

## AFLAC Japan

### Strong Performance in a Weak Economy

**2000** was another year of performance and achievement for AFLAC Japan. Against the backdrop of a continued weak economy, we produced record sales results. Our financial performance was also strong. And in anticipation of the pending deregulation of our segment of the insurance industry, we took many steps to further strengthen our business.

AFLAC's strong performance can be traced to the strategy we have employed for many years. We continued to broaden our product line, expand our sales force and improve efficiency through technology. By doing so, we again provided the products and services that make our customers' insurance complete.

*Chikako Ohsawa, an employee at aflacdirect.com, is excited to be part of AFLAC's new company that became the first in Japan to sell insurance exclusively over the Internet. AFLAC International, which is majority owner of aflacdirect.com, formed the company with NTT Comware, a subsidiary of Japan's leading telecommunications firm. Customers may purchase Internet versions of AFLAC's cancer term life and Rider MAX coverages. Through aflacdirect.com we also sell an education support annuity plan, which was developed for the parents and grandparents of young children. Since aflacdirect.com began operating in April 2000, it has received more than 218,000 hits to its Web site.*



Here are some results from 2000 on a yen basis:

- **New annualized premium sales were up 14.6% to ¥99.8 billion, compared with ¥87.0 billion in 1999.**
- **Premium income rose 7.1% to ¥720.8 billion, compared with ¥673.0 billion in 1999.**
- **Net investment income grew 7.4% to ¥135.7 billion, compared with ¥126.3 billion in 1999.**
- **Total revenues were ¥857.2 billion, up 7.2% from ¥799.8 billion in 1999.**
- **Pretax operating earnings increased 12.3% to ¥82.9 billion, compared with ¥73.8 billion in 1999.**

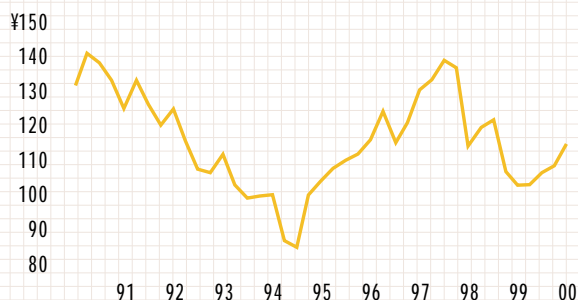
### The Impact of the Yen/Dollar Exchange Rate

Fluctuations in the yen's value tend to distort our operating results in dollar terms. However, it's important to note that when preparing financial reports to shareholders, we do not convert currencies. Instead, we translate AFLAC Japan's yen-based financial statements into dollars. Therefore, AFLAC is largely unaffected by changes in the yen's value in economic terms although its relative strength or weakness can magnify or suppress reported results.

On average, the yen increased in value, or strengthened, against the dollar last year. During 2000, the yen averaged 107.83 to the dollar, which was 5.7% stronger than the comparable rate of 113.96 in 1999. We translate statements of earnings using the

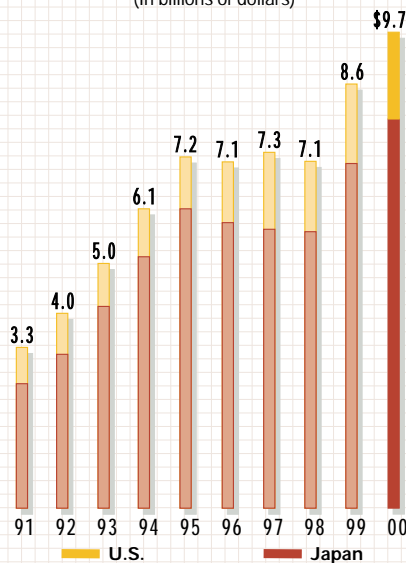
*The average yen/dollar exchange rate was 5.7% stronger during 2000, which magnified AFLAC Japan's earnings growth in dollar terms.*

### Yen/Dollar Exchange Rate (Closing rates)



*Total revenues rose 12.5% to \$9.7 billion, benefiting from rapid sales growth, stable persistency and the stronger yen.*

### Total Revenues (In billions of dollars)



average exchange rate for the period. When the average yen/dollar exchange rate is stronger than the preceding year, as it was in 2000, it magnifies AFLAC Japan's rates of growth in dollar terms. However, the yen began to decrease in value, or weaken, against the dollar toward the end of the year, finishing 2000 at 114.75, or 10.8% weaker than the 1999 year-end rate of 102.40. Because we translate our balance sheets using the period-end exchange rate, balance-sheet items were penalized by the weaker year-end rate. Below are some highlights on a dollar basis:

