

# Horizon

SHAREHOLDERS' CIRCLE NEWSLETTER

www.axa.com

FEBRUARY 2005 ■ N° 2

## AXA Life Japan

# "Tour de force"

AXA Life Japan, a subsidiary of a French group with a temperament more Japanese than that of many domestic companies and an international outlook, is determined to become a leader in the world's second largest insurance market.



Be Life Confident



## A for Ambition

AXA's ambition is to be the Group in its sector that best meets the needs of its customers. To retain their loyalty while winning new customers, it is absolutely vital to stay one step ahead of current changes. By defining our business as Financial Protection, we are able to support our customers at every stage of their lives by providing insurance, life cover, savings and inheritance planning solutions. In this approach, each of AXA's employees is involved in pursuing the Group's strategic priorities, which are:

- Proposing the most innovative products
- Offering the highest standards of service
- Enhancing distribution management to secure the highest returns on sales and marketing activities
- Honing our business expertise, i.e. risk underwriting and asset management
- Raising productivity to lower costs, while improving quality.

If we achieve excellence in these five areas, we will step up the pace of our organic growth, which forms the basis for the Group's long-term expansion.

**Henri de Castries**  
Chairman of the Management Board

# Conquering the Land of the Rising Sun

**After a significant recovery, the multi-cultural team led by Philippe Donnet has set itself a challenging program that takes the Group's fundamentals into account. Its highly motivated employees have demonstrated their full commitment to the cause, enabling the company to take major strides forward.**

The Asian crisis continued to depress AXA's business activities in Japan until 2003. Thanks to a perfectly executed strategy, AXA is making good headway in the Japanese market. More than ever before, Asia at large and Japan in particular are key markets for the Group. For AXA Japan, as for all AXA's subsidiaries around the world, the top priority is to achieve leadership in its market.

### AXA Japan's recovery

Through the late 1999 acquisition of Nippon Dantai, AXA's goal was to bolster its young Japanese subsidiary and take full advantage of the tremendous potential of the world's second-largest insurance market. At the time, AXA was the only foreign insurer to honor the guaranteed return contracts issued by the company that it had acquired. This approach made a profound impression on the Japanese. AXA's name became synonymous with trust. After three tough years owing primarily to the financial crisis, the subsidiary is now back on the road to profitability having implemented initiatives in line with the Group's strategy. In the space of just four years, AXA Japan has undergone a drastic overhaul and its teams have focused their efforts on the **five priorities** set by Henri de Castries.

### Product innovation

Deregulation has enabled banks to offer a broader range of insurance products in Japan. To expand in this promising market, AXA Japan has secured several distribution deals with Japanese banks. In November 2004, the Group launched "Upside", a new variable annuity product—the first to be marketed in Japan. Its key advantage is the prospect of attractive and guaranteed rates. By harnessing the Group's experience in other markets, particularly AXA Financial's in the US, AXA Japan has drawn up an ambitious plan of new product launches for 2005.

### Distribution management

To raise its sales performance, AXA Japan embarked upon a major reorganization of its sales networks in October 2004 and is now more precisely able to target its various customers (i.e. professionals, SMEs and large corporates), as well as employees and pensioners, by operating through four large networks:

- AXA Advisors focuses on SMEs and on private customers through chambers of commerce and industry (CCIs).
- AXA Partners caters to large businesses, public organizations and leading agencies.
- AXA Corporate and Agents deals with medium-sized companies and agents.
- AXA New Markets is dedicated to "bancassurance" and the development of new markets.

### Quality of service

Securing the loyalty of profitable customers is a tricky task in a saturated market like Japan. To improve its customer retention rates, AXA Japan has introduced a customer service center (CSC) responsible for centralizing surrender requests. When customers call, they are informed as part of a multi-stage process that it may not necessarily be in their interests to surrender their policies (financial loss without any tangible benefits) and they may be offered alternatives (new more suitable policies, different payment terms, loans in the event that they need cash, etc.). The CSC also handles customers left stranded when a commercial agent retires. Thanks to these improvements, the customer churn rate has dropped from close to 12% in 2001 to less than 6% at present.

