Full-Year 2004 Earnings

Press Conference

In attendance:

Henri de Castries, Chairman of the Management Board

Denis Duverne, Member of the Management Board, SEVP of Finance, Control and Strategy

Claude Brunet, Member of the Management Board in charge of Transversal Operations, Communications and Human Resources

François Pierson, Member of the Management Board in charge of insurance operations in France, corporate risks, assistance and AXA Canada.

I. Achievements and highlights of 2004

Henri de Castries

2004 was an excellent year. Our earnings reflect our ongoing efforts since 2000 to improve our underlying efficiency, despite a challenging environment. A key indicator for the AXA Group, underlying earnings rose by 34% in 2004, which represents an average annual growth rate of 23% since 2000.

We managed to grow our earnings across the board and in all markets, despite an exceptionally high claims experience at the beginning of the 2000-2004 period, and financial market volatility throughout—i.e. extremely low interest rates and equity market declines from which we have yet to fully recover. We also stepped op our organic growth, which was one of the Group's priority objectives.

1. Increase in consolidated revenues

Revenue growth is vital to support a group undergoing development.

Group revenues increased as follows:

- +3.4% for property and casualty operations, compared with our long-term range of between 3 and 5%. This is the range of growth that will allow us to grow faster than the market while maintaining selective risk underwriting policies.
- +14% for asset management, where the long-term growth target is more than 10%.
- +7% for Life APE,[1] compared with a medium- to long-term objective of 5 to 10%.

Improvement in these three indicators was satisfactory, confirming that all of our people have understood the message on organic growth. But this doesn't mean we can't make further improvements in certain segments.

[1] Annual premium equivalent (APE) represents 100% of regular premiums plus 10% of single premiums.

At the same time, we continued to be selective in our underwriting of property and casualty risks, and have decided to reduce revenues in lines of business where either the risks or the prices were not to our liking:

- -24% in Germany P&C other lines
- -26% in UK individual motor
- -15% for AXA RE
- -3% for AXA Corporate Solutions.

In addition, assets under management and net inflows confirm our solid performance in 2004. Assets under management increased by 16%, driven by market appreciation and strong net inflows of 34 billion euros. AXA Investment Managers contributed the lion's share, and most of its contribution was from third-party asset management. This performance attests to the wisdom of the Group's decision ten years ago to establish and develop third-party asset management business in Europe.

Life and savings business generated solid cash flows of 4 billion euros. Unit-linked sales were up 14%. Improvements in the product mix led to higher profitability. Fees and revenues were up 16%.

2. Profitability

Since 2000, we have maintained profitable new life business, despite equity market meltdown and interest rates that were eroding our margins. We saw a sharp improvement in new business value (NBV) in 2004 (56%), driven primarily by a reduction in expenses and an improvement in the product mix. Life insurance margins now exceed the results obtained when the cycle peaked in 2000.

As for the profitability of our property and casualty business, AXA is starting to reap the benefits of efforts made over the last several years. In 2004, we added 409,000 vehicles to our motor insurance portfolio in Europe (compared with 2003). We are also making progress in the homeowners' insurance market, with 116,000 new home insurance policies. Revenues for personal and commercial lines grew by 4 and 6%, respectively. Our prices are attractive. The combined ratio improved by 2.1 points, to 99.3%.

Consequently, our efforts to reduce expenses, maintain underwriting discipline, and improve service quality are starting to pay off, allowing us to attract new customers and improve our earnings.

3. Adjusted earnings

Adjusted earnings doubled between 2003 and 2004, rising to 2.9 billion euros. The increase reflects an improvement in underlying earnings as well as a substantial recovery in net capital gains on equities (+€178 million). Our investment decisions are guided by our asset/liability matching needs, and we opted to maintain our significant exposure to equities. That decision is beginning to bear fruit.

4. Dividend increase

We believe that our shareholders should benefit from the Group's financial and business strength. During the difficult years of market crisis, our shareholders had to accept stock market price depreciation and a lower dividend in 2002. Today, we are in a position to increase the dividend by 60%, to 61 cents. In terms of dividend payout ratio, this distribution puts us at the low end of the range we have set, which is between 40% and 50% of adjusted earnings.

