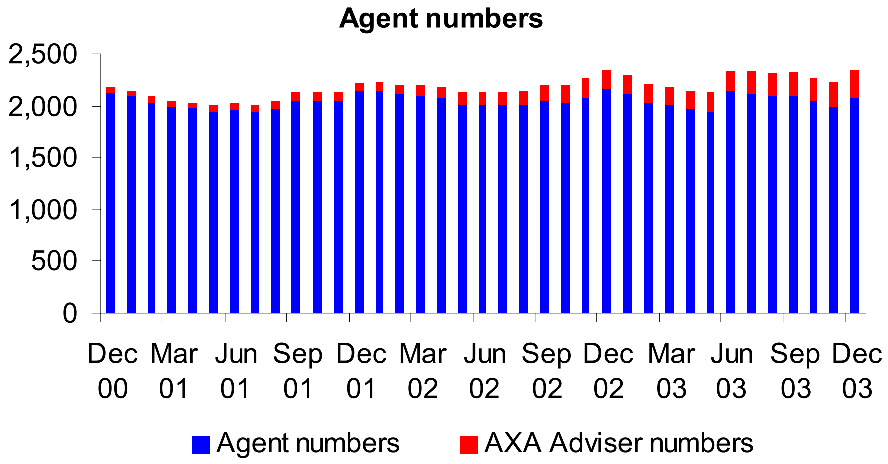
| M1 | M2 | M3 | M4 | M5 | M6 |
|---|---|---|---|---|---|
| Value of business | Premium income | Assets under mgt | Provider of choice | Employee satisfaction | Value of sales |
| • Enterprise value HK$23b (before dividends) | • Gross premium income HK$10b | • Assets under management HK$42b | • #1 brand choice | • >30 SCOPE | • Value of new business HK$753m |

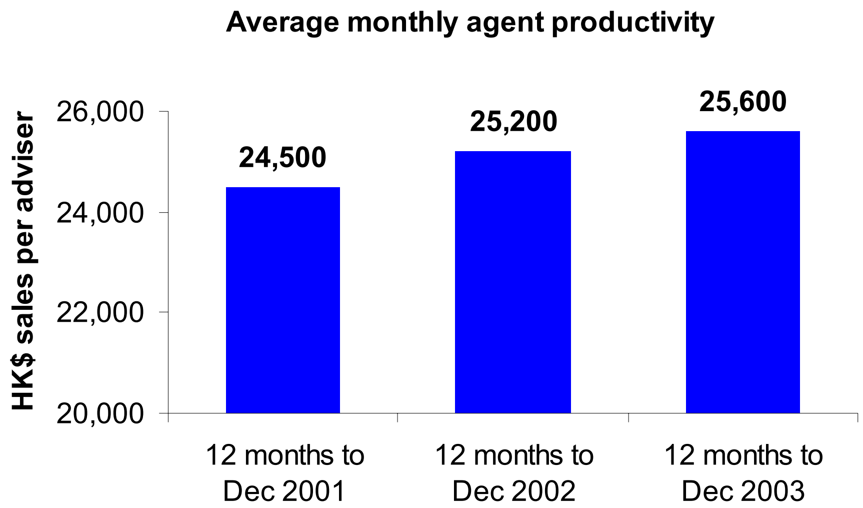
# Hong Kong
## Strategic imperatives

- Increase the number and productivity of agents
- Build profitable new distribution channels
- Build AXA as preferred brand of choice
- Deliver investment margins on par business
- Bring persistency back to target levels
- Improve organisational capability through our people
- Deliver operational excellence
- Prepare for growth of savings and investment market

# Hong Kong
## Increase the number and productivity of agents

- Agent numbers stabilised following poaching in 2000/2001
- Productivity improved by 1% despite the difficult environment due to SARS