### Business expertise

At year-end 2000, 74% of AXA Japan's individual policies were loss-making owing to a scissors effect<sup>(1)</sup>. To remedy this situation, the company decided to launch a wide-ranging conversion campaign for the entire distribution process. The target was to identify unprofitable policies, analyze

(1) where rates guaranteed to customers are above long-term interest rates

the characteristics of the relevant policyholders and offer them two new products that are more profitable, including "Safety Plus", an innovative savings product, and "Whole Life Medical", a health insurance product targeting the over 50s, plus effective tools for the sales networks. As a result, policies affected by the scissors effect now account for just 44% of the portfolio of individual policies.

### Productivity

To improve its earnings, AXA Japan decided to focus its efforts on raising the productivity of its captive sales network (AXA Advisors), which boasts a robust customer base deriving from the country's main chambers of commerce and industry. Around

60% of the company's new business comes from this network. AXA Japan is pursuing a three-pronged approach: i) emphasis on quality rather than quantity in terms of recruitment, against the current market trend, ii) more intensive and extensive training, and iii) better management of the teams thanks notably to new CRM systems.

AXA Japan is now a major player in the Japanese market. Its overall market share stands at around 2.5%, but it holds over 20% of the large corporate market and 6% of the SME segment. AXA Japan has established very strong positions in health insurance (20%) and leads the chamber of commerce and industry segment in Japan (76%).

### Six major milestones in AXA Japan's history

- **1995:** The Group moves into Japan by starting up AXA Life Japan.
- **1998:** AXA secures approval to operate as a non-life insurer in Japan and launches AXA Direct several months later.
- **1999:** AXA reaches an agreement with Nippon Dantai, a life insurance company set up in 1934, leading to the formation of AXA Nichidan Insurance.
- **2000:** AXA Nichidan is launched encompassing AXA Nichidan Holding, AXA Nichidan Life and Nichidan Life.
- **2001:** AXA Nichidan changes its name to AXA.
- **2004:** The life and non-life businesses are pooled into AXA Japan Holding.

# The AXA name commands respect in Japan

**Philippe Donnet, CEO of AXA Japan, gives three key answers to our questions.**

**Question:** Is the market recovery an opportunity or a risk for AXA Japan given that it will also benefit your rivals?

**Philippe Donnet:** The situation has been improving for 18 months in Japan. The Nikkei, the bellwether index for the Tokyo Stock Exchange, has gained 50% and the economic recovery is kicking in slowly. This upturn has enabled several companies to get back on their feet, but market conditions remain tough. It's good news for us because well-run companies tend to extend their lead in such conditions, and we are now in a strong position to do so. Having launched our recovery plan a year ago, we now rank among the three most profitable companies. What's more, we rank 12th in terms of premiums or assets, but 7th by net income<sup>(2)</sup>.

**Question:** Does being 12th-largest give you sufficient scale to play a key role and establish yourself as a leading player?

**Philippe Donnet:** Our overall market share stands at around 2.5%, but we hold over 20% of the large corporate market and 6% of the SME segment. We are also very well placed in health insurance (20%) and leader in the chamber of commerce and industry segment in Japan (76%). Our aim is to set the profitability, growth and quality of service standards. That's what we mean by being a leading player in Japan.

**Question:** Does belonging to the AXA Group represent an advantage in this market?

**Philippe Donnet:** Undoubtedly. Because we are considered to be one of the Group's strategic subsidiaries, Standard & Poor's has awarded us an AA- rating. The AXA name is extremely important for maintaining our customers' trust. We are the only foreign insurer to have honored the guaranteed return contracts issued by the company we purchased, namely Nippon Dantai. This approach made a profound impression on the Japanese, and we are now reaping the rewards, as is the Group in general because Japan and Asia at large represent key markets for AXA.

(2) The figures are based on Jgaap.

### 2003 key figures

Accounting for 23% of life premiums and 16% of total premiums collected worldwide, Japan is the world's second-largest market and third-largest in terms of the penetration rate (10.8% vs. the average for industrialized countries of 9.2%).

