Our earnings for the first half of 2009 show a significant increase over the second half of 2008, although they are down slightly compared with the corresponding period in 2008. This slight decline over H1 2008 is mainly attributable to lower average assets under management, which impacted the profitability of our life and savings and asset management businesses. Nonetheless, our earnings for the six months ended June 30, 2009 reflect a recovery versus the performance for the year ended December 31, 2008, whether we are looking at underlying earnings, adjusted earnings or net income.

Our financial strength has been preserved: our shareholders’ equity is up, our debt gearing is slightly down, and our Solvency I ratio also went up over the period, to 133%.

The half-year financial statements demonstrate that our life insurance customer base is robust and stable. Consolidated revenues declined by 1.8% in a challenging environment. We continue to win over and retain clients thanks to the relevance of our offer, the quality of our products and the efforts we have made in the area of service quality.

The asset management activity experienced a net outflow. The total volume of assets managed came to just under 1 000 billion euros. Over six months, it is virtually unchanged and can serve as a solid base for the future profitability of this business.

Our entire organization has been built to ensure that relevant information and potential problems are identified, communicated and addressed rapidly. Our information systems are reliable and our risk management is high quality. This enables us to take appropriate corrective action immediately. This ability to step in and take action was illustrated when we set up hedges for our equity portfolio last year.

We have repositioned our product range in the United States so that it meets client needs. We think that variable annuities are good products. Our clients were protected by the guarantees that we offered them, even though the cost was higher than expected.

Globally, this encouraging performance will not prevent us from remaining cautious in an economic environment that remains highly uncertain. Our responsibility to our clients, as well as to our employees and our shareholders, is to make sure that the Group would be able to withstand a possible deterioration in the current context, but also to ensure that we are able to take full advantage of the rebound ahead.
Financial performance

Denis DUVERNE  
Member of the Management Board, in charge of Finance, Control and Strategy

Overall, revenues for the six months ended June 30, 2009 declined by 1.8% (-5.7% on a comparable basis). Growth marked a slowdown but remained in positive territory in the property-casualty segment (+0.8%), while life and savings business fell by 7.5%.

An analysis by geographic region highlights the good performance of AXA France: life and savings revenues rose by 8%, while the increase for the property-casualty segment was more than 2%. We saw a significant decline in business for the United States and the United Kingdom, due to the drop in savings business and unit-linked investments. Business in other regions was relatively stable for the period.

New business volume (APE) was down by 16% for the six months ended June 30, 2009, comparable to the performance reported for the first quarter (-18.3%). The share of unit-linked products in the new business volume mix fell, from 48% to 40%.

While underlying earnings for the first six months of 2009 show a 26% decline versus the corresponding period in 2008, they rose by 63% compared with the second half of 2008, boosted by a rebound in underlying earnings from the life and savings segment and by adjustments made to variable annuities in the United States. The decline versus the first six months of 2008 is attributable to lower average assets under management, even though net inflows reached nearly six billion euros over the period.

While profitability of the property-casualty segment fell, it remains at a satisfactory level. Underlying earnings for the segment are still close to a billion euros. The combined ratio deteriorated (to 98%) due to the impact of natural disasters (Klaus Storm in particular). For France, the combined ratio was maintained at 99%. The economic environment has an impact on claims, partly offset by a trend rise in premium rates seen in Ireland, the United Kingdom and Canada.

The asset management business was the hardest hit by market depreciation. Assets under management fell by 26% compared with the first six months of 2008. However, we would like to stress the efforts made to control our costs (general operating expenses down by 20%).

Although earnings from the International Insurance segment for the first half of this year show a decline compared with the corresponding period one year earlier, they were nonetheless satisfactory. The Air France flight AF 447 air disaster had a net insurance cost of around twenty million euros for AXA.

In the United States, underlying earnings increased significantly in the first six months of 2009, thanks to a series of measures taken to improve the profitability of the variable annuity product range. And while volatility is down, it remains a concern. We continue to feel that variable annuity products are a relevant response to the needs expressed by our clients.

Adjusted earnings for the period declined by 50% compared with the first six months of 2008, and more than quadrupled compared with the second half of 2008. Net realized capital gains showed a
significant decline, falling to 240 million euros. Net impairments for the period remain high (-691 million euros), and pertain to publicly-traded equities and private equity investments, real estate and bonds.

Net income for the period came to 1.3 billion euros, compared with a net loss of 1.2 billion euros for the second half of 2008. The tightening of credit spreads had a positive impact of 309 million euros. The negative impact is attributable to the valuations of private equity holdings and equity hedges set up to protect our US subsidiary.

Our Solvency I ratio went from 127% to 133%. Our capacity to generate underlying earnings boosted our solvency by 10 points in the first half of this year, partly offset by the negative impact of financial market depreciation (-4 points). Our Solvency I surplus currently stands at 7 billion euros. Our shareholders’ equity rose by 1.4 billion euros, going from 37.4 to 38.8 billion euros. Unrealized capital gains were more than 3 billion euros at the June 30, 2009 reporting date.

Financing debt declined by 2 billion euros. Our gearing ratio remains acceptable at 31%. Our interest cover is above seven. We think that the concerns expressed in this regard over the past few months are unfounded.

There were no major changes in our asset allocation in the course of the first six months of 2009. We might mention the prevalent weight of bonds, the disposal of more than one billion euros worth of publicly-traded equities, the five-billion euro decline in cash, mainly due to cash used to settle our variable annuity hedge positions. The ABS portfolio continues to depreciate (-3 points), while the decline for real estate assets is 6% and the decline in private equity around 13%.
Conclusion

Henri de CASTRIES
Chairman of the AXA Management Board

The Group’s rapid response shows that we are able to handle problems. But beyond our balance sheet, we are able to maintain a high-quality relationship with our clients. We are delighted that our clients were protected thanks to our variable annuity products. We think that this is the way to build the Group’s growth over the long term.