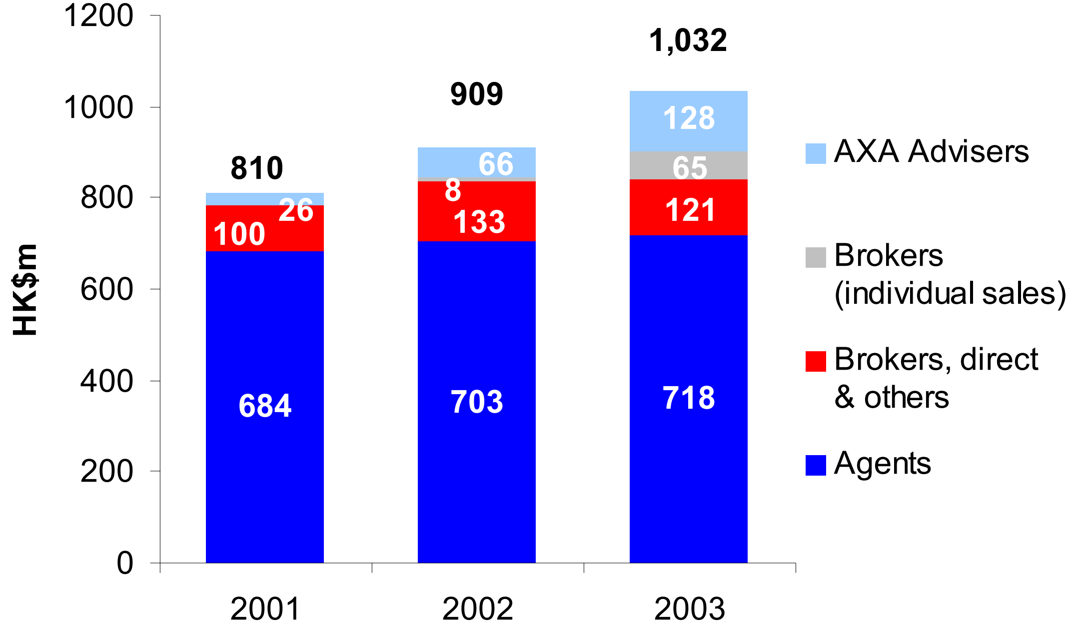
# Hong Kong
## Hong Kong agency Blueprint

- Developed during 2003, launched in January 2004
- Best practice platform leveraging AXA's experience in Asia, Australia and globally
- Fundamental change from "franchise" to "career agency"
- Pay & practices fully aligned to strategic growth and value goals
- Enhanced technology support, including market leading 'point of sales' tool
- Training, support and incentives to recruit and retain quality agents
- Positively received and supported by agency leaders
- Implemented in China with strong results in second half of 2003
- Plan to roll out to Thailand, Philippines and Indonesia in 2004

# Hong Kong
## Build profitable new distribution channels

- Salaried advisers (AXA Advisers) accounted for 12% of total sales, and non-agent channels accounted for 18%

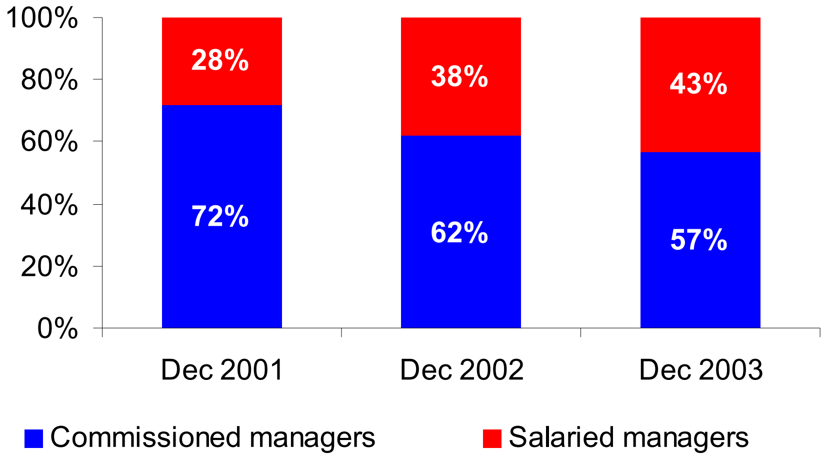
**Total sales (regular premium + 10% single premium)**