#### AXA Life Japan

**Market share:** 2.5% (ranked 12th)  
**Revenues:** ¥785.3 billion (€6.08 billion)  
**Total assets:** ¥4,036 billion (€31.25 billion)  
**Individual insurance policies:** 3.9 million  
**Percentage of the Group's worldwide revenues:** 9%

#### Number of employees:

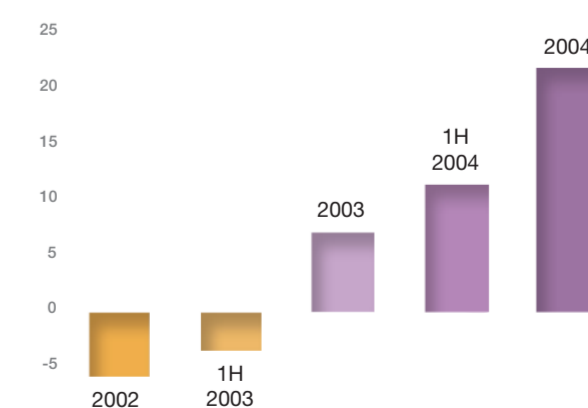
Around 7,600 (sales force included), 300 AXA sales offices, 4,800 non-exclusive agents

### Underlying earnings<sup>(3)</sup>

2002	Loss of ¥5.4 billion (€47 million)
1H 2003	Loss of ¥3 billion (€24 million)
2003	¥7.1 billion (€55 million)
1H 2004	¥10.8 billion (€82 million)
2004	¥21 billion (€163 million)

(3) : figures calculated before minority interests

### Underlying earnings (in billions of yen)



# Keeping the momentum of 2004 going

**The firm revenues posted by AXA in 2004 were driven by highly impressive performance in key insurance sectors. Strong recovery in Life & Savings plus impressive inflows into asset funds injected momentum that augurs very well for the year that has just started.**

"As expected, our competitive product offering and the expansion of the distribution platform contributed to our growth momentum in the fourth quarter of 2004," said AXA's Chairman of the Management Board Henri de Castries, commenting on the growth in the Group's consolidated revenues to €72.2 billion in 2004. On a comparable basis, revenues grew by 2% compared to full year 2003. On a reported basis, total revenues were up 1% from full year 2003 (€71.6 billion), mainly driven by organic growth and MONY's 2H04 revenues (€1.0 billion impact, up 1%), partly offset by the strength of the euro versus other currencies (negative impact of €1.6 billion, down 2%).

• **Life & Savings revenues increased by approximately 6% in 4Q04**, totaling €47.1 million in 2004, up 1% compared with 2003, including a rise of 14% in unit-linked revenues.

"Total revenues in our Life & Savings activities returned to growth in the fourth quarter of 2004, owing to continued strong performance in France, Southern Europe and Japan, as well as to the anticipated recovery in the US and the UK. In addition, our business mix continues to improve significantly as reflected by the increased percentage of unit-linked sales in our total revenues". Annual revenue growth was driven chiefly by an increase in France (9%) on the back of very strong growth in individual savings products and the emphasis placed on these products by all the sales networks. Unit-linked premiums represented 21% of individual savings premiums versus 14% last year. Sales of the new French

retirement PERP product got off to a promising start in 2004 as 140,000 accounts were opened, with AXA being one of the market's top three players. The expected upturn in fourth-quarter revenues in the US was confirmed by the 6% increase in revenues compared with 3Q04 and 4Q03.

**2004  
CONSOLIDATED  
REVENUES  
OF  
72.2  
BILLION**

• **Property & Casualty revenues increased by 3% in 2004 to €17.9 billion**, with Personal and Commercial lines growing 4% and 6%, respectively, as the Group attracted new customers and benefited from

