

# AFLAC U.S.

## Strong Sales Propel AFLAC to Record Year

2000 was a year to remember for AFLAC U.S. for many reasons. We added to our product line and significantly expanded our sales force. We also introduced the most successful advertising campaign in our history. As a result, new sales rose to record levels and revenue growth accelerated. Below are some highlights for the year:

- **New annualized premium sales increased 28.3% to \$712 million, compared with \$555 million in 1999.**
- **Premium income rose 14.4% to \$1.6 billion, up from \$1.4 billion in 1999.**
- **Net investment income increased 13.2% to \$277 million, compared with \$245 million in 1999.**
- **Total revenues were up 14.3%, rising from \$1.6 billion in 1999 to \$1.8 billion in 2000.**
- **Pretax operating earnings grew 13.3% to \$290 million, compared with \$256 million in 1999.**

*Mitchell Odendahl, 2, and Tabitha (Tabby) Collins, 3, patients at the AFLAC Cancer Center and Blood Disorder Services at Children's Healthcare of Atlanta, have some fun with a giant AFLAC duck. AFLAC and AFLAC sales associates have raised millions of dollars for the AFLAC Cancer Center to help in the fight against childhood cancer. In 2000, sales of approximately 18,000 stuffed toy ducks generated \$180,000 for the center.*



## Strong Product Line Makes for Complete Coverage

In 2000, AFLAC U.S. extended its position as the leading seller of supplemental insurance at the worksite. Our policies are designed to pay for expenses not normally covered by major medical insurance. Out-of-pocket expenses may be medically related, including hospital care, physician services, dental services, home health care, drugs, or nursing care. They may also include nonmedical expenses. According to the Health Care Financing Administration, medically related out-of-pocket expenses in the United States have increased from \$13 billion in 1960 to \$200 billion in 1998. It's clear that out-of-pocket expenses pose a serious burden to U.S. consumers.

AFLAC's success in the United States stems from its ability to develop supplemental insurance products that help consumers pay these expenses and obtain complete insurance coverage. Over the last several years, we have pursued a product-broadening strategy that has dramatically impacted our business. For instance, accident/disability coverage has been our best selling product category for seven consecutive years. And while it took more than 40 years to build our cancer expense premiums in force to more than \$600 million, it took only 10 years for accident/disability to surpass cancer expense premiums in force.

We have also been pleased with the sale of other recently introduced products. Payroll life insurance, which we introduced in 1998, has also done very well, accounting for approximately 5% of sales in 2000. A specified event policy that we introduced in 1999 has also been well-received by consumers. The best product introduction in our history occurred in 2000, with the launching of a new dental policy. We spent nearly three years developing this unique dental product for the small to medium-sized payroll market. Representatives from our field force made significant contributions in designing the product. Although the dental policy was available only for the last five months of 2000, it sold very well and accounted for 3% of annual sales.

## Building a Larger Distribution System

For us to further tap into the U.S. market, it is crucial that we continue to expand our sales force. By year-end 2000, AFLAC was represented by more than 37,500 licensed independent sales associates and brokers. During the year, we recruited more than 15,700 sales associates. More importantly, the average number of associates producing business on a monthly basis increased 22.1% to about 10,800. In December, a record 13,500 associates produced business for AFLAC.

Our sales associates don't just sell insurance. They listen to customers, assess their needs, and help them select the appropriate coverage. Our associates also keep us abreast of customer needs, and we respond accordingly. Input from our sales associates has helped us develop new products and modify existing ones.

Demand for supplemental products remains high because medical costs continue to increase. Our customers have come to realize that our policies make their coverage complete. One common thread that has led to increased sales and recruiting has been our effective advertising program.

*AFLAC's effective advertising campaign helped U.S. sales rise 28.3% to a record \$712 million in 2000.*

### AFLAC U.S. Sales Results

	Policies In Force*	Annualized Premiums In Force**	Total New Annualized Premiums**	Average Number of Producing Associates
<b>2000</b>	<b>6,119</b>	<b>\$1,861</b>	<b>\$712</b>	<b>10,757</b>
1999	5,480	1,592	555	8,807
1998	5,056	1,393	482	7,918
1997	4,693	1,216	401	7,376
1996	4,389	1,060	327	6,665
1995	4,230	954	279	6,121
1994	4,119	877	246	5,489
1993	4,050	803	229	5,110
1992	3,994	730	206	4,543
1991	3,918	653	172	4,130

\* In thousands

\*\* In millions



*Eric Seldon, second vice president of Client Services, talks with Vanessa Dumas, a senior new business specialist, about processing new business submitted on SmartApp. SmartApp revolutionized AFLAC's business because employees such as Ms. Dumas can process five times more electronic applications per day than paper applications. More than 78% of all new payroll business was submitted via SmartApp in 2000. AFLAC's extensive use of technology has helped improve the company's service and efficiency.*

### **Advertising Increases AFLAC's Visibility**

We introduced new commercials in 2000 featuring the AFLAC duck, and they have become very popular. In fact, we received more sales leads during the first two weeks of 2000, when the AFLAC duck first hit the airwaves, than in all of 1998 and 1999 combined. The success of the first three commercials led us to produce four more for 2001. Like the original advertisements, our new commercials use humor to help build brand awareness. However, they also send a serious message about the need for supplemental insurance.