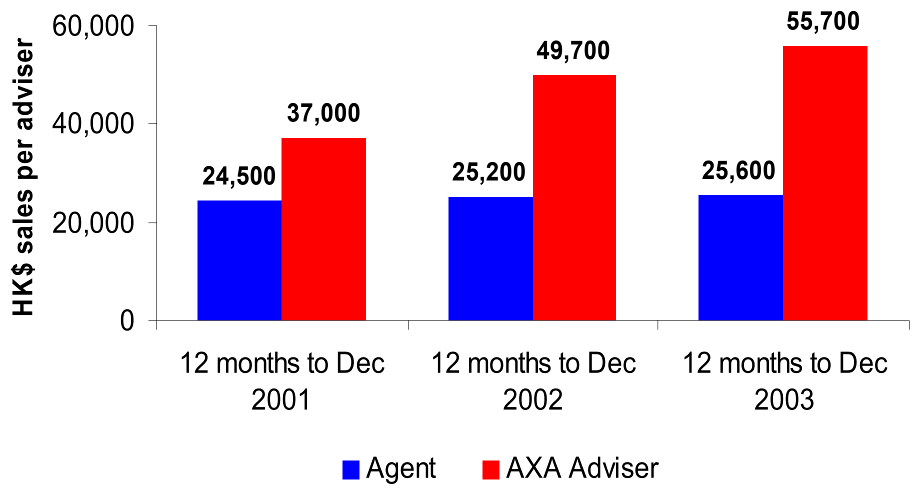
# Hong Kong
## Build profitable new distribution channels

- Salaried adviser productivity double that of traditional agents
- 264 salaried advisers, up 22% from 31 December 2002

**Advisers managed by salaried vs commissioned managers**




**Average monthly productivity**



# Hong Kong
## Deliver investment margins

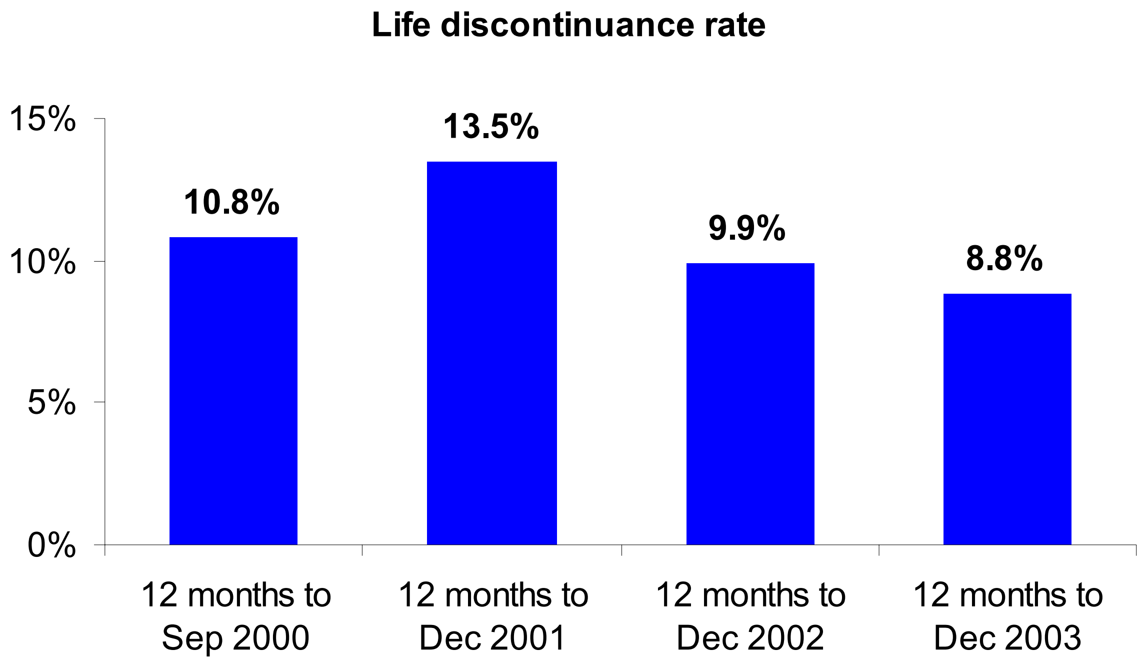
- Investment margin on participating business well in excess of required 1% in 2003
- Reduction in policyholder crediting rates of 75 basis points in January 2003 and a further 25 basis points in August 2003