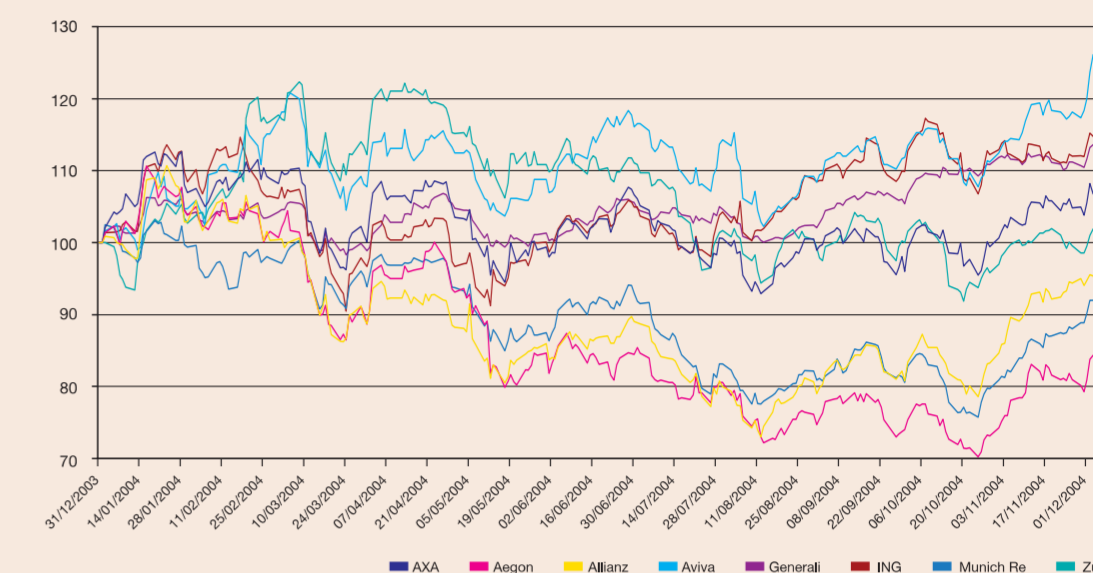
a still favorable pricing environment in most business lines. For instance, motor revenues (up 3%) moved higher in most countries.

• **Asset Management revenues increased by 14% to €3.1 billion in 2004**, benefiting from higher average assets under management (up 16%), the result of very strong net inflows (€35 billion) and market appreciation. "We are particularly pleased with the strong Asset Management net inflows" said Henri de Castries. Alliance Capital's revenues in the US were up 10% compared to 2003 driven by higher average investment advisory fees from higher average assets under management (up 16%), higher brokerage volumes (up 13%) due to increased market share, and higher performance fees (up 13%). AXA Investment Managers' revenues increased by 29%, while gross revenues, excluding management and front-end fees collected on behalf of external distributors, increased by 21%, due to a combination of higher average assets under management (up 17%) and a more favorable product mix.

• **International Insurance revenues declined by 6% to €3.4 billion** mainly owing to a 15% decrease in reinsurance activities in line with the strategic repositioning of AXA RE initiated in 2002.

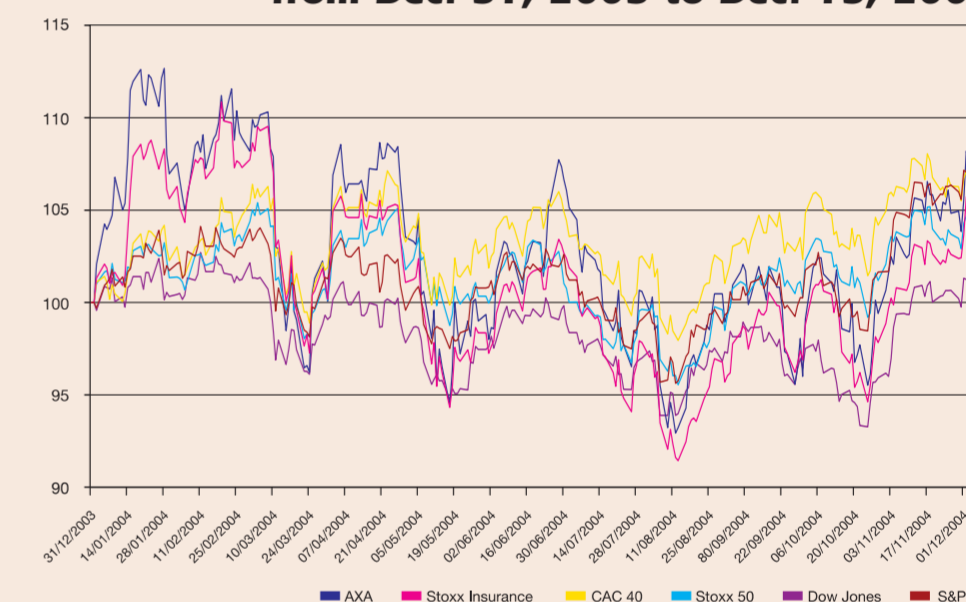
**AXA and its main peers  
from Dec. 31, 2003 to Dec. 13, 2004**