- **New annualized premium sales rose 20.4% to \$921 million, compared with \$765 million in 1999.**
- **Premium income advanced 13.2% to \$6.7 billion, compared with \$5.9 billion in 1999.**
- **Net investment income was \$1.3 billion, up 13.5% from \$1.1 billion in 1999.**
- **Total revenues increased 13.3% to \$8.0 billion, compared with \$7.0 billion a year ago.**
- **Pretax operating earnings were up 18.6% to \$771 million, compared with \$651 million in 1999.**



*AFLAC sales agent Yukari Yamada, center, meets with Mari, left, and Hironori Miyake at Ms. Yamada's insurance sales office in Anjo City. Ms. Yamada is one of a growing number of individual agencies who focus sales on the individual and small-business insurance market in Japan. We estimate that there are nearly 40 million workers who are employed at small businesses in Japan, making this a market with great growth potential. Ms. Yamada, who has sold AFLAC policies since 1991, has been successful because she works hard to develop relationships with her customers. Rather than trying to sell the same products to everyone, Ms. Yamada evaluates her customers' needs and then offers them the products that best suit those needs.*

## **Products Are the Basis of Our Strength**

AFLAC Japan offers a wide range of products that supplement Japan's national health care system. Our products provide valuable protection because they help pay for the additional costs that arise as a result of a serious illness or accident. Our affordable policies help make our customers' insurance complete by paying expenses that are not otherwise covered by the national health care system.

Although AFLAC Japan was founded with its unique cancer life policy, we have expanded our product line during the past 10 years. Cancer life remains a top-selling product. However, it accounted for only 40% of sales in 2000. Rider MAX, one of our newer products, was our best-selling product last year, representing 41% of sales. Rider MAX provides accident and medical/sickness benefits as a rider to our cancer life policy. We have sold more than 3.7 million of these riders since Rider MAX was introduced in 1998, including 1.5 million in 2000 alone.

## Preparing for a Deregulated Market

Japan's insurance industry has been gradually deregulating since the 1994 and 1996 trade accords between Japan and the United States, and Japan's 1996 plan for a financial "Big Bang." Deregulation of the so-called "third sector," the segment in which AFLAC principally operates, began January 1, 2001. To prepare for a more competitive environment, AFLAC Japan has taken inventory of its strengths and weaknesses for the last several years. Based on this review, we improved many elements of our business.

One area of focus in preparing for deregulation has been our distribution system. During 2000, we recruited 2,039 new agencies, bringing the number of agencies we have recruited to more than 7,000 in the last three years. By comparison, we averaged less than 700 new agencies per year from 1994 through 1997. Most of our new recruits are individual rather than corporate agencies. Individual agencies give us better access to Japan's immense small-business market. We estimate that there are roughly 40 million Japanese workers who are employed at small businesses. Since our penetration in this market is less than 20%, we believe there is great potential for expansion.

To further improve our distribution system, we signed a strategic marketing agreement with Dai-ichi Mutual Life Insurance Company in September 2000. This marketing alliance brings together Japan's second largest life insurance company and AFLAC, the leading third-sector company. Dai-ichi Life has more than 1,900 sales offices and a sales force of over 50,000 in Japan. Dai-ichi Life's salespeople, who should begin selling for us in April, will in effect be an extension of our tremendous distribution system of corporate and individual agencies. By enhancing our distribution system, we believe that we will be able to better penetrate the individual and small-business market with AFLAC's products.

One of the attractions to AFLAC is the compensation we provide to members of our sales force. To give them more options, we introduced an alternative commission contract in mid-2000. The new contract pays a first-year commission rate that is significantly higher than our original contract, but

limits the renewal commissions to a nine-year period. By the end of the year, about 2,000 agencies had signed on for the new commission schedule. In addition, Dai-ichi Life elected to operate under the new contract. Offering flexible compensation should continue to benefit our agency recruiting. The new commission contract should also help our newly recruited agencies get off to a quicker start in building their business.

We also continued to refine our product line for a deregulated market. In mid-2000, we began selling new, lower-premium cancer life and care products to meet the needs of cost-sensitive buyers. Approximately 29% of new cancer life and 59% of care policy sales were from the lower premium products. At the end of 2000, we introduced a major revision to our cancer life policy. This new product, called 21st Century Cancer Life, offers a variety of coverage choices to our customers. As a result, employers will be able to offer a customized AFLAC cancer life policy to better suit the needs of their workers. While providing increased flexibility to our customers, we also believe our product will continue to offer a better value than competing products in the Japanese marketplace. Improving our product line and identifying new product opportunities is an ongoing process, so we will continue to actively research and develop more products and riders.

*Despite a continued weak economic environment in 2000, AFLAC Japan's new annualized premium sales rose 14.6% in yen.*

### AFLAC Japan Sales Results

	Policies In Force*	Annualized Premiums In Force**	Total New Annualized Premiums**	Total Number of Agencies
<b>2000</b>	<b>19,674</b>	<b>¥ 740,445</b>	<b>¥ 99,755</b>	<b>8,938</b>
1999	18,510	696,622	87,043	8,283
1998	16,963	640,796	75,425	7,010
1997	15,800	597,823	62,884	5,427
1996	15,088	568,067	79,242	5,166
1995	13,188	506,436	72,608	5,224
1994	12,640	471,170	69,628	4,961
1993	11,635	411,331	63,312	4,539
1992	10,859	363,429	68,424	4,065
1991	10,020	313,563	62,027	3,572

\* In thousands

\*\* In millions



*Japan Airlines' (JAL) employees Satoru Okuyama, left, and Kaneto Kawasaki do maintenance work on a Boeing 747 being refurbished at JAL's Haneda Airport maintenance facility. JAL is among the 95% of Tokyo Stock Exchange listed companies that offer AFLAC policies to their employees. JAL employees own approximately 6,500 AFLAC policies. The maintenance facility pictured here is one of three for JAL.*

## Using Technology to Stay Ahead

New technologies are allowing us to extend our competitive position. Last year many of our individual agencies began using Cyclone, which is a Japanese version of our U.S. SmartApp. Cyclone allows our sales agencies to electronically transmit policy applications to our headquarters in Tokyo. Regulatory approval of Cyclone was historic in that AFLAC became the first company permitted to accept an electronic signature rather than the traditional personal seals to execute

an insurance contract. Approximately 1,000 agencies transmitted policies via Cyclone in 2000. We believe Cyclone will help improve efficiency and service to our customers.

Another first for AFLAC in 2000 was our initiative to sell insurance over the Internet. In May 2000 we formed a new company, [afladirect.com](http://afladirect.com), which is a partnership with a subsidiary of NTT, the leading telecommunications firm in Japan. We offer Internet versions of our cancer term life and Rider MAX

coverages via aflacdirect.com. We recently began selling an education support annuity plan for the parents and grandparents of young children. By expanding our distribution system to include the Internet, we believe we can effectively reach more customers.

Investing in new technologies like Cyclone and aflacdirect.com helps us to remain the most efficient insurance company in Japan. Operating as a low-cost producer is critical to AFLAC Japan's success. It enables us to offer the best products at the best prices while providing the best compensation to our sales force. It also allows us to extensively promote our brand through national advertising.

### Portfolio Produces Solid Returns in Difficult Market

AFLAC Japan's financial strength continues to set it apart from most other insurance companies. According to Financial Services Agency data as of March 31, 2000, our investment portfolio yield was higher than any other life insurer in Japan with assets of more than ¥2 trillion. And the spread between our new money investment yields and our interest rate assumptions for reserving new business has significantly improved in recent years.

While we market our products aggressively, we invest conservatively. We have generally avoided the real estate and equity sectors. Instead, we concentrate on buying long-dated, investment-grade securities to better match asset and liability durations while also achieving our investment income growth objectives. Conservative investing is one reason we believe our balance sheet is significantly stronger than many other companies in the industry.

### Outlook – Managing for Continued Growth

As we look ahead, we see both challenges and opportunities for AFLAC Japan. Challenges will likely arise from a more liberalized market as well as the continued economic slump in Japan. However, we have prepared extensively for deregulation for many years, and we have several years of experience at navigating in a difficult economy. At the same time, we

believe Japan remains one of the best insurance markets in the world for supplemental insurance products. We believe we can further tap into the vast potential market opportunities by:

- **Making our product line more complete** – *We will develop new products that are designed to better meet the needs of Japanese consumers.*
- **Growing our distribution system** – *We will continue to recruit more sales agencies, especially to penetrate the small business and individual markets. We will also work extremely hard to make our marketing alliance with Dai-ichi Mutual Life a success.*
- **Improving efficiency** – *We will continue to invest in new technologies and work processes to extend our cost advantages.*
- **Enhancing our brand** – *We will continue to promote our brand and products through additional advertising.*

AFLAC's portfolio of total investments and cash comprises high-quality investments, although its growth in 2000 was restrained by the 10.8% weakening in the year-end exchange rate.

**Total Investments and Cash**  
(In billions of dollars)