| | Fund size [1] HK$b | Investment guarantee to policyholder | Investment mix bond/equity | Target long term investment return [2] | Total policyholder return on current crediting rates (guarantees+cash div+bonus) |
|---|---|---|---|---|---|
| "NL" closed Life fund | 16.4 | 4.25%[3] | 70/30 (Global) | 6.50% | 4.75%[4] |
| "Smart" open Life fund | 1.2 | <1.00% | 50/50 (Global) | 7.50% | 4.00% + TB |
| "DA" Retirement fund (closed to all new contributions) | 3.8 | 5.00% | 80/20 (HK) | 6.25% | 5.0% |
| MPF Guarantee fund | 0.8 | 0.00% | 80/20 (HK) | 6.25% | 1.0% |

[1] Fund size is based on AGAAP liability for life insurance and account balance for unit linked and retirement businesses. This differs from the basis used in 2002, which was based on HK 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 expense and mortality profits (equivalent to approx. 1%)
[4] Current return after crediting rate reduction in August 2003

# Hong Kong
## Bring persistency back to target levels

**Aggregate discontinuance improved to 8.8%, better than target of 9.0%**

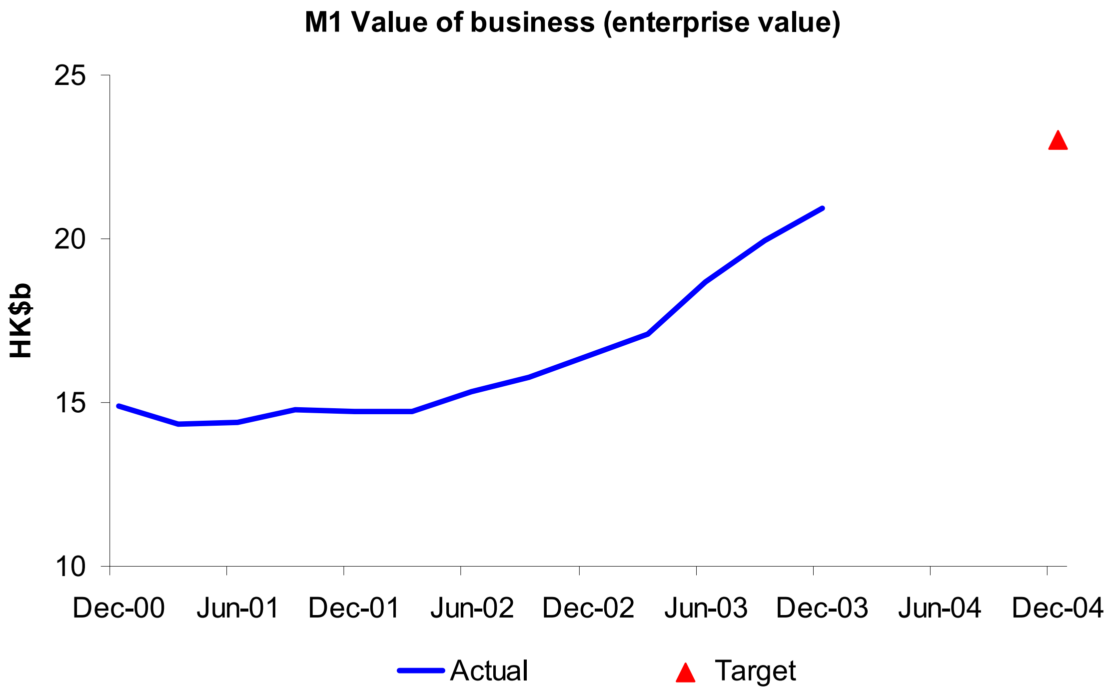


# Hong Kong
## Prepare for growth of savings and investment market

- Individual unit linked retirement savings plan launched in April 2003 - achieved HK$30m of sales
- 28% of individual life sales were unit linked
- MPF:
  - 5% share of the MPF market with HK$3.1b funds under management
  - MPF market forecast to grow from HK$60b to $500b by 2015
  - strong customer service capability, investment performance strong with 3 of 4 industry comparable funds in top quartile in 2003
- ipac Hong Kong financial advisory business launched