These indicators confirm that 2004 was a very good year. Likewise, embedded value per share increased by 15% versus the prior period to 18.73 euros.

II. Financial highlights

Denis Duverne

1. Consolidated revenues (constant scope and exchange rates)

Revenues grew by 1.8%, broken down as follows:

- Life and savings: +1%. New business APE premiums up 7%; new business value up 56%; unit-linked premiums up 14%.
- Property and casualty: +3.4%.
- Asset management: +13.9%, owing to significant new business volumes and equity market appreciation.
- International insurance: down 6.4%, consistent with our decision to reduce our reinsurance operations, bringing them into line with the shareholders' equity allocated to this business (€1 billion).

Analysis of revenues by country:

- France: 25%
- United States: 19%
- United Kingdom: 16%.

Other countries making significant contributions to revenues were Japan, Australia/New Zealand, Germany, Belgium and Southern Europe. This breadth attests to our ability to deliver diversified revenue growth.

Analysis of revenues by segment:

- Life and savings: 65%
- Property and casualty: 25%
- Asset management and other: 10%.

2. Financial structure

Our financial structure is very strong. Our European solvency margin is 242%, compared with 213% in June of 2004, more than double the required margin. At 39%, our gearing is now at a five-year low, which offers us greater financial flexibility.

3. Double-digit growth in underlying earnings

Underlying earnings increased by 34%, reflecting increases across the board:

- Life and savings: +23%
- Property and casualty: +41%
- International insurance: +10%
- Asset management: +116%.

Moreover, for the first time in three years adjusted earnings (€2.9 billion) exceed underlying earnings. Gross realized capital gains did not change significantly over 2003, at slightly more than 400 million euros No major harvesting occurred in 2004. However, valuation allowances on equity securities were only 260 million euros, versus more than 1 billion euros in 2003.

Unrealized capital gains attributable to shareholders amounted to 6.1 billion euros, versus 3.6 billion euros in 2003. We have replenished our stock of unrealized capital gains, especially on equities, which bodes well for adjusted earnings growth in the years ahead. This level will go up with the adoption of IFRS.

Net income for the full year 2004 increased by 151%.

Goodwill amortization increased by 50 million euros, mainly driven by accelerated amortization, primarily on our property and casualty operations in the Netherlands, in particular due to the sale of our Dutch brokerage business.

Exceptional operations reflect transactions associated with the removal of some businesses from the scope of consolidation, and the buyback of Alliance Capital shares after the former shareholders of Sanford C. Bernstein exercised their liquidity put option. Over the next two years, if the former shareholders of Bernstein choose to continue to exercise these put options, we should acquire a 67% stake in Alliance Capital.

4. Property and casualty

The loss ratio improved from 76 to 67% between 2001 and 2004. We also reduced expenses by 2.9%, of which 1.2% for claims handling expenses and 1.7% for administrative expenses. Acquisition expenses were flat. In addition, the improvement in the combined ratio from 111.1% in 2001 to 99.3% reflects a 9-point reduction in the loss ratio and a 3-point reduction in general expenses.

In addition, the reduction in the combined ratio did not adversely impact the quality of our reserves, as the net technical reserves to net earned premiums ratio shows. It moved up from 191.3% to 195.6%. The net claims reserves to net claims paid ratio increased from 227.7% to 280.2%. What this shows is that we have strengthened our reserves over the last three years.

5. International insurance

Underlying earnings rose by 10% in 2004. The combined ratio improved for both AXA Re and AXA Corporate Solutions. AXA Re managed to significantly reduce its combined ratio to 98.8%, despite the significant cost of claims associated with the hurricanes in Florida. AXA Corporate Solutions improved its combined ratio by 2 points, to 100.3%. It also pruned its portfolio.

6. Asset management

Underlying earnings more than doubled in 2004, to 316 million euros. In 2003, AXA paid 104 million euros in fines to settle charges against Alliance at year-end 2003 related to market timing. Assets under management increased due to net new monies of 34 billion euros (of which €29 billion for AXA Investment Managers) and market appreciation. Hence, we are starting 2005 from a stronger base, and earnings should continue to improve. For AXA Investment Managers, third-party AUM increased by 50% over 2003, to 88 billion euros, which means that most of the new inflow came from third-party networks.