Performance over the period	
AXA	7.72%
Aegon	-13.21%
Allianz	-4.18%
Aviva	25.10%
Generali	15.86%
ING	18.60%
Zurich	2.42%
Munich Re	-6.21%



**AXA and the main stock market indices  
from Dec. 31, 2003 to Dec. 13, 2004**

Performance over the period	
AXA	7.72%
Stoxx Insurance	6.81%
CAC 40	6.97%
Stoxx 50	4.47%
Dow Jones	1.76%
S&P 500	7.80%



**AXA's performance relative to the Stoxx Insurance index  
from Dec. 31, 2003 to Dec. 13, 2004**

Performance over the period	
AXA	-20.97%
Stoxx Insurance	-42.49%
CAC 40	-17.70%
Stoxx 50	-25.02%
Dow Jones	6.15%
S&P 500	4.41%



**Financial strength rating**  
of the Group's main insurance companies (at January 26, 2005):

**S&P : AA-**  
**Moody's : Aa3**  
**Fitch : AA**

**AXA's share price**

(€) €16.97 on December 31, 2003  
€18.18 on December 31, 2004

## AXA's PERP

# How the tax system has become your pension's best ally

**By creating made-to-measure PERP products, AXA offers savers a new supplementary pension option specially designed to meet the individual needs of its customers.**

## A badly needed overhaul of the French pension system

By 2040, there will be seven pensioners for every ten active members of the population, compared with a ratio of four to ten at present. The aging of the population as the baby boomers reach retirement age and the knock-on effects in terms of the replacement rates, made an overhaul of the French pension system absolutely vital. Making financial plans for retirement is now a priority for the majority of the French population. This said, they have been slow to put their plans into action, with less than one in two workers having started to plan for their retirement.

Against this backdrop, the Fillon law of August 21, 2003 offers an additional option for members of the French labor force, alongside the pay-as-you-go system, in the form of access to funded retirement plans. What's more, the new PERP products carry tax incentives.

## AXA has reinvented the PERP

PERP retirement products, which are intended to build up a supplementary pension, are a collective contract enabling all those in employment to build up individual savings for their retirement while qualifying for tax incentives. The savings built up through payments into PERPs and investment income are converted into a transferable life annuity. Amounts invested cannot be withdrawn until the saver reaches retirement age. The life annuity supplements amounts received from the general and supplementary pension regimes. **More than one year following the creation of PERPs, AXA now offers its customers made-to-measure PERP plans in accordance with the Fillon law.** Savers were very quick to show considerable interest in AXA's PERP, which established market share of 10% in 2004.

## This new individual retirement saving solution brings three kinds of benefits:

### • Secure management

The AXA PERP is the ideal way to plan for retirement. Management of savings invested in the plan is automatically tailored to customers' age and retirement date. Accordingly, unit-linked products (AXA Euro Index) are generally used over a long term horizon to secure substantial gains. Savings are then gradually channeled into euro-denominated vehicles, thereby securing the investment as the liquidation date approaches.

### • Great freedom to save

Through PERP products, AXA offers its customers a way of building up savings that suits them. There are two options, the *PERP Confort* based on discretionary payments and the *PERP Reference* based on regular payments, smoothing costs over the long term and meeting the needs of younger savers in most cases.

### • Tax savings on amounts paid into the plan

Payments in PERP plans are deductible from aggregate net income up to an individual tax limit.

## What has changed with the Fillon law?

• Any employee in the private sector may qualify for a full pension from the age of 60 after contributing to the State system for 160 quarters until 2008.