Just as we were one of the most resilient players in 2008, we will also be among the first to benefit from the end of the crisis. The Group’s business mix gives us a genuine competitive advantage. Our property-casualty and personal protection businesses constitute a strong defensive base, while our life insurance and asset management businesses are more offensive. The crisis has confirmed that our model is robust.

The long-term growth outlook for the insurance industry is still intact. The as yet unmet needs in the areas of health and medical, retirement and property-casualty coverage remain considerable.
Questions/answers

Pascale DENIS (Reuters)

Can you give us the details of the cost reductions for all of the Group’s business segments?
Can you provide more details about the impact of variable annuities on adjusted earnings?
What is the outlook for your various business segments for the second half of 2009?

Henri de CASTRIES (Chairman of the Management Board)

As a matter of policy, we don’t give overly detailed guidance on our business outlook. The fact that certain macro-economic uncertainties persist makes it impossible to get a clear vision of the situation in the second half of the year. But we are well armed regardless of the circumstances.

As for variable annuities, the cost of hedges for the guarantees offered to clients was sharply negative in the second half of 2008 because of market volatility. It is almost nil for the first half of 2009: there is less volatility and the corrective measures we took have borne fruit.

Denis DUVERNE (Member of the Management Board, in charge of Finance, Control and Strategy)

The cost of variable annuities in terms of net income came to nearly 220 million euros. It is related to the cost of equity hedging for our required capital in the US.

As for our efforts in the area of productivity, total savings come to 200 million euros in life and savings, more than 100 million euros in asset management, and 300 million euros in property-casualty insurance (general operating expenses and claims management costs).

Fabio BENEDETTI (Bloomberg)

Does the 600 million euro cost reduction correspond to the efforts made over the full year or just the first six months?

Your margin on revenues has fallen below 14%. What do you expect to see for the second half of the year? What was the trend for July?

Denis DUVERNE

The 600 million euros in savings that I mentioned covers the full year trend for 2009-2010. The full impact of these savings will be felt in 2010.

I can’t give you a trend with regard to the new business margin. We have changed the pricing on our variable annuities, and this will be visible in the second half of 2009. The decline in our new business volume has always raised our unit costs in the past.
Pascale DENIS (Reuters)
Can you say a bit more about the non-recurring gain in the United Kingdom?

Denis DUVERNE
The non-recurring gain realized in the United Kingdom is the result of the internal restructuring of an annuity portfolio, which was transferred to the shareholders’ fund. We applied the appropriate accounting regulations and this led to the recognition of a profit.

Jethro MULLEN (Dow Jones)
Do you think you’ll be able to pay a dividend in 2009 that is equal to or greater than the 2008 dividend?

Henri de CASTRIES
We don’t want to give dividend guidance mid-year. We are still in a volatile environment.

Fabio BENEDETTI (Bloomberg)
Should we expect you to become more active as the crisis ends in the area of external growth in the emerging countries?
To what extent will an improvement in the equity markets increase your solvency ratio?
Impairments totaled nearly 3.5 billion euros in 2008 and for the first half of 2009. In 2007, they totaled around 400 million euros. Does this mean the total is 3.9 billion euros?

Henri de CASTRIES
We have already increased our exposure to the emerging countries in the course of recent years. The contribution from emerging countries in the Group’s total revenues has reached nearly 8%, while emerging markets today account for 9% of the global insurance market. We will continue to examine opportunities, and we are interested in markets that combine potential for growth and profitability.

Denis DUVERNE
The impairments for 2008 totaled 2.8 billion euros. The global total is a considerable sum.
If the equity markets appreciate by 10%, we would gain 3 additional points in terms of our Solvency I ratio.
Fabio BENEDETTI (Bloomberg)

On the basis of the growth and profitability criteria you just mentioned, which countries might possibly be of interest?

Henri de CASTRIES

There is major potential in Asia, and in both Central and Eastern Europe, as well as in some Latin American countries. We want to be sure that the local legislative framework is such that we can do insurance business under healthy conditions.

Anne de GUIGNE (Le Figaro)

Why has narrower credit spreads translated into a gain on your financial statements?

How is your bond portfolio hedged against the inflation risk?

Henri de CASTRIES

As spreads widened in earlier quarters, losses resulted. As an investor, when credit spreads widen, the mark-to-market value of the bonds we own can fall below the price we paid to acquire them. In this case, we have to establish impairment allowances. Conversely, when credit spreads narrow, the opposite phenomenon comes into play (we can release/reduce these provisions).

Denis DUVERNE

Our exposure to the credit risk is on the asset side of our balance sheet. Banks or insurance companies sustained losses due to the devaluation of their debt in mark-to-market terms and the erosion in the value of their CDS. Being exposed to the credit risk on the asset side, we benefit when spreads narrow.

Henri de CASTRIES

We have tools for hedging the risk of inflation, in the form of linkers and other hedges. We are exposed to real estate, and this offers a long-term hedge against inflation.

Fabio BENEDETTI (Bloomberg)

How did your workforce numbers evolve over the first half of the year? Do you foresee stabilization or a reduction in your headcount over the rest of this year?
Henri de CASTRIES

The situation differs with markets and business segments. In the Asian sales channels, we continue
to recruit massively. We have frozen our hiring or reduced staff in the United Kingdom and the
United States. Globally, the Group’s workforce is stable. We are reducing administrative staff
positions and increasing sales positions.