# Hong Kong
## Progress against M6 goals

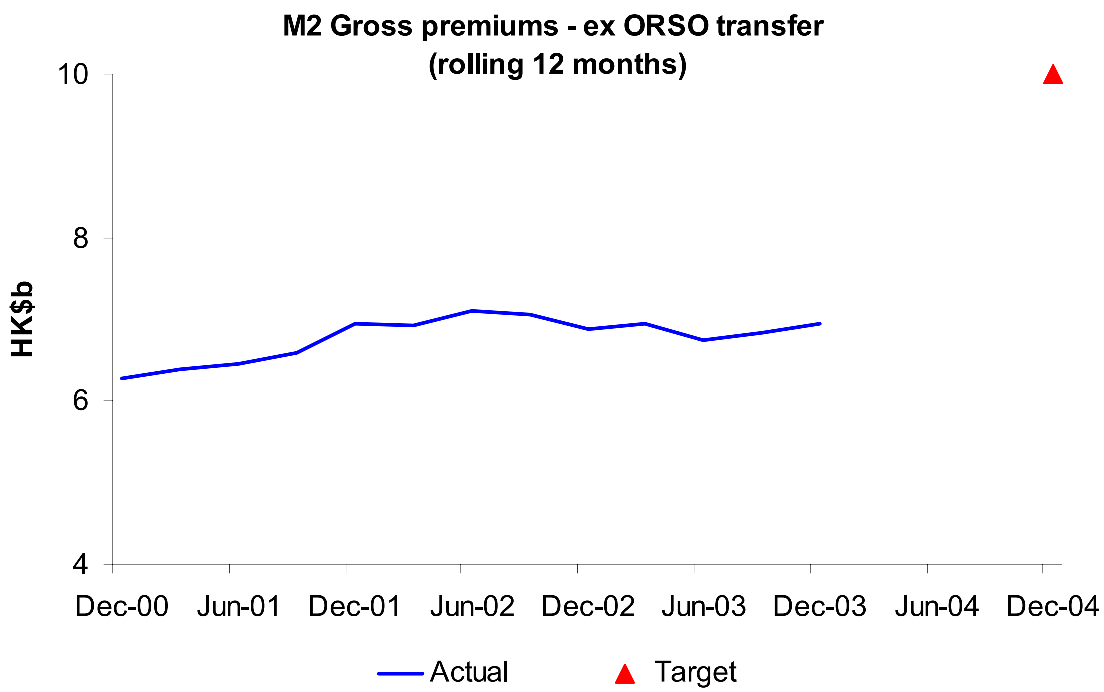
### M1 - Enterprise value of HK$23 billion




- 33% increase in value of new business
- Persistency continues to improve
- Earned well in excess of 1% spread in 2003
- Already low expense ratios continue to be reduced

# Hong Kong
## Progress against M6 goals

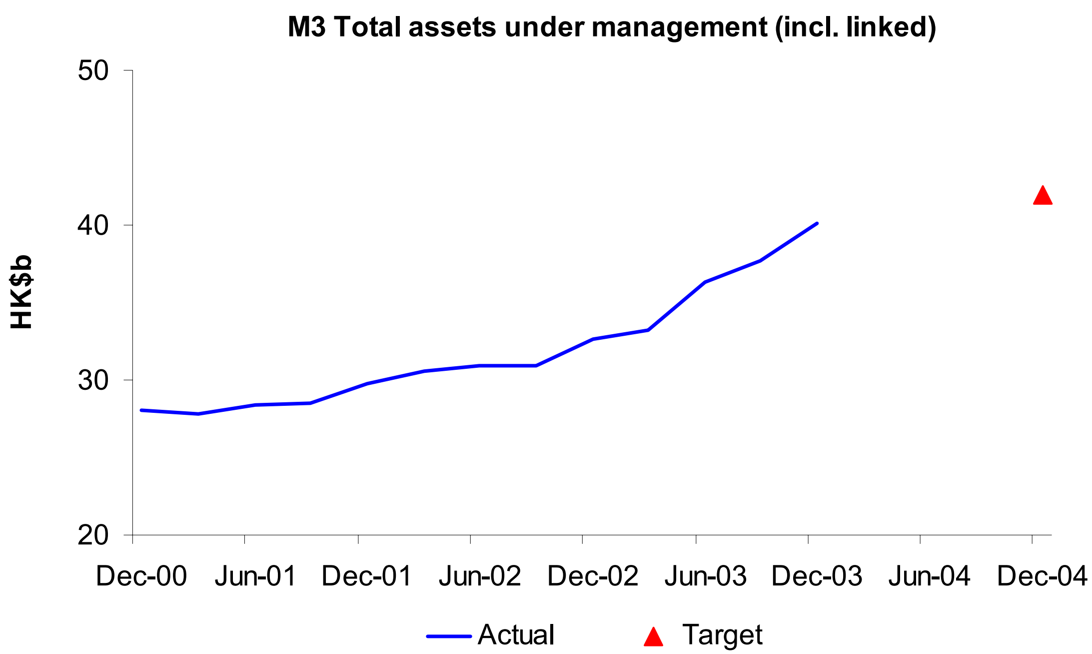
### M2 - Gross premiums of HK$10 billion