Advertising has clearly benefited recruiting, sales and name awareness. A recent independent survey

indicated that our name recognition had increased to 87% in 2000. We have been able to maintain our strong commitment to advertising by redirecting expense savings from other areas of the company. Most of the improvements in the efficiency of AFLAC U.S. have come from adapting new technologies to our business.

### **Expanding Technology and Services**

SmartApp is one of the cornerstones of AFLAC's ongoing improvements in efficiency. Our sales associates use SmartApp to electronically transmit policy applications to our headquarters. This saves



our associates time, reduces paperwork and allows us to provide our customers with better service. In 2000, we processed 78% of all of our new payroll business with SmartApp. By comparison, only 37% of our business was submitted electronically in 1997. In addition, the percentage of applications that were “jet-issued,” meaning no human intervention was required to process the application, continued to rise. Of the total SmartApp submissions, jet-issues rose from 38% in 1997 to 47% in 2000. In 2001, we will make additional enhancements to SmartApp that should further improve jet-issue percentages.

We also completed the development of an Internet billing system in 2000 and began testing it in California. Internet billing was designed to improve service to our payroll account customers by presenting them with online invoices rather than paper copies. Internet billing should improve turnaround time on service requests and reduce manual transaction processing. In 2001, we expect to introduce Internet billing nationwide.

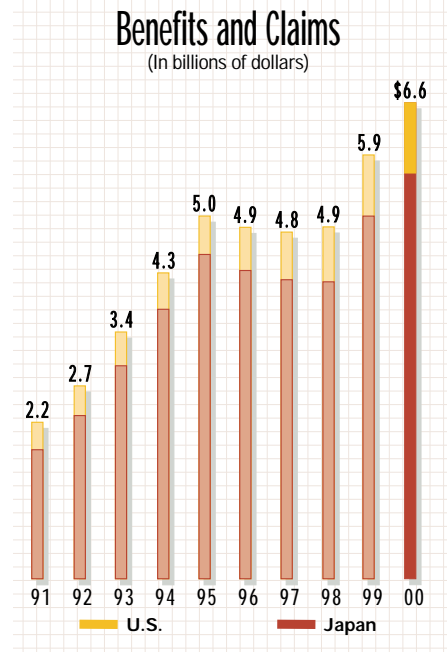
Just as we have expanded our use of technology to improve service to our customers, we have also increased the services we provide. AFLAC Administrative Services continues to be the number one provider of cafeteria plans in the United States, assisting in the administration of more than 80,000 plans. Cafeteria plans allow consumers to pay health insurance premiums with pretax dollars. Through ventures or arrangements with other companies, we also provide small businesses with additional administrative services, including help in complying with federal regulations that govern COBRA, 401(k) administration and payroll services.

### Conservative Investing Yields Growth

AFLAC’s investment portfolio continues to be conservatively postured. We take a conservative approach to investing because our assets back the commitments we have made to our policyholders while also providing a predictable source of income for the company.

We do not buy junk bonds, and we generally avoid the investment real estate and mortgage sectors. Our

*AFLAC paid or provided for \$6.6 billion in benefits for policyholders in 2000.*



holdings continue to include mostly investment-grade debt securities, which make up about 97% of investments and cash. More than 85% of our debt security investments were rated ‘A’ or better at year-end.

### Outlook – More Growth Ahead

We remain excited about the outlook for growth at AFLAC U.S. We believe we are well-positioned to further develop what we consider to be a relatively untapped supplemental insurance market. The Small Business Administration estimates that there are about 5.4 million businesses in the United States with 500 or fewer employees. Although we are the leader in the worksite market, we have only 171,600 payroll accounts, or about 3% of the total businesses in the United States.

Large population centers are especially attractive markets. For example, our new sales in California were \$1.35 per capita in 2000, compared with our overall company average of \$2.55. At only \$.87 in per capita sales, the state of New York is also under-penetrated.



*Ron Hovick, an AFLAC district sales coordinator based in Waterloo, Iowa, talks about AFLAC's policies with Karen Kofron, an employee at Winnebago Industries in Forest City, Iowa. Winnebago is one of AFLAC's large payroll accounts, with more than 3,300 employees. AFLAC U.S. offers policies to more than 171,600 payroll accounts.*

We believe AFLAC is nimble enough to adapt to the changing needs of its customers. When our customers need new products, we provide them. When our customers need better services, we provide them. To continue our success, we will:

- **Broaden our product line** – *This strategy, which we started in the 1980s, has proven to be a very effective way of completing our customers' coverage. We will continue developing products based on the needs of our customers.*
- **Expand our distribution** – *We believe that the potential for success and our increasing name awareness will attract top sales people.*
- **Continue to control costs** – *Cost control is critical to our ability to offer the best products and the best service at the best price while paying our sales associates the highest commissions.*
- **Build brand awareness** – *With our advertising campaign already a success, we believe the four new commercials in the AFLAC duck campaign to be aired this year will be an integral component of our ongoing strategy to build the AFLAC brand.*