7. Life and savings

Underlying earnings were up 29% at constant exchange rates. The United Kingdom, the United States and Japan were the main contributors to this increase.

The negative earnings from the United Kingdom in 2003 were attributable to a series of one-off reserve strengthening. Earnings returned to a level that is positive although not yet adequate (€108 million).

In Japan, underlying earnings were 163 million euros in 2004, a significant recovery compared with full-year 2003.

In the United States, financial market appreciation and solid net inflows were positive factors. MONY contributed 56 million euros.

For other countries, the favorable tax environment in 2003 was not repeated in 2004.

Overall, life and savings earnings can also be assessed in terms of margin and expenses. The investment margin increased by 10%; fees and revenues were up 16%, and the technical margin fell by 9%. Overall, margins rose by 11%, while expenses increased by 6%. The favorable scissor effect explains the 26% improvement in earnings.

III. Embedded Value

Embedded Value is the most widely accepted measurement used to measure the long-term value of life insurance business.

- Adjusted net asset value (ANAV)
- Present value of future profits (PVFP).

We also use indicators of new value:

- New business contribution before the cost of capital
- New business contribution after the cost of capital
- New business APE margin, which is equal to the value of new business divided by received premiums.

Total embedded value improved by 23% in 2004. Embedded value per share increased by 15%, to 18.73 euros per share. New business volumes increased by 9% (7% at constant foreign exchange rates). New business value per share increased by 56% at constant exchange rates and scope. Total return on embedded value was 17%. It reflects the change in embedded value from one year to the next, prior to the dividend payout.

In addition, new business margins (after the cost of capital) exceeded 2005 levels (up 15.9%). The percentage of unit-linked contracts was the main contributor to profitability in new business, accounting for 35% in 2004 after dipping to 30% in 2002. The improvement in the margin was driven mainly by recovery in Japan.

IV. Outlook: on the path to profitable growth

Henri de Castries

Insurance is by nature a growth business. Awareness of risks is increasing in developing countries and, by extension, so is the need for protection. The need for savings and advice also grows as people age. Pricing remains disciplined, as renewal campaigns demonstrate. Customers are returning to unit-linked contracts as equities become more attractive again. All of these factors are growth drivers in our industry.

AXA also has strengths that will help it to outpace the market in terms of growth.

1. Profitable growth projected in France

François Pierson

AXA France is satisfied with the revival of business in 2004. We acquired 500,000 new personal lines contracts:

- 150,000 motor
- 80,000 household
- 150,000 French “PERP” retirement contracts

- 50,000 liability contracts
- 100,000 banking clients.

Property and casualty revenues increased by 5.5%, one point ahead of the market. The combined ratio improved to 97.2%, excluding construction (99.3% including construction).

Individual life insurance revenues increased by 9.6%, versus 13% for the market. Excluding the former UAP portfolio, we grew at the same pace as the market, but outpaced the market in terms of unit-linked product sales (+52% versus +38%).

In 2005, our priority is to consolidate the success of the French “PERP” retirement product by focusing on increasing inflows on existing accounts over new accounts. PERP products have already generated more than 30 million euros in inflows.

Group retirement revenues increased by 15.8%, versus market growth of 2.8%.

Overall, underlying earnings were up 20%, with life insurance proving to be stronger than P&C.

In 2005, we see profitable growth in France. We will leverage the expertise of our distribution networks to offer new life insurance products, and will continue our segmentation initiatives in P&C.

We plan to launch new funds and new structured products, which will enable clients to choose between three profiles: conservative, aggressive, balanced. This year, we also plan to introduce products with GMDB features through the AGVS network of life insurance agents. This product was inspired by AXA Financial.

In the property-casualty segment, we will continue to innovate in personal lines. In commercial lines, we have branched out into rental default and machinery breakdown—here we intend to double revenues.

We will reinforce our distribution channels, increasing the AGVS network from 600 to 800 sales professionals.

We will also focus on private management for affluent professionals, where we already have 130,000 clients. We plan to offer life insurance products to this segment.

We will develop the bank-insurance strategy while continuing to win over new customers and leveraging banking services to better serve our insurance business.

Finally, we have revamped our auto insurance partnership with BNP Paribas.

2. Profitable growth projected for the United States

Henri de Castries

We have identified avenues for growth at AXA Distributors, i.e. for our non-proprietary networks. In 2005, we will increase the number of intermediaries by 50%, with particular emphasis on developing the planner channel. We also plan to leverage MONY’s life wholesaling expertise, and will continue to develop third-party sales through new partnerships with Morgan Stanley, Bank One and Wells Fargo.

For our proprietary networks, we are working on getting AXA Financial and MONY to the same standard. The productivity of MONY sales professionals is improving courtesy of using methods that have proven to be successful at AXA Financial. The share of AXA products sold through MONY channels is gradually increasing (+14% in 4Q04).

3. Profitable growth projected for Japan

In Japan, we are expanding distribution into non-proprietary channels and are leveraging our competitive edge in bank-insurance.

To date, we have forged 12 partnerships with banks, representing total market share of 3.1%. We are acquiring new distribution agreements—for example, the Bank of Tokyo Mitsubishi agreement signed in November 2004.

We hope to improve product innovation by reusing the experience of other Group subsidiaries to develop more competitive product lines than our industry peers. For example, we are developing a Japanese version of the GMBD product.

To build the productivity of proprietary networks, we will focus on recruitment and training. Our goal is to improve the sales productivity index to 180 in 2007, versus 100 in 2003.

4. Improvement in the UK

We have not yet reached an optimal level in the United Kingdom, although progress has been made. Depolarization offers an opportunity to forge partnerships with distributor networks.

We also made progress in terms of single tie relationships (significant distribution agreements), even though these have not yet translated into higher sales. Only leading, top-tier players have access to these agreements. At the beginning of the year, we became the sole supplier of Britannia Building Society.

Product innovation is another source of leverage. We recently launched an attractive personal protection product for distributors.

Investment products, which are expected to develop significantly in the United Kingdom, also offer AXA a source of competitive advantage.

Quality of service also offers significant opportunities for improvement. While we lost ground in this area in 2000, we are now achieving record high levels.

With respect to client trust, our financial structure remains sound in a market that was recently shaken over solvency issues.

V. Conclusion

In 2004, the insurance industry faced a number of challenges:

- High frequency of natural disasters
- Extremely volatile exchange rates
- Declining bond yields
- Record year for regulatory changes.

AXA was nonetheless able to deliver a high-quality performance, which suggests that the Group is poised to take advantage of growth opportunities by leveraging our business strength, geographic positioning and growing brand equity. We can expect organic growth to continue to be satisfactory, offering leverage for taking advantage of external growth opportunities that may arise.

We can build further on our competitive strengths by improving profitability, capitalizing on the Group’s size, using our consistent exposure to equities to our advantage, and grabbing external growth opportunities that we can afford given the strength of our balance sheet and our earnings. The key is to avoid hasty decisions and focus on considerations of price and business fit.

I have no guidance to offer on quarterly earnings growth. However, we foresee revenue growth as follows over the longer term:

- 5 to 10% per year for life and savings APE
- 3 to 5% for property and casualty premiums
- +10% for asset management fees.

This strategy calls for earnings growth that exceeds revenue growth.

Questions from the floor

How are you positioned in the Italian market?

Henri de Castries

The Italian businesses are performing to our satisfaction. We will reinforce our position in the Italian market when and if good opportunities arise.

Denis DUVERNE

We have turned the P&C business around in Italy, getting the combined ratio down to slightly below 100%. Life and savings operations are progressing to our satisfaction. Adjusted earnings are down slightly, but remain very satisfactory overall. In addition, more and more synergies are being developed in the Mediterranean region. Finally, we extended our distribution network in 2004 in Italy by adding new agents.

After your deal in Australia failed to go through (i.e. the buyout of AXA Asia Pacific Holdings minority interests), what is your strategy in the region?

Henri de Castries

The fact that the deal did not go through doesn't really change anything for AXA. We refused to offer a price that did not seem reasonable to us. Asia remains a priority as far as growth is concerned. It is not easy to detect targets and make acquisitions there. We hope to enter the Indian market, and are talking with several possible partners.

Can you say a few words about your exposure to equities?

Denis Duverne

Equities represent 12% of our invested assets in our general life and P&C funds, compared with 14% in previous years. In fact, the decrease is actually only 1%, and mainly attributable to Germany. In addition, due to IFRS we have dismantled mutual funds invested in bonds and shares, which were considered as equities and are now considered as partly shares and partly bonds. Our exposure to equities is probably higher than that of most of our European competitors. Since March of 2003, this higher exposure has allowed us to reap the benefits of the strong rebound in equity markets.

Henri de Castries

This is a key point for us. It illustrates that, in this business, you need to be guided by technical considerations and not by what's in fashion. We are guided by asset liability management issues. It may have cost us, in the sense that our share price suffered for a while due to stock market volatility, but it is good in the longer run, creating value for shareholders as well as for clients.

You have increased your dividend payout ratio by 40%. What about employees—do you plan to give them the same raise?

Henri de Castries

I am surprised by the endless discussion in France on this issue. For four years, shareholders who invested in CAC 40 companies were hurt by the sharp depreciation in the value of their assets. The CAC 40 index fell from a high of 8,000 points to 3,800 points—and even got as low as 2,600 at one point—and dividends also declined. Shareholders were on the front lines when it came to bearing the brunt of this downward adjustment. Returning the favor today seems only right to me.

At AXA, employee morale is good and average compensation is satisfactory. For 2004, AXA employees in France will receive profit-sharing equal to a month and a half of wages. Moreover, one out of two AXA employees is an AXA shareholder, so they too benefit from the higher dividend.

François Pierson

In France, we signed a framework agreement in 2004, which calls for wage increases over a three-year period. We have struck a good balance between the company's growth and the benefit to employees. The average wage in France is more than 35,000 euros a year, which is very good for this market. Since 2000, wages have risen by between 3% and 4% a year. Today, 1,000 people in France currently have a variable pay component in their global compensation.

Henri de Castries

We have tried to extend variable pay to more and more people. This system offers opportunity in an environment of earnings improvement.

Globally, how many AXA employees are shareholders?

Henri de Castries

One out of two. We have a company-sponsored savings plan, and employees own 5.14% of the Group's share capital. Every year, employees can invest up to 25% of their salary in this plan, partly invested in AXA shares. Two investment plans are offered, and employees can opt for one or both of them. These plans offer the option of a 20% price discount on the purchase of stock and the full benefit of the stock price performance—so shareholders accept a certain level of dilution—or a 20% discount on the purchase, plus a capital guarantee on their personal investment and a share in the AXA stock price performance–it was 78% in 2004—on an amount equal to ten times their personal contribution.

Claude Brunet

Incidentally, MONY employees showed a great deal of enthusiasm for the program.

You intend to introduce US-style with profits life insurance products in France and Japan. Aren't these products more risky for AXA due to the performance guarantees?

Denis Duverne

These are separate account variable annuities products for which we offer three types of guarantees in the United States: a guaranteed minimum income benefit, a guaranteed death benefit, and a guaranteed minimum withdrawal every year. These guarantees are paid for by the policyholder, and the price they pay has been calculated to protect AXA against financial market volatility. In other words, the cost of coverage is lower than what we charge for these products.

We think this type of product has a future in other countries. They will be introduced in Japan before the end of the year, and we are looking into selling them in France and Germany.

François Pierson

In a few weeks, the guaranteed death benefit will be sold by our tied life agents in France.

Henri de Castries

This is a good illustration of why it pays to belong to a large Group. We can replicate these kinds of successes.

Will the announced auction of a 50-year bond by the French Treasury change your asset allocation strategy?

Henri de Castries

It is clearly an opportunity for us, as it is always hard to find very long-term investments of good quality.

Denis Duverne

We have a very disciplined asset liability matching policy. Our duration gaps are very small compared to our industry peers, which means that we don't place bets on where interest rates are headed. This type of very long-term bond investment may be quite useful for both convexity and duration purposes.

Were you really interested in the Winterthur deal? Did you have any real intention, or were those just market rumors?

Henri de Castries

We have a "no comment" policy on market rumors. Repeating what I said at the time, we are always ready to grab any interesting opportunity.

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