- Gross premiums below target reflecting lower than planned single premium sales
- Partially offset by growth in individual sales following new product development and diversification of distribution channels
- Increase focus on retirement and single premium sales in 2004

## Hong Kong
## Progress against M6 goals

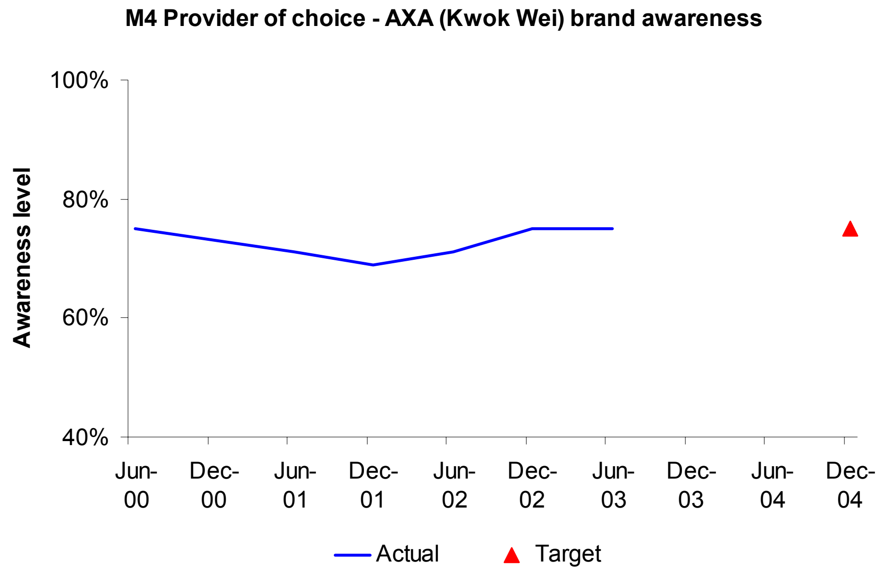
### M3 - Total assets under management of HK$42 billion




- Well on track to achieve goal, despite difficult investment markets in 2001 and 2002
- Strong recovery in equity markets in second half 2003
- Growth driven by strong net funds flows of HK$3.7b in 2003, and improved investment markets

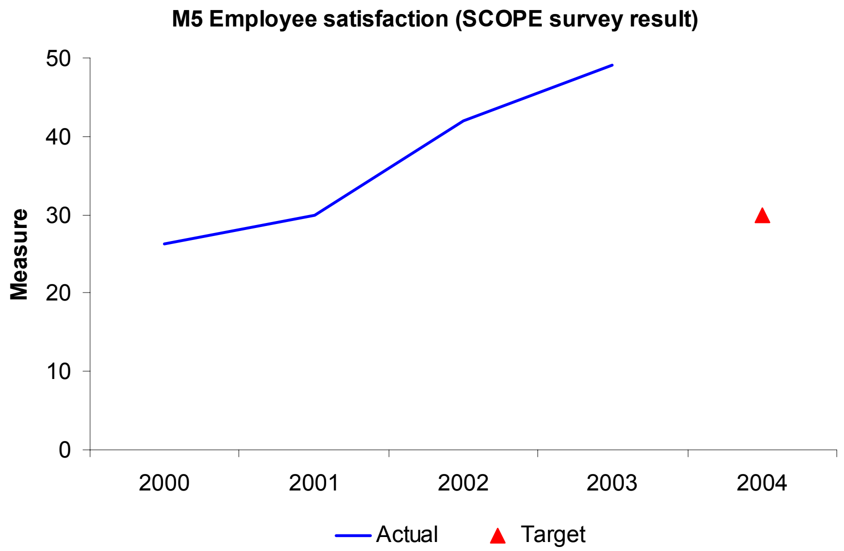
# Hong Kong
## Progress against M6 goals