This age will increase by one quarter per year until 2012 (i.e. 164 quarters in 2012).

• For a contributor who is less than 65 years old with an insufficient number of quarters of contributions to qualify for a full pension, a discount is applied of 2.5% per missing quarter for those born before 1944. This discount will gradually decline to 1.25% per missing quarter for those born after 1952.

• Those who started working before the age of 16 may retire before they are 60 years old under certain conditions.

## PERPs: True or False ?

### With a PERP, I qualify for a tax saving.

**TRUE.** In a given year, you can deduct from your total net income payments into a PERP subject to an individual limit that is proportional to your professional earnings.

### My company operates its own pension plan. I can also set up a PERP.

**TRUE.** If you hold a so-called Article 83 or PERCO plan, your employer will issue you each year with a statement of contributions to be deducted from the individual limit.

### If I die before I retire, my savings will be lost.

**FALSE.** If you were to die before receiving a PERP annuity, a life annuity would be paid to your designated beneficiary.

### I cannot recover the funds I invested until I reach retirement age.

**TRUE AND FALSE.** The PERP plan is intended for retirement savings. Even so, although provided for only in exceptional circumstances, recovery is possible in a few limited instances: disability, the expiry of rights to unemployment benefits for employees and liquidation for non-employees.

# Peking and Washington, the masters of worldwide growth?



**Without being as good as in 2004, 2005 earnings are likely to be positive.**

**So says Jean-Pierre Hellebuyck.**

**Too many indicators remain on track for there to be a general slowdown.**

**This said, monetary authorities in the US and China could conceivably adopt a more restrictive bias.**



### Is Asia now the world's dominant growth engine?

Events during 2004 were influenced to a great extent by Asia. Naturally, we cannot forget the Dec.26 tsunami and its devastating consequences.

Asia also played a role in globalization and made a substantial contribution to growth in the world economy. With worldwide GDP growing by around 5%, 2004 was a record year in terms of global expansion (the best year since 1988). Over the same period, the Asian economy outside Japan expanded by 7.5%. On a purchasing power parity basis, Asia's GDP outside Japan was comparable to that of the US and the European Union.

### Is softer growth to be expected in 2005 ?

Since the summer of 2004, we have seen a slower pace of growth in the world economy (the peak was between summer 2003 and summer 2004). As a result, 2005 will probably not be as good as 2004. But that does not spell recession, since too many indicators continue to show positive momentum. An analysis of fluctuations in shipping rates for freight and copper prices provide the perfect illustration of this point. Granted, growth is likely to be weaker during 2005, but it should be closer to a potential of around 3.5%. Consequently, it should help to alleviate the pressure that the very strong pace of expansion during 2004 put on many commodity prices. The acceleration in inflation seen during 2004 should not therefore continue during 2005 (though the risk persists). Everything will hinge on whether further productivity gains can be achieved and whether prices can be hiked.

### Monetary policies remain accommodative, but there is a tightening bias

Early 2005 has been dominated by accommodative monetary conditions and abundant liquidity. However, short-term rates have started rising in the world's two main engines of growth, namely the US and Asia outside Japan (hikes by the Fed and five central banks in Asia), with the Bank of England following suit. All in all, around 15 of the world's leading central banks have hiked their rates since last summer. Monetary conditions will certainly be more restrictive during 2005 than in 2004. The Fed is seeking to bring its rates back to a normal level and to guide real rates out of negative territory. Furthermore, excluding the additional budget spending triggered by the December 26 disaster, fiscal policy seems set to be much less expansionary right across the board.

### What are the principal risks?

The most widely discussed risk stems from imbalances in the two main growth engines, i.e. insufficient savings and deficits in the US and overinvestment in China, owing partly to an unduly loose credit lending policy. Naturally, the risk is that these imbalances will correct abruptly, potentially triggering a recession or an upturn in worldwide inflation. It is also conceivable, however, that the US and China, which are already closely integrated from a monetary standpoint, may correct their imbalances together. This could result in a revaluation of the yuan. Against this backdrop, the appreciation in the euro against the US dollar looks highly unusual because it will not help to adjust the euro zone's problems and will only serve to depress further an already ailing region.

### What is the outlook for 2005 ?

Weaker worldwide growth, but still in line with its potential and less accommodative monetary policies but still abundant liquidity. All in all, 2005 will resemble 2004, just a notch or two below. One encouraging factor is that the pressure on commodity and oil prices appears to have receded (barring the omnipresent risk of a political incident).

**Various points and questions were raised at the shareholders' meeting held in Lyon on Nov.3 with Henri de Castries and at the Individual Shareholders' Consultative Committee meeting on Dec.3 attended by members of the Management Board. Here are some excerpts from the discussions.**

**Put your questions to us, and we will answer them.**

**Question:**

*Has the bancassurance model had its day?*

**Answer:**

Unlike many of its rivals, AXA decided against adopting the bancassurance model. A few years later, the results are plain for all to see. All of its rivals that went down this path are currently experiencing problems. This tends to prove that financial protection is genuinely distinct from bancassurance. The issue here is how to position our business activities, and AXA's decision to focus on financial protection has served it well, as its results have proven.

**Question :**

*Are insurance and prevention compatible?*

**Answer:**

Prevention is one of the factors that can help to keep down the combined ratio and thus affects the profitability of our property & casualty business activities. For instance, in Ireland, where AXA has pursued a particularly active road safety prevention program, the combined ratio dropped to 82%. Furthermore, it represents an important aspect of sustainable development, one of AXA's major priorities.

**Question:**

*Does the AXA group have a clear dividend policy?*

**Answer:**

Individual shareholders are regarded by AXA as key partners, as are all the Group's investors. Dividends represent a reward for their equity investment based on AXA's performance. For instance, the Group has set itself a target of paying out 40-50% of income before tax to its shareholders. In tough years, this policy explains why the dividend has never been used as a way of making up for a decline in the share's appeal. Unlike some of its rivals, AXA has never sacrificed its market capitalization to win over shareholders in the short term, but has instead sought to demonstrate to its shareholders that the Group intends to secure a healthy recovery in the medium term.

## AXA's energies



### AXA France's Disability Mission. Let's live and work together better!

French businesses at which disabled employees account for less than 6% of the workforce are now liable to a fine. Some have even opted to pay the fine in the mistaken belief that disabled employees are bound to be less productive. Others, like AXA, have decided to do what they can to reach this target and believe that the human qualities and skills of men and women in the workplace should take precedence over prejudice, especially since dynamic communities are usually those in which people have accepted each others' differences. AXA France now has 450 disabled employees, including 74 managers and 30 sales staff.

By signing a disabled employee agreement in March 2003, AXA France has committed to accommodate them and foster their professional development. Aside from the recruitment of four disabled employees each year (in addition to the statutory requirements), the agreement stipulates that local solutions need to be found that are best suited to their needs. AXA France thus provides its disabled employees with the training and courses they need to improve their professional expertise.

**AXA Group provides assistance to the victims of the tsunami in South-East Asia**

Given the tremendous scale of the human disaster in countries hit by the tsunami on December 26, 2004, AXA Group decided to provide assistance to the victims by matching the spontaneous generosity among its employees around the world that gave rise to individual donations. A special bank account has been set up in each country where AXA operates. The proceeds raised will then be passed on to a humanitarian organization selected locally. The Group has decided to double the individual donations made by its employees and is set to pay out at least 1 million to several humanitarian organizations able to act immediately. In the longer term, AXA will also provide financial support and expertise towards the creation of prevention and warning systems to avoid a repeat of the tremendous human suffering caused by such disasters.

## Contacts

**INDIVIDUAL SHAREHOLDERS' COMMUNICATIONS DEPARTMENT**

For all information requests please contact AXA's Individual Shareholders' Communications Department:  
AXA – Communications with Individual Shareholders  
25 avenue Matignon - 75008 Paris  
Tél : (33) 1 40 75 48 43  
Fax : (33) 1 40 75 59 54  
E-mail : [actionnaires.web@axa.com](mailto:actionnaires.web@axa.com)

Contact : Catherine LUTFALLA  
You can also contact us through the website at [www.axa.com](http://www.axa.com).

