

# Half-year 2006 earnings

## Outline

<b>Highlights of the first half 2006</b>	<b>1</b>
<b>Overview of financial performance for the first half of 2006</b>	<b>4</b>
<b>Balance sheet and shareholders' equity on June 30, 2006</b>	<b>6</b>
<b>Winterthur acquisition</b>	<b>7</b>
<b>Conclusion and outlook</b>	<b>8</b>
<b>Questions / Answers</b>	<b>9</b>

## **Highlights of the first half 2006**

### **Henri de CASTRIES**

Results for the first half of 2006 were very good. For each of the three pillars of Financial Protection (life and savings, property and casualty and asset management), revenue growth was strong, ahead of the targets set in connection with Ambition 2012. In addition, this improvement was accompanied by an improvement in profitability across business lines, resulting in very strong earnings growth. Finally, it is interesting to note that acquisitions and disposals made improve the growth and profit profile and reduce – in the case of the disposal of AXA RE – earnings volatility.

Our key performance indicators for the first half of 2006 attest to our desire to achieve growth. Life and savings APE grew by 17% in the first six months, compared with an 11% increase in 2005, while our long-term growth targets are between 5% and 10%. Property-casualty revenues grew by 4% in the first half of 2006, compared with 3% in 2005, even though market conditions tended to harden over the period, and our long-term growth targets are between 3% and 5%. Similarly, asset management revenues rose by 31% in the first six months, versus 14% in 2005. Our long-term growth targets exceed 10%.

The Group also once again improved its profitability in the first half of 2006. New Business Value (NBV) in life and savings rose by 30%, to €670 M. The NBV/APE margin improved by 2.2 points. Overall, life and savings underlying earnings totaled €1,224 M, an increase of 24%.

In property-casualty, the combined ratio again showed improvement (-0.6 point, to 96.9%) despite the fact that many observers thought the market was going to become tougher. This situation is supported by sufficient reserves. Underlying earnings increased by 11%. Historically, we had never before generated half-year underlying earnings of €780 M in the property-casualty segment.

In asset management, the cost income ratio improved and was practically the same for AllianceBernstein (70%) and AXA Investment Managers (70.5%). Underlying earnings grew by 47%, reflecting strong net inflows and well-margined products. AXA's two asset management affiliates posted positive net inflows of nearly €40 Bn for the first half of the year.

All three of our core business segments are healthy, and their earnings drove the rise in consolidated underlying earnings, to €2,090 M, an increase of 19% compared with the first six months of 2005. Adjusted earnings were up 37%, to €2,916 M, with more than €800 M in realized capital gains over the first half. When we presented our annual earnings for 2005, we said we were hoping for an annual harvest of capital gains on equities of between €600 M and €800 M on average. We reached this annual target in the first six months of the year, an achievement that proves we were able to take advantage of the market situation and that the range we set for ourselves was realistic—conservative even. However, we do not expect to double this figure by the end of this year. That said, our equity exposure will help us improve our earnings and our ability to distribute dividends. As a reminder, our distribution policy is based on adjusted earnings.

We also strengthened the Group's architecture by acquiring The Citadel, Winterthur's Canadian affiliate. This transaction will unleash major synergies. It was a successful acquisition, as was the acquisition of MLC in Hong Kong, which has bolstered our distribution capability in the life

insurance business. These two acquisitions – one in North America and one in Asia – strengthen the Group and improve its future growth prospects.

We entered into a joint venture agreement with Shanghai Pudong Development Bank and Shanghai Dragon to set up a fund management business in China. We are looking to do the same in India, where AXA Investment Managers is wrapping up talks to do business in a market that we see as holding great promise in the medium to long term.

We are in the process of squeezing out the minority interests in Germany and have signed a definitive, binding agreement to sell AXA RE's business, which we considered to be non-strategic. For this reason, we felt it was preferable to find outside partners willing to fund its development. This disposal reduces the volatility of Group earnings, since the reinsurance business is, by nature, more volatile than the insurance business.

The proposed acquisition of Winterthur is a further step in AXA's growth story. This acquisition increases our global footprint by about 20%. In the countries where Winterthur and AXA have significant operations, it increases our market share by an average of around 40% to 50%. It does not affect the United States, France or Australia. We consider that this alliance is a good business fit, and Winterthur is also a company that generates growth. Its integration into our organization will allow us to significantly strengthen the efficiency of our platforms in Europe and Asia, for an attractive price.

## **Overview of financial performance** **for the first half of 2006**

**Denis DUVERNE**

Growth in life insurance and savings was driven by the 28% increase in unit-linked product sales, which now represent 49% of life and savings APE, compared with 46% in 2005. New Business Value was up by 30%, primarily due to higher volumes, an improvement in unit costs, and rising interest rates. The NBV to APE margin was up by 2.2 points. Technical operating cash flows went from €5.8 Bn in the first half of 2005 to €6.8 Bn in the first half of 2006.

Asset management revenues rose by 31%, reflecting an increase in average AUM (assets under management) of 19% compared with the first half of 2005, and the positive impact of the increase in third-party assets under management. Net inflows, which were strong at AXA Investment Managers (€15 Bn), rose substantially for AllianceBernstein, to €23 Bn over the first half (versus €1 Bn in the first half of 2005). Combined net inflows for the two companies totaled €39 Bn, versus €16 Bn for the first half of 2005.

Property-casualty revenues were up by 4%, mainly reflecting very strong contract inflows. The rise in revenues was 4% for personal lines, adding a total of 556 000 additional automobile insurance contracts and 143 000 additional homeowners' comprehensive policies. Revenues from commercial lines rose by 3%. Net operating cash flows were stable (€1.5 Bn).

Underlying earnings from life and savings rose by 24% over the period, with growth across the board geographically. Underlying earnings from life and savings rose by 20% in the United States, while the rise was 24% in France and 12% in Japan. In the United Kingdom, underlying earnings improved by 86% over the period, reflecting the fact that negative one-off items no longer hurt the global result. In Germany, underlying earnings from life and savings rose by 82%, demonstrating that the action taken to restore profitability to the life and health segment bore fruit. The rise in underlying earnings was only 6% in Benelux, where the improvement in earnings was more visible in terms of adjusted earnings, since our equity allocation is greater in Belgium, which allows us to generate significant non-taxable capital gains.

Three factors explain the stability over the period of separate account balances: the stability of the equity markets between January 1 and June 30, 2006; a decline in the bond markets as yields/interest rates began to rise; and growth in cash flows. The stability in separate account balances hides a decline in the markets, offset by significant net inflows. As a percentage of life and savings gross reserves, separate account balances represented 37% at June 30, 2006, unchanged since December 31, 2005.

New business value in life and savings rose by 30% compared with the first half of 2005. The increase in the United States was 56%, due to higher business volumes, increased market share for separate account products and favorable interest rates. In Japan, NBV grew by 14%, while growth in France was 41%, reflecting a strong rise in unit-linked products, which now account for 35% of new business in individual life, and the success encountered by products launched in 2005. NBV was up by 50% in Germany, attributable to the success of the retirement savings product TwinStar, which offers more profitable secondary guarantees than those traditionally provided.

Underlying earnings from property-casualty operations totaled €780 M, attributable to ongoing improvement in the combined ratio and investment income. The combined ratio improved in all countries. The 0.6 point improvement reflects a higher loss ratio (+1.7 points) plus higher operating costs and commissions (+1.1 points) because we are selling products whose loss ratio is lower for higher commissions. For the first six months of 2006, financial results increased by €5 M and underlying earnings from property-casualty operations by €85 M.

The divestiture of AXA RE's business reduces future earnings volatility in international insurance operations. Underlying earnings for AXA Corporate Solutions Assurance rose by 13%, to €44 M. Other international business, including AXA RE's reserves in run-off, added underlying earnings of €20 M. For the first six months of 2005, AXA RE recorded underlying earnings of €5 million before being severely impacted in the second half due to the hurricanes in the United States. AXA is guaranteeing reserves pertaining to AXA RE losses incurred on or before December 31, 2005, with the corresponding run-off accruing to AXA (€4 M for the first six months of 2006). The combined ratio of AXA Corporate Solutions Assurance was unchanged at 100.5%.

In asset management, net inflows were strong despite flat equity markets and negative bond markets for the six-month period. Assets under management totaled €33 Bn. Third-party assets under management continue to grow: for AllianceBernstein, third-party assets accounted for 89% of AUM, while for AXA Investment Managers it was 34% (compared with 26% at the end of the first half of 2005). The cost income ratio was about 70% for both companies. Underlying earnings increased by 32% for AllianceBernstein and by 71% for AXA Investment Managers.

Underlying earnings per share are rising more rapidly than earnings expressed as an absolute value (21% and 19%, respectively). The same is true for adjusted earnings (with an increase of 39% per share and 37% in absolute value terms) and for net income (23% per share and 20% in absolute value terms). This gap is due to share buybacks in late 2005 and early 2006 and the AXA-Finaxa merger in December 2005. Conversely, the shares issued to acquire Winterthur will have a dilutive effect in the second half of the year. Net income rose by 20%, while adjusted earnings rose by 37% due to IFRS. In fact, higher interest rates had a negative impact on net income, due to the marked to market values of our bond funds but also to interest rate derivatives held by AXA SA. The change in net income compared to adjusted earnings had no real economic impact.

## **Balance sheet and shareholders' equity on June 30, 2006**

**Denis DUVERNE**

On June 30, 2006, AXA's shareholders' equity was €31.7 Bn, versus €33.8 Bn on December 31, 2005. They decreased by €2.1 Bn even though the Group reported net income of €2.7 Bn for the period. For the half-year, the decrease in the fair value of invested assets was €2.9 Bn (€5.3 Bn versus €8.2 Bn on December 31, 2005) due to higher interest rates. However, it is important to note that this decline has no economic significance. This 2.9 billion euro decline was mostly due to the impact of higher interest rates on unrealized capital gains on bond investments made to cover life insurance obligations. Our EEV life sensitivity tests for AXA at year-end 2005 demonstrate clearly that higher rates have a positive impact on the economic value of this segment. Slide 31 describes the situation quite well. The decline in shareholders' equity therefore has no economic significance.

In addition, capital gains realized in the first half of the year did not have a significant impact on the level of unrealized capital gains in our equity portfolio. For the period, currency fluctuations had an impact of €0.6 Bn on our shareholders' equity, which was also impacted by the distribution of a dividend (€1.6 Bn) and the buyback of AXA shares (€300 M).

Unrealized capital gains attributable to the shareholder were still high, despite the rise in interest rates and the stability of the equity markets. They nonetheless declined, going from €11.8 Bn on December 31 to €8.8 Bn on June 30.

The gearing ratio showed further improvement over the first half of 2006, declining from 38% on December 31, 2005 to 37% on June 30, 2006.

## **Winterthur acquisition**

**Denis DUVERNE**

AXA acquired Winterthur for €7.9 Bn and the refinancing of its €1 Bn debt. This acquisition is financed by a €4.1 Bn equity issue that ended on July 13, 2006. It was largely oversubscribed, with high demand from holders of preferential rights. The rest of the price is being mainly financed by the issue of deeply subordinated perpetual debt in three tranches (one in € and two in £) for €2.2 Bn. This issue, which took place on July 6, 2006, was over-subscribed fourfold in spite of prevailing market conditions, but we decided not to wait to secure the financing.

The acquisition of Winterthur will close at the end of the year. During this intermediate period, teams are working to lay the foundations of the integration so that it can happen as efficiently and rapidly as possible. The integration plan that was rolled out in late June is based on local and transversal teams.

All material regulatory filings, including those with the EU, Swiss and American competition authorities, are being made on a timetable consistent with a year-end closing.

The initial phase of integration planning is being carefully structured and monitored. During this time, AXA and Winterthur must continue to act as competitors. Accordingly, clean teams have been formed to ensure that all pre-closing competition rules are respected and that confidential information is not shared.

## **Conclusion and outlook**

### **Henri de CASTRIES**

The figures for the first half of 2006 are satisfactory, and the second half of the year is shaping up positively due to a solid revenue growth dynamic, a promising combined ratio that bodes well for the full year, and continued growth in new business. Our industrial organization and the efforts we have been making in the areas of product innovation, productivity and distribution are paying off.

Adjusted earnings were positively impacted by our high level of capital gains. We are not expecting them to be as high in the second half.

The Group continues to move forward with support from its two “legs”—strong organic growth and targeted acquisitions.

While the environment is not consistently supportive, the Group’s projects and transactions are going ahead according to plan, giving us a great deal of confidence as we look forward.



## **Questions / Answers**

*You announce growth in life and savings of 17%, although the separate account balance remains stable. How do you explain this difference?*

*You say that profitability is up in Germany, but what about revenues?*

*You have said that the acquisition of Winterthur will enable synergies, particularly in Germany. Can you give us some information about any planned layoffs? Are you planning to close the current head office of Winterthur and transfer it to Cologne, where AXA's headquarters in Germany are located?*

### **Denis DUVERNE**

Our separate account reserves correspond to equities, bonds and mixed funds. Because interest rates rose by an average of 70bps, the FV of the bond components of our separate accounts has declined. The balance is stable versus 12/31/2005 because the latter are carried at fair value. However, it is more meaningful to compare unit-linked sales growth with the trend in average inflows between the first half of 2005 and the first half of 2006, a rise of 16% (on a constant exchange rate basis) despite the factors previously described.

### **Henri de CASTRIES**

For several years, growth in Germany was low. In fact, it was often below market due to portfolio pruning. Today, the profitability of German property-casualty operations is very satisfactory. After a good result in 2005, the half-year performance in Germany demonstrates that we are in line with our game plan. The auto insurance portfolio has increased by 7% this year thanks to a more targeted, aggressive sales and marketing strategy that led to 135,000 new policies. In life and savings, we want to sell attractive and profitable products: that is the case of the TwinStar range. The profitability of new life insurance business is also improving. This improvement is not visible over six months, but we are convinced that business in Germany is getting better and it can only get better as AXA allies with DBV.

The acquisition of Winterthur in Germany will lead to synergies, but Germany is not the only country concerned. Synergies can also be generated in Spain, Asia, the UK and Belgium. We are in the process of identifying the teams that will make the integration happen. Today, it is too early to make any announcements. We would like to be able to bring a competitive range of products to our clients. We think that the two companies are quality organizations, and that they are complementary. We also think that DBV, spurred by its management, has turned in a remarkable performance over the last three years. We are also convinced that we can get the best from both teams.

***What is the change in life insurance revenues in Germany?*****Denis DUVERNE**

Revenues from life insurance in Germany decreased by 1% in the first half of this year, from € 718 M to € 701 M. In 2005, we recorded some premiums from 2004 due to the tax reform in Germany, a phenomenon that did not recur in 2006. While the change is still negative, this 1% decrease represents a positive turn of events, particularly in the second quarter.

***How do you explain the strong rise in net inflows for AllianceBernstein?*****Denis DUVERNE**

This rise is attributable to an excellent investment performance. It was remarkable across the board, in the equity as well as the bond markets. AllianceBernstein has also been very successful at developing its distribution outside the United States as well as its non-US equity and bond funds in the US. Non-US investment disciplines now account for half of its assets under management.

***What is behind the decline in the cost income ratio at AXA Investment Managers?***

***Thierry Breton – the French minister of the Economy and Finance – announced a change in regulations on the securitization of insurance portfolios at the International Congress of Actuaries last June. What has happened since then?***

**Henri de CASTRIES**

AXA Investment Managers did not exist in 1993. It is a young company that has grown consistently since it was founded. The decline in its cost income ratio is therefore due to the increase in critical mass.

We were pleased to hear Thierry Breton's comments, because securitization will lead to the development of a significant segment of the financial market. If French legislation gets a head start in facilitating these transactions, we will increase our chances of originating them here in France or of ensuring that expertise in this area is created and maintained in France. Regulators – who operate under the auspices of the minister of the Economy – will have to show that they are guided by the entrepreneurial spirit and avoid excessive caution. If we want France to be the place where financial innovation can happen, and if we want Paris to be a major financial force, then our public policymakers and those who push for regulatory change have to become business friendly.

In this vein, don't forget that although the insurance industry was in crisis between 2000 and 2003, there were no major insolvencies. This suggests that the industry is extensively capitalized. At the same time, we are concerned with some of the positions taken in connection with the development of future solvency standards for Europe, and that calls for more stringent capital adequacy requirements. But it is important to understand that if too much capital is allocated to a particular

industrial activity and bears no resemblance to the risk of the business in question, then this will hurt investment in this activity and lead to higher prices for consumers.

Discussions should take place on a European approach to securitization and solvency. We are delighted to hear that Thierry Breton wants to take an active approach to securitization. I am sure he will have the same approach to solvency. If Solvency II discussions lead to higher capital adequacy requirements, then this will be bad for the development of insurance in Europe and very bad for consumers and shareholders. It is high time that players like AXA get involved in the debate, so we can avoid an overly conservative approach that would be counter-productive for the industry and for the economy.

*My question is recurrent. What about Generali?*

**Henri de CASTRIES**

You have read *The Tartar Steppe* ... It's a really good book, and was written by an Italian to boot!

*Can you quantify the synergies from the extra revenue you expect to extract from the Winterthur acquisition, in addition to cost synergies?*

**Henri de CASTRIES**

It is too early at this stage. The first steps in our integration process are going well. We have been conservative in calculating synergies. However, even so this deal is 7% relative for Group earnings per share as of 2009. We think this is a very good deal and that it is going according to plan for now. We will give you more information as soon as we can.

*When will that be?*

**Henri de CASTRIES**

We'll see. We will keep you up to date on a regular basis.

*The performance of your asset management and unit-linked businesses is somewhat dependent on the financial markets. Are you worried about current market trends? Could they make you revise your own outlook?*

**Henri de CASTRIES**

We should avoid the temptation to judge market performance over too short a period. Net inflows to unit-linked products have not been significantly impacted by recent market troubles because our sales channels have been able to convince clients of the need to accept short-term volatility. Our sales performance is boosted by better investment performances than those of many of our

competitors, which allows us to capture strong inflows even when the market is less favorable. Admittedly, if the markets are stable commissions will be lower. But we are not worried about global economic trends and market trends over the medium to long term. So we see no reason to change our long-term outlook.

### **Denis DUVERNE**

I would add that 52% of our half-year earnings were provided by life and savings. The result for the second half will depend largely on past events on a portfolio that is relatively insensitive to short-term trends. In addition, the market meltdown in May and June did not have a significant impact on our inflows.

*The acquisition of Winterthur will not prevent you from making others. What will be your strategy in this area over the next years? What regions might you target?*

### **Henri de CASTRIES**

I don't know what we will do in the next two years. I only know that our strategy will not change. We are a major force in Financial Protection, active in three segments (life and savings, property and casualty and asset management), we are present in Europe, Asia and North America. If interesting opportunities arise, and if they can boost organic growth in some way, we will be able to take advantage of them because we have a healthy balance sheet and efficient teams.

*The margin on new business was high everywhere except Japan. How do you explain this?*

### **Henri de CASTRIES**

The decline is due to a change in the product mix. Margins are very high on traditional products (more than 60%) because there is less competition. That is one reason why we decided to go to Japan, because its consumers are well-off and have ample savings, and because margins are high due to the need on the part of some local players to beef up their balance sheets. But if AXA wants to maximize profit growth over the long term, the Group has to also sell different types of products. The margin on these products is lower. We accept a certain degree of margin dilution if it comes with strong growth. Even if it is lower, the margin on new business in Japan is among the highest in the Group.

*We have heard that AXA was interested in Liguria Assicurazioni and BPN in Italy, two companies that were bought by other Italian companies. Are you looking at other opportunities in Italy?*

### **Henri de CASTRIES**

In Italy, as elsewhere, we are looking at any interesting opportunities that arise. When we see something promising, we try to go further. However, let's not focus too much on one-off examples

and instead examine the whole landscape. The Italian market is interesting. If a promising opportunity comes along one day, we will take advantage of it, but we don't need to do it so the Group will prosper.

*To what extent are you still exposed to the risk of hurricanes in the United States? What is your property-casualty strategy?*

**Henri de CASTRIES**

The spearheads of our US strategy are AXA Financial and AllianceBernstein—i.e., the life and savings and asset management segments. We have no intention of developing direct or indirect property-casualty operations in the United States.

**Denis DUVERNE**

Since we sold AXA RE's business, we are only exposed to hurricanes that occurred before December 31, 2005. There is no exposure to future hurricanes.

**Henri de CASTRIES**

Thank you.