### M4 - Provider of choice (brand awareness)




- Brand strength remains very high on all measures
- Surveys show 100% brand recall and 75% unaided brand awareness
- High brand awareness supported by long presence in HK, strong distribution force and press coverage

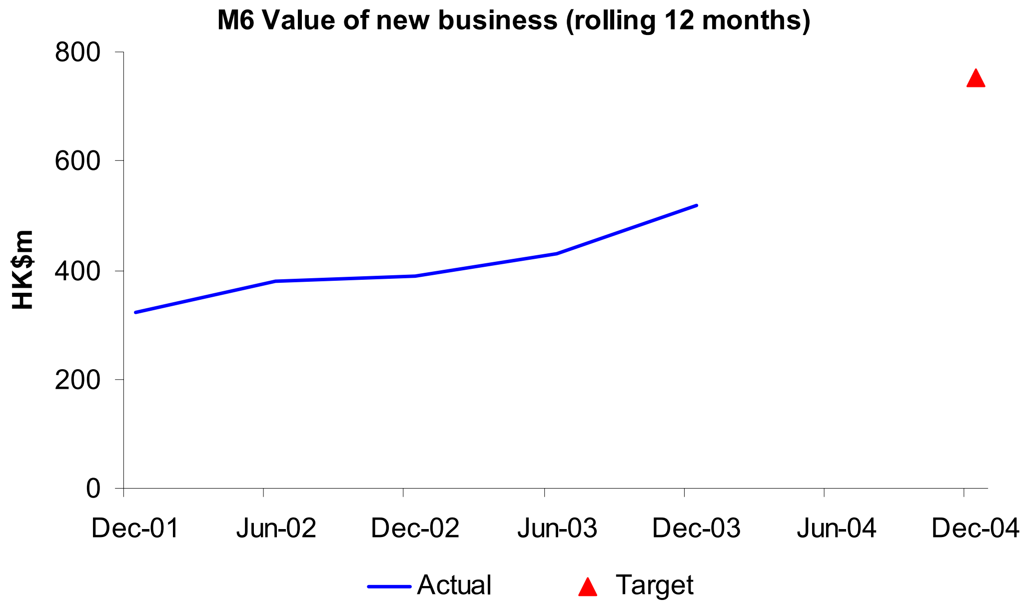
### M5 - Employee satisfaction (>30 SCOPE)




- Overall SCOPE score of 49, compared to target of 30
- Top quartile
- Particularly pleasing given headcount reductions and change management processes implemented

# Hong Kong
## Progress against M6 goals

### M6 - Value of new business of $753 million




Excludes MPF one-off impact of HK$57m in 2001, and includes value of indexation

- Increase in value of new business due to ongoing focus on product profitability, tactical repricing and close management of sales mix
- Value of new business up 33% (26% on a like-for-like economic basis)

# Summary

- Clear evidence that business repositioning is working
- Priorities going forward
  - Australia / New Zealand
    - capitalise on progress under K5
    - set and achieve new stretch targets
    - build leading advice business
  - Hong Kong, China and South East Asia
    - increase market share in high growth, high margin markets
    - further expansion in China
    - grow bank partnerships
- We have the right strategy

# Disclaimer

The material in this presentation is a summary of the results of the AXA APH Group for the 12 months ended 31 December 2003 and an update on Group activities and is current at the date of preparation, 24 February 2004. Further details are provided in the Company's full year accounts, Investor Compendium and results announcement released on 24 February 2004. This presentation provides information in summary form and is not intended to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Further information including historical results and a description of the activities of the Group is available on our website, www.axa-asiapacific.com.au.

# AXA Asia Pacific Holdings Limited
# Results for the 12 months ended 31 December 2003

Les Owen, Group Chief Executive
Andrew Penn, Chief Financial Officer

24 